

**AKZO NOBEL (CPS) PENSION SCHEME  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2017  
PENSION SCHEME REFERENCE NUMBER: 10161703**

# AKZO NOBEL (CPS) PENSION SCHEME

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YEAR ENDED 31 MARCH 2017

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# AKZO NOBEL (CPS) PENSION SCHEME

## TRUSTEE AND ADVISERS

YEAR ENDED 31 MARCH 2017

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<b>Principal Employer</b>	Akzo Nobel UK Ltd The AkzoNobel Building Wexham Road Slough SL2 5DS
<b>Trustee</b>	Akzo Nobel (CPS) Pension Trustee Ltd
<b>Trustee Directors</b>	Mr R Waterbury (Chairman) (pensioner member) **^ Mr R Dickinson-Deane (active member) (reappointed on 30 November 2016) Mr P Brennan (active member) Ms J Shannon (pensioner member) +^ Mr J Bradley (pensioner member) * Mr G Marsh (pensioner member) ^ Mr J Gill (active member) (resigned 11 August 2016) The Law Debenture Pension Trust Corporation p.l.c **^+  *Investment committee member ^Valuation committee member +Administration committee member
<b>Secretary to the Trustee</b>	Mr M Trueblood 4th Floor, 101 Finsbury Pavement London EC2A 1RS
<b>Administrator</b>	Towers Watson Limited PO Box 545 Redhill Surrey RH1 1YX
<b>Actuary</b>	Mr G Oxtoby F.I.A Towers Watson Limited Watson House London Road Reigate Surrey RH2 9PQ
<b>Independent auditor</b>	KPMG LLP (from 31 March 2017) 1 Sovereign Square Sovereign Street Leeds LS1 4OA  PricewaterhouseCoopers LLP (until 31 March 2017) 7 More London Riverside London SE1 2RT

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## AKZO NOBEL (CPS) PENSION SCHEME

### TRUSTEE AND ADVISERS *(continued)*

YEAR ENDED 31 MARCH 2017

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<b>Legal advisers</b>	Travers Smith LLP 10 Snow Hill London EC1A 2AL
<b>Investment consultants</b>	Towers Watson Limited
<b>Investment managers</b>	BlackRock Investment Advisors (UK) Limited Henderson Global Investors Limited Rogge Global Partners Plc (until May 2016) Artemis Investment Management Ltd CB Richard Ellis Global Investors LLC IronBridge Capital Partners LLP Legal & General Investment Management Limited Nephila Capital Limited Bluebay Asset Management LLP Franklin Templeton Investment Management Ltd Bain Capital Credit (formerly Sankaty Advisors LLC) Macquarie Group Limited Genesis Investment Management LLP Equitix Investment Management Limited Alcentra Limited Alpha Real Capital LLP (from 20 December 2016)
<b>Investment custodians</b>	The Northern Trust Company
<b>AVC providers</b>	The Equitable Life Assurance Society The Standard Life Assurance Company The Prudential Assurance Company Limited Scottish Friendly Assurance (formerly MGM Assurance) Friends Life Pensions Limited Phoenix Alba Life
<b>Longevity insurer</b>	ReAssure Limited
<b>Bankers</b>	Barclays Bank Plc

# AKZO NOBEL (CPS) PENSION SCHEME

## TRUSTEE'S REPORT

YEAR ENDED 31 MARCH 2017

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### Introduction

The Trustee Directors ("the Trustee") of the Akzo Nobel (CPS) Pension Scheme ("the Scheme") present their annual report together with the actuarial certification of the schedule of contributions and audited financial statements for the year ended 31 March 2017.

### Management of the Scheme

The Scheme is governed by the Trustee who is required to act in accordance with the Trust Deed and the Scheme Rules dated 5 April 1997 as amended by subsequent Deeds of Amendment, within the framework of pension and trust law.

The Scheme is a Defined Benefit pension scheme, registered for tax purposes under the terms of the Finance Act 2004. To the Trustee's knowledge there is no reason why such approval should be prejudiced or withdrawn. The Scheme was contracted out of the State Second Pension under a certificate issued by the Contributions Agency up to 5 April 2016.

### Trustee

The Trustee is responsible for the administration and investment policy of the Scheme. The Trustee meets regularly and during this Scheme year met on 6 occasions. In addition, the investment committee met on a further 6 occasions and the administration committee on 5 occasions.

The Scheme rules contain provisions for the appointment and removal of Trustee Directors. The Trustee Board at full strength comprises the Chairman, two Trustee Directors nominated by the contributing members of the Scheme, two Trustee Directors nominated from the pensioner and deferred pensioner groups, three appointed by the Employer and one independent Trustee Director (The Law Debenture Pension Trust Corporation p.l.c.). The names of the current Trustee Directors are included at the front of this report.

Employer-appointed Trustee Directors are selected by the Employer, while member nominated Trustee Directors are selected by a panel of existing Trustee Directors from candidates nominated by members and generally serve for a 5-year term. The Employer has the power to appoint and remove the corporate trustee.

The member-nominated Trustee Directors are Geoff Marsh, Russell Dickinson-Deane, Paul Brennan and Jon Bradley.

The employer-appointed Trustee Directors are Richard Waterbury and Julie Shannon.

### Scheme advisers

There are written agreements in place between the Trustee and each of the Scheme advisers listed on pages 1 to 2 of these financial statements and also with the Principal Employer.

During the year, PricewaterhouseCoopers LLP resigned from their position as Scheme Auditor. In their statement on leaving office, they noted no circumstances connected with their resignation which, in their opinion, significantly affected the interests of the members of, or beneficiaries under, the Scheme. KPMG LLP were appointed as Scheme Auditor on 31 March 2017.

### Data Protection

The administrators and investment managers have registered under the Data Protection Act to hold on computer information necessary for the management of the Pension Scheme.

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## AKZO NOBEL (CPS) PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

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#### **Changes to the Scheme**

There were no significant changes to the Scheme Rules during the year.

#### **Statement of Trustee's responsibilities**

##### *Trustee's responsibilities in respect of the financial statements*

The audited financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice "Financial Reports of Pension Schemes".

The Trustee have supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a prudent and reasonable basis. Trustee is also responsible for making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustee also have certain responsibilities in respect of contributions which are set out below.

The Trustee also have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls.

##### *Trustee's responsibilities in respect of contributions*

The Scheme's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Scheme's Trustee is also responsible for keeping records of contributions received in respect of any active member of the Scheme and for procuring that contributions are made to the Scheme in accordance with the schedule.

## AKZO NOBEL (CPS) PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

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#### Membership

The changes in membership during the year are as follows:

	Active members	Deferred members	Pensioners, spouses and dependants	Total
At 1 April 2016	511	8,579	19,048	28,138
Adjustments to prior period	(4)	23	13	32
Retirements	(19)	(347)	366	-
Members leaving with deferred benefits	(21)	21	-	-
Deaths	-	(25)	(942)	(967)
New spouses and dependants	-	-	253	253
Commutations and entitlements ceasing	-	(202)	(26)	(228)
Transfers out	-	(63)	-	(63)
<b>At 31 March 2017</b>	<b>467</b>	<b>7,986</b>	<b>18,712</b>	<b>27,165</b>

In addition to the above there are 363 (2016: 386) contingent deferred pensioners and 5,284 (2016: 5,825) deferred pensioners due only a lump sum payment from the Scheme on retirement.

At the year end there were 4,787 (2016: 4,899) spouse and dependant beneficiaries that are included within pensioners, spouses and dependants above.

The adjustment to the opening membership has arisen due to the late notification of member movements and data cleansing.

#### Pension increases

Pensions on the greater (post-1999) part of members' benefits in excess of the Guaranteed Minimum Pension for the main CPS benefit section were increased in the last 3 years as follows:

6 April 2015	1.2%
6 April 2016	0.0%
6 April 2017	1.0%

For most of the annual increases made, the CPS Section uses a reference period of the September prior to the increase date, and the increase is based on CPI. The minimum increase during the year was 1.0% and the maximum increase during the year was 2.0%.

Pensions in the other benefit sections mainly use a reference period of the January prior to the increase date for pensions in excess of GMP and are based on RPI. GMPs are increased using CPI for the September prior to the increase date.

There were no discretionary pension increases.

#### Transfer Payments

Transfer payments paid during the year have been calculated and verified in the manner prescribed by legislation. Transfer payments do not include any allowance for discretionary benefits.

## AKZO NOBEL (CPS) PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

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#### Actuarial Valuation

As required by Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

The last full actuarial valuation of the Scheme was carried out as at 31 March 2015 and revealed a deficit of £84 million which equated to a funding level of 97% (taking into account the existence of the escrow account created for the benefit of the Scheme in 2007).

The funding level increased from 92% in 2012 to 97% in 2015 mainly due to the payment of deficit repair contributions since 2012.

The Trustee and the Employer have agreed a recovery plan such that:

- the Employer will pay additional contributions of £21 million a year for four years 2016 - 2019 inclusive, with first payment payable by 31 March 2016 and the last contribution payable by 31 March 2019, plus a final deficiency contribution of £13 million payable by 31 March 2020.
- transfers from the existing escrow account into the Scheme of £25 million each year (or the maximum amount on which the Employer can receive tax relief if higher) for 2016 and 2017. Any balance in the escrow account in March 2017 will then be paid into the Scheme (subject to the payment ceiling). The remaining balance in the escrow account of £46 million was paid into the Scheme in February 2017.

The next full actuarial valuation of the Scheme was due to be carried out as at 31 March 2018, but the Trustee and Principal Employer have agreed to bring the valuation date forward to 31 March 2017.

Akzo Nobel NV has given a legal commitment to support the Scheme should any of the participating companies be unable to fulfil their obligations, subject to certain limitations and conditions.

#### Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, occupational pension schemes with defined benefit liabilities are subject to the "Statutory Funding Objective", which is to have sufficient and appropriate assets to cover their technical provisions. The technical provisions represent the present value of the benefits to which members are entitled based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Akzo Nobel (CPS) Pension Scheme was carried out as at 31 March 2015. This showed that on that date:

The value of the Technical Provisions was:	£3,076 million
The value of the assets at that date was:	£2,992 million

The asset value includes the escrow account.

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Statement of Funding Principles):

#### Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.



## AKZO NOBEL (CPS) PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

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#### Significant actuarial assumptions

Discount interest rate: term dependent rates set by reference to the index linked gilt curve (as derived from Bank of England data) at the valuation date plus the RPI assumption of 3.2% per annum plus a margin which reduces over 20 years, starting from 1.7% per annum in 2016 to 0.5% per annum from 2036 onwards.

**Future Retail Price Index (RPI) inflation:** 3.2% per annum.

**Future Consumer Price Index (CPI) inflation:** 2.2% per annum.

**Pension increases:** derived from the RPI and CPI assumptions allowing for the caps and the floors on pension increases according to the provisions in the Scheme's rules.

**Pay increases:** general pay increases of 4.2% per annum plus a promotional scale.

**Mortality - base tables:** for the period in retirement:

- standard tables S2PMA with a scaling factor of 97% for male CPS active and pensioner members and all widowers; 99% for male ex-UK active and pensioner members and all male deferred members;
- standard tables S2PFA with a scaling factor of 94% for all female members; and
- standard tables S2DFA with a scaling factor of 98% for all widows.

**Mortality - future improvements:** in line with the CMI 2014 core projection model from 2007 onwards with an assumed long term mortality improvement trend of 1.5% per annum.

The financial statements included in this annual report are the accounts required by the Pensions Act 1995. They have been prepared and audited in compliance with regulations made under sections 41(1) and (6) of that Act.

#### Investment management

##### Investment managers

The Investment Managers appointed on behalf of the Trustee to manage funds under section 34(4) of the Pensions Act 1995 are appropriately authorised under the Financial Services and Markets Act 2000 to manage investments or are specifically exempted from the requirements of the Act. The investment managers appointed have the appropriate knowledge and experience necessary to manage the particular investments delegated.

## AKZO NOBEL (CPS) PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

#### YEAR ENDED 31 MARCH 2017

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##### Investment Objective

The Trustee's objective is the acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the employers, the cost of current and future benefits which the Scheme provides.

The Trustee has considered the results of asset liability modelling studies and set out a long-term strategic asset allocation, which is designed to achieve the above objective. Having considered advice from the Investment Consultant, Towers Watson Limited, the Trustee has delegated the day to day management of the Scheme's assets to external investment managers.

The Statement of Investment Principles as required by section 35 of the Pension Act 1995 is available on request from the contact address on page 10.

The Trustee determines the broad investment strategy to be adopted by the appointed managers and sets a benchmark for each manager relevant to that strategy. Following the 2015 actuarial valuation, the Trustee is targeting an investment return on its assets of gilts +1.7% p.a. decreasing to gilts +0.5% over a 20 year period from 2016. The asset allocation as at 31 March 2017 is provided below.

<b>Asset Class</b>	<b>Proportion as at 31/03/2017</b>	<b>Value as at 31/03/2017</b>
	<b>%</b>	<b>£m</b>
Equities	21	742
Property	8	289
Reinsurance securities fund	4	131
Multi-strategy credit	4	156
LDI portfolio	39	1,365
Corporate bonds	16	510
CLO debt	3	104
Secure income assets	2	61
Cash deposits, derivatives and other pending investments	3	103
<b>Total</b>		<b>3,461</b>

The above figures include both direct holdings and the units held in pooled investment vehicles for each asset class. Figures are taken from the Custodian, Northern Trust and exclude the longevity hedging insurance contract, buy-in policy and AVC investments.

## AKZO NOBEL (CPS) PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

#### YEAR ENDED 31 MARCH 2017

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The Trustee has adopted a Scheme-specific benchmark based on the asset classes and ranges above. The Trustee employs the Northern Trust Company to provide an independent measure of the performance of the Scheme and of the individual managers. A summary of the Scheme's performance of the last five years is given below. The table shows the total returns achieved by the Scheme compared with its benchmark.

	Akzo Nobel (CPS) Pension Scheme %	Benchmark %
2017	+20.1	+18.4
2016	+1.7	+1.9
2015	+19.5	+18.4
2014	+3.0	+1.8
2013	+11.5	+11.4
3 year (annualised)	+13.4	+12.6
5 year (annualised)	+10.9	+10.2

Note: The numbers above have been provided by the Scheme's custodian, Northern Trust, as at 31 March 2017, excluding the longevity hedging insurance contract, buy-in policy and AVC investments.

#### Marketability of Investments

The Trustee considers that the majority of the assets of the Scheme, with the exception of the direct and indirect property holdings, the longevity insurance contract and certain of the alternative investments, are readily marketable. Indirect property holdings and certain of the alternatives are subject to redemption notification periods as set out in the investment managers' agreements and the realisation of direct property holdings is dependent on the level of activity in the relevant sector at the time that the properties are marketed for sale. Certain of the 'secure income' investments are held through limited partnership structures where it is likely that the assets will not be marketable during the term of the partnership, which could be as long as 30 years.

In 2012, the Scheme entered into a longevity insurance contract under which fixed premiums are exchanged for the pension benefits paid in respect of some 17,000 pensioners in the CPS benefit section and their dependants. The contract is held as an investment of the Scheme and is not marketable. If the contract was to be surrendered, a payment might be due to or from the Scheme depending on the experience of the membership covered.

#### Basis of Remuneration

The fees charged by both the investment and the property managers are calculated as a percentage of the assets under management. In addition, certain of the fee arrangements include a performance-related element.

#### Socially responsible investments

The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers (within certain guidelines and restrictions). The Trustee's policy is that the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is left to the discretion of the active investment managers.

#### Rights attaching to investments

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attached to investments to the investment managers.

## AKZO NOBEL (CPS) PENSION SCHEME

### TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

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#### Custodial arrangements

Northern Trust acts as custodian for the majority of the Scheme's investments. The Trustee receives reports each month covering the assets held by the custodian and transactions in the month. These are monitored by the Trustee and, if appropriate, followed up with the custodian on a timely basis. The custodian is independent of the fund managers, and is an additional control on the recording of asset movements.

#### AVC Section

Individual accounts are also held with a range of providers for those members wishing to make additional voluntary contributions.

During the year members made additional voluntary contributions to Standard Life, Prudential Assurance and Friends Life to obtain additional benefits. Each member receives an annual statement at the year end confirming the amount held in their account and the movements in the year.

#### Employer related investments

Employer related investments are held indirectly through pooled investment vehicles (BlackRock Aquila Life World ex-UK Equity Fund and Legal & General RAFI AW 3000 Index Fund) and through a direct property tenancy. The value of these investments was less than 0.05% of the Scheme's Net Assets at the year end. There were no other employer related investments during the year or at the year end.

#### Contact for further information

Any queries or complaints about the Scheme generally should be sent to the Scheme Secretary, whose address appears on page 1. Queries relating to members own benefits or for a copy of Scheme documentation, should be sent to the Scheme's administrator:

Willis Towers Watson  
Akzo Nobel (CPS) Pension Scheme  
PO Box 545  
Redhill  
Surrey  
RH1 1YX  
(e mail: [cps.pacontact@willistowerswatson.com](mailto:cps.pacontact@willistowerswatson.com))

Signed for and on behalf of the Akzo Nobel (CPS) Pension Scheme by:

  
Trustee Director

Date 31st October 2017

Trustee Director  
I.S. Dhingra, Director for  
The Law Debenture Pension Trust Corporation p.l.c.

Date I.S. Dhingra  
31-0CT-2017

## AKZO NOBEL (CPS) PENSION SCHEME

### ACTUARIAL CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

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#### Actuary's certification of the Schedule of Contributions

Name of Scheme: Akzo Nobel (CPS) Pension Scheme

#### Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2015 to be met by the end of the period specified in the recovery plan dated 1 March 2016.

#### Adherence to statement of funding principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 1 March 2016.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of the adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

**Gareth Oxtoby**  
Fellow of the Institute and Faculty of Actuaries  
Towers Watson Limited

**Watson House**  
London Road  
Reigate  
Surrey  
RH2 9PQ

Date 22 September 2016

**AKZO NOBEL (CPS) PENSION SCHEME**  
**TRUSTEE'S SUMMARY OF CONTRIBUTIONS**  
**YEAR ENDED 31 MARCH 2017**

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This summary of contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and employee contributions payable to the Scheme under the schedules of contributions certified by the Actuary on 23 March 2016 and 22 September 2016 in respect of the Scheme year ended 31 March 2017. The Scheme auditors report on contributions payable under the schedules in their auditors' statement about contributions.

	<b>£000</b>
<b>Contributions required by the schedules of contributions</b>	
<b>Employers</b>	
Normal contributions	11,635
Deficit funding contributions	67,256
<b>Employees</b>	
Normal contributions	101
Contributions payable under the Schedules (as reported on by the Scheme Auditor)	<u>78,892</u>
<b>Other contributions</b>	
<b>Employees</b>	
Additional voluntary contributions	434
 Total contributions reported in the financial statements	 <u><u>79,326</u></u>

Signed for and on behalf of the Akzo Nobel (CPS) Pension Scheme by:

*Julie Shannon*  
 Trustee Director

Date *21st October 2017*

Trustee Director  
 I.S. Dhingra, Director for  
 The Law Debenture Pension Trust Corporation p.l.c.

Date

*I.S. Dhingra*  
 31 - OCT - 2017

## AKZO NOBEL (CPS) PENSION SCHEME

### INDEPENDENT AUDITORS' STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE

YEAR ENDED 31 MARCH 2017

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**Made under Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.**

We have examined the summary of contributions payable under the Schedules of Contributions to the Akzo Nobel (CPS) Pension Scheme in respect of the Scheme year ended 31 March 2017 which is set out on page 12.

This statement is made solely to the Scheme's Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee, as a body, for our work, for this statement, or for the opinions we have formed.

#### **Respective responsibilities of Trustee and auditor**

As explained more fully in the Statement of Trustee's Responsibilities set out on page 4, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Scheme's Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedules of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedules of Contributions to the Scheme and to report our opinion to you.

#### **Scope of work on statement about contributions**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

#### **Statement about contributions payable under the Schedules of Contributions**

In our opinion contributions for the Scheme year ended 31 March 2017 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid for the period from 1 April 2016 to 22 September 2016 at least in accordance with the Schedule of Contributions certified by the Actuary on 23 March 2016 and subsequently at least in accordance with the Schedule of Contributions certified by the Actuary on 22 September 2016.

Julie Radcliffe  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
1 Sovereign Square  
Sovereign Street  
Leeds LS1 4DA

Date 31 October 2017

## AKZO NOBEL (CPS) PENSION SCHEME

### INDEPENDENT AUDITORS' REPORT TO THE TRUSTEE

YEAR ENDED 31 MARCH 2017

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We have audited the financial statements of the Akzo Nobel (CPS) Pension Scheme for the year ended 31 March 2017 set out on pages 15 to 34. 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 102 The Financial Reporting Standard applicable to the UK and Republic of Ireland.

This report is made solely to the Scheme's Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme's Trustee Directors 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 Scheme's Trustee, as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of Scheme Trustee and auditor**

As explained more fully in the Statement of Trustee's responsibilities set out on page 4, the Scheme's Trustee is responsible for supervising the preparation of financial statements which 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). These 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](http://www.frc.org.uk/auditscopeukprivate)

#### **Opinion on financial statements**

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 March 2017 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- contain the information specified in Regulations 3 of, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.



Julie Radcliffe  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
1 Sovereign Square  
Sovereign Street  
Leeds LS1 4DA

Date 31 October 2017



**AKZO NOBEL (CPS) PENSION SCHEME**

**FUND ACCOUNT**

**YEAR ENDED 31 MARCH 2017**

	Note	2017 £000	Restated 2016 £000
<b>Contributions and benefits</b>			
Employer contributions		78,791	54,678
Employee contributions		535	176
<b>Total contributions</b>	<b>3</b>	<b>79,326</b>	<b>54,854</b>
<b>Benefits</b>	<b>4</b>	<b>(118,607)</b>	<b>(122,461)</b>
Transfers out	5	(14,464)	(7,621)
Administrative expenses	6	(10)	(10)
		<b>(133,081)</b>	<b>(130,092)</b>
<b>Net withdrawals from dealings with members</b>		<b>(53,755)</b>	<b>(75,238)</b>
<b>Returns on investments</b>			
Investment income	7	136,035	30,727
Change in market value of investments	8	396,245	6,567
Investment management expenses	9	(3,166)	(1,577)
<b>Net return on investments</b>		<b>529,114</b>	<b>35,717</b>
<b>Net increase/(decrease) in the fund during the year</b>		<b>475,359</b>	<b>(39,521)</b>
<b>Net assets of the Scheme</b>			
At 1 April 2016 as previously reported		2,932,322	2,921,743
Prior period adjustments		-	50,100
At 1 April as restated		2,932,322	2,971,843
<b>At 31 March</b>		<b>3,407,681</b>	<b>2,932,322</b>

The notes on pages 17 to 34 form part of these financial statements.

The notes on pages 17 to 34 form part of these financial statements.

AKZO NOBEL (CPS) PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

AS AT 31 MARCH 2017

	Note	2017 £000	Restated 2016 £000
<b>Investment assets</b>	8		
Equities		231,091	298,343
Bonds		1,032,212	734,408
Property	11	263,670	246,535
Pooled investment vehicles	12	1,921,604	1,648,083
Derivatives	13	3,686	3,472
Insurance policies	14	1,628	1,579
AVC investments	16	8,359	7,234
Cash	17	6,568	16,558
Other investment balances	18	8,006	4,358
		<u>3,476,724</u>	<u>2,960,570</u>
<b>Investment liabilities</b>	8		
Derivatives	13	(1,754)	(1,957)
Longevity hedging insurance contract	15	(67,800)	(25,100)
Other investment balances	18	(4,082)	(4,097)
		<u>(73,636)</u>	<u>(31,154)</u>
<b>Total investments</b>		<u>3,403,088</u>	<u>2,929,416</u>
<b>Current assets</b>	23	6,048	4,886
<b>Current liabilities</b>	24	(1,455)	(1,980)
<b>Net assets of the Scheme at 31 March</b>		<u>3,407,681</u>	<u>2,932,322</u>

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the report on actuarial liabilities on pages 6 to 7 of the annual report and these financial statements should be read in conjunction with this report.

Signed for and on behalf of the Akzo Nobel (CPS) Pension Scheme by:

*Julie Shannon*  
Trustee Director

Trustee Director

I.S. Dhingra, Director for  
The Law Debenture Pension Trust Corporation p.l.c.

Date 31st October 2017

Date

*I.S. Dhingra*  
31-OCT-2017

The notes on pages 17 to 34 form part of these financial statements.

**AKZO NOBEL (CPS) PENSION SCHEME**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**1. Basis of preparation**

The individual financial statements of Akzo Nobel (CPS) Pension Scheme have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised November 2014) ("the SORP"). The Trustee has elected to early adopt the changes proposed by the Financial Reporting Council in Amendments to FRS102 - Fair Value Hierarchy Disclosures to align the reporting standards more consistently with International Reporting Standards (IFRS).

**Prior period adjustments**

The Trustee has identified that a change in the basis of valuation has been required regarding the fair value measurement of the longevity swap.

The prior period adjustment is an alignment of the valuation methodology with the requirement of the SORP. The SORP requires that longevity swaps should have a nil fair value at inception if traded in the open market where there is no consideration paid or received. The SORP also refers to the use of different discount rates for each swap leg to achieve this. The previously applied method used does not do either of these.

The revised methodology gives a market consistent fair value in line with International Financial Reporting Standard (IFRS) 13 fair value measurement principles, and aligns with the requirements set out in the SORP. The valuation methodology has been applied retrospectively in line with prior year adjustment guidance.

The prior period adjustments resulting from these changes in accounting policy increases the opening net assets as at 1 April 2015 by £50.1m, and the opening net assets as at 1 April 2016 by £48.3m, with a resulting effect on the Net return on investments of £1.8m during the year ended 31 March 2016. This represents a change in market value of £48.3m resulting from the change in the measurement basis.

The Net asset statement for the comparative period have been restated as follows:

	<b>31 March 2016 as Previously stated £000</b>	<b>Adjustment £000</b>	<b>31 March 2016 As restated £000</b>
Longevity swap	(73,400)	48,300	(25,100)

The Fund account for the comparative period has been restated as follows:

Change in market value	8,367	(1,800)	6,567
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**AKZO NOBEL (CPS) PENSION SCHEME**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**2. Accounting policies**

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

**Currency**

The Scheme's functional currency and presentational currency is pounds sterling (GBP).

All assets and liabilities stated in foreign currencies are converted into sterling rates at rates of exchange ruling at the Scheme year end date. Transactions in foreign currency are converted into sterling at the rate applicable on the date of the transaction.

**Contributions**

Employee contributions (normal and additional voluntary) and the associated employer contributions are accounted for in the period in which they are deducted from members' pay.

Employer deficit funding contributions and augmentations are accounted for in accordance with the agreement under which they are being paid, or on receipt if earlier, with the agreement of the Employer and the Trustee.

**Transfer to and from other schemes**

Individual transfers into the Scheme and group transfers received are accounted for on an accruals basis.

Transfers out of the Scheme calculated on a group basis are accounted for when completed authorities to pay have been received.

Individual transfers out are accounted for when paid or received which is normally when member liability is accepted/discharged.

**Benefits**

Pensions payable in respect of the Scheme are accounted for by reference to the period to which they relate. Refunds and lump sums are accounted for when the member has exercised their choice in relation to these benefits, or, where members have no choice in relation to these benefits, by reference to the date of retirement or leaving the Scheme.

**Administrative expenses**

Administrative expenses have been accounted for on an accruals basis.

**AKZO NOBEL (CPS) PENSION SCHEME**  
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**2. Accounting policies (continued)**

**Investment income**

Distributions from quoted shares are accounted for when the security is declared ex-dividend.

Income from bonds is accounted for on an accruals basis.

All investment income is stated inclusive of any related taxation recoverable.

Investment income arising from the underlying investments of the pooled investment vehicles which generate income is accounted for on an accruals basis. All other income from pooled investment vehicles is reflected in the unit price.

Interest income is accounted for on an accruals basis.

Rental income is accounted for as earned, in accordance with the relevant lease.

The change in market value of investments during the year comprises increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

**Investment Management Expenses**

Investment management expenses are accounted for on an accruals basis.

**AKZO NOBEL (CPS) PENSION SCHEME**  
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**2. Accounting policies (continued)**

**Investments**

Investments are included at fair value.

Listed investments are stated at the bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement.

Fixed interest securities are stated at their clean prices. Accrued income is accounted for within investment income.

Unquoted securities are included at fair value estimated by the Trustee based on advice from the investment manager.

Pooled investment vehicles are stated at bid price for funds with bid / offer spreads, or single price where there are no bid / offer spreads as provided by the investment manager.

Freehold and leasehold property is stated at open market value at the year end, as estimated by the Trustee on the basis of professional advice from Cluttons LLP, Chartered Surveyors who value the portfolio at each 31 December. The Trustee considers the movement in the IPD index for the last three months of the year and, if material to the financial statements, applies this movement to the valuation. No depreciation is provided on freehold or long leasehold properties.

Derivatives are stated at fair value.

Exchange traded derivatives are stated at fair value determined using market quoted prices.

For exchange traded derivative contracts which are assets, fair value is based on quoted bid prices. For exchange traded derivative contracts which are liabilities, fair value is based on quoted offer prices.

Over the counter (OTC) derivatives are stated at fair value using pricing models and relevant market data as at the year end date.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.

AVC investments are included in the Statement of net assets available for benefit at either the market or surrender value of the underlying investments as notified by each AVC provider.

The value of the bulk annuity policy issued by Aviva has been calculated by the Scheme Actuary, the valuation is on a scheme funding Technical Provisions basis, using assumptions consistent with the most recent Actuarial Valuation.

The longevity insurance contract has been valued by the Trustee based on professional advice from the Scheme Actuary. The value stated is the difference between the present values of the premiums payable under the contract and the estimated claims value, adjusted to ensure the treatment of the investment is compliant with the SORP. The longevity insurance contract covers pensioners and dependent pensioners in payment in the CPS section as at 1 August 2011.

**AKZO NOBEL (CPS) PENSION SCHEME**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**3. Contributions**

	2017 £000	2016 £000
<b>Employer contributions</b>		
Normal	11,635	8,678
Deficit funding	67,266	46,000
	<u>78,791</u>	<u>54,678</u>
<b>Employee contributions</b>		
Normal	101	99
Additional voluntary contributions	434	77
	<u>535</u>	<u>176</u>
	<u>79,326</u>	<u>54,854</u>

Deficit funding and other payments have been made by the employer to assist the funding of the Scheme and to augment pensions respectively. Under the Recovery Plan in force, annual deficit funding contributions of £21 million are due until 31 March 2019 plus annual deficiency contributions of £25 million which are only payable from the escrow account when certain conditions are met. A final deficiency contribution of £13 million is payable by 31 March 2020. During the year the escrow account was closed and £46 million was received by the Scheme and included in deficit funding contributions. No further amounts will be received from escrow account. The annual deficit funding contributions of £25m due by 31 January 2017 were received and accounted for early during the prior year.

Employees contribute 7% of pensionable salary for most benefit sections. Some employees have also made additional voluntary contributions to secure additional benefits. A salary sacrifice arrangement is in place meaning that participating employees no longer pay employee contributions to the Scheme and the employers pays additional contributions on their behalf.

**4. Benefits**

	2017 £000	2016 £000
Pensions	106,573	106,593
Commutations and retirement lump sums	11,778	15,474
Lump sum death benefits	98	321
Taxation (where lifetime or annual allowance exceeded)	158	73
	<u>118,607</u>	<u>122,461</u>

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

**AKZO NOBEL (CPS) PENSION SCHEME**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**5. Transfers out**

	2017	2016
	£000	£000
Individual transfers out	<u>14,464</u>	<u>7,621</u>

**6. Administrative expenses**

	2017	2016
	£000	£000
Other fees	<u>10</u>	<u>10</u>

From 1 April 2013 all administrative expenses are being paid by the Principal Employer. Other fees relate to bank charges and search fees, which are not reimbursed by the Principal Employer.

**7. Investment income**

	2017	2016
	£000	£000
Net income from properties	7,429	8,794
Income from bonds	8,101	8,603
Dividends from equities	8,197	7,277
Income from pooled investment vehicles	111,413	4,778
Income from derivatives	140	324
Income from annuities	404	386
Interest on cash deposits	351	565
	<u>136,036</u>	<u>30,727</u>

The net income from properties above has been reduced by an amount of £3,579,000 (2016: £10,213,000) relating to property expenses deducted.

Income from pooled investment vehicles includes distributions of £106.6 million (2016: £nil) from BlackRock LDI funds. The funds are permitted to declare dividends to distribute surplus cash as a result of a significant decrease in yields in order to maintain appropriate investment exposure and re-leverage the portfolio back to the target levels.



**AKZO NOBEL (CPS) PENSION SCHEME**  
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**8. Investments**

	Restated Value as at 01/04/16 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value £000	Value as at 31/03/17 £000
Equities	298,343	145,819	(259,264)	46,193	231,091
Bonds	734,408	288,280	(162,465)	171,989	1,032,212
Property	246,535	15,870	(4,500)	5,665	263,570
Pooled investment vehicles	1,648,083	712,338	(688,133)	249,316	1,921,604
Derivatives	1,515	56,830	(24,414)	(31,999)	1,932
Insurance policies	1,579	–	–	49	1,628
Longevity swaps	(25,100)	4,359	–	(47,059)	(67,800)
AVC investments	7,234	465	(855)	1,515	8,359
	<u>2,912,597</u>	<u>1,223,961</u>	<u>(1,139,631)</u>	<u>395,669</u>	<u>3,392,596</u>
Cash	16,558			576	6,568
Other investment balances	261			–	3,924
	<u>2,929,416</u>			<u>396,245</u>	<u>3,403,088</u>

Direct transaction costs are summarised below. Indirect transaction costs are borne by the Scheme in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the bid/offer spread of these investments and are not therefore separately identifiable.

Transaction costs analysed by main asset class and type of cost are as follows:

	2017			Total £000	2016 Total £000
	Fees £000	Commission £000	Taxes £000		
Equities	430	259	–	689	570
Bonds	–	–	–	–	1
Other	479	–	–	479	723
Total 2017	<u>909</u>	<u>259</u>	<u>–</u>	<u>1,168</u>	
Total 2016	<u>1,086</u>	<u>208</u>	<u>–</u>		<u>1,294</u>

**9. Investment management expenses**

	2017 £000	2016 £000
Management fees	<u>3,166</u>	<u>1,577</u>

**AKZO NOBEL (CPS) PENSION SCHEME**  
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**10. Taxation**

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

**11. Property**

	2017 £000	2016 £000
UK Property - direct	<u>263,570</u>	<u>246,535</u>

The Scheme owns freehold and leasehold investment properties, which have been valued individually on the basis of Fair Value, in accordance with the RICS - Professional Standards, revised in April 2015, for inclusion in financial statements prepared in accordance with UK GAAP and FRS 102. The valuation has been assessed by a RICS Registered valuer for and on behalf of Cluttons LLP Commercial Valuation, with sufficient current local and national knowledge of the particular property market involved, and with the skills and understanding to undertake the valuations competently.

The principal assumptions on which the valuations were based are that there are no encumbrances, restrictions or conditions likely to have an adverse effect upon the value of the property and where both the valuations and market rent are based on arm's length transactions. There are no legal restrictions on the realisability of these properties or on remittance of income or disposal proceeds, although the Trustee recognises it could take a number of months to achieve a disposal on favourable terms.

**12. Pooled investment vehicles**

The Scheme's investments in pooled investment vehicles at the year-end comprised:

	2017 £000	2016 £000
Equity	510,765	460,080
Bond	943,052	901,175
Hedge funds	286,969	208,015
Private equity	44,246	24,330
Property	25,646	10,333
Cash	110,926	44,150
	<u>1,921,604</u>	<u>1,648,083</u>

**AKZO NOBEL (CPS) PENSION SCHEME**  
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**13. Derivatives**

The trustee has authorised the use of derivatives by their investment managers as part of their investment strategy for the Scheme as explained in the Trustee's report. At the year-end the Scheme had the following derivatives:

	31 March 2017		31 March 2016	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Futures	137	(40)	5	(17)
Swaps	545	(1,616)	2,341	(1,916)
Forward FX contracts	3,004	(98)	1,126	(24)
	<u>3,686</u>	<u>(1,754)</u>	<u>3,472</u>	<u>(1,957)</u>

The main objectives for the use of key classes of derivatives and the policies followed during the year are summarised as follows:

Futures - the Scheme holds fixed income futures to increase exposure in this particular asset class without disturbing the underlying assets.

Swaps - certain investment managers use swaps to take interest rates duration positions in a more efficient manner than by trading physical bond assets.

The notional principal of the swap is the amount used to determine the swapped receipts and payments. The Scheme paid collateral of £650,000 and £420,000, this collateral is reported within other investment balances.

**Futures**

The Scheme had outstanding exchange traded futures at the year end as follows:

Nature	No. of contracts	Economic exposure £000	Expires	Asset _value £000	Liability value £000
Futures Fixed Interest-UK	1	7,272	3 months	73	-
Futures Fixed Interest-Overseas	4	7,110	3 months	64	(40)
<b>Total 2017</b>		<u>14,382</u>		<u>137</u>	<u>(40)</u>
Total 2016		<u>7,672</u>		<u>5</u>	<u>(17)</u>

**AKZO NOBEL (CPS) PENSION SCHEME**  
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**13. Derivatives (continued)**

**Swaps**

The Scheme had outstanding derivative swap contracts at the year end as follows:

<b>Nature</b>	<b>No. of contracts</b>	<b>Notional amounts £000</b>	<b>Expires</b>	<b>Asset _value £000</b>	<b>Liability value £000</b>
Credit default swaps	1	1,044	2019	–	(938)
Equity index swaps	1	53	2017	9	–
Interest rate swaps	14	17	2019-2068	536	(678)
<b>Total 2017</b>		<u>1,114</u>		<u>545</u>	<u>(1,616)</u>
Total 2016		<u>94,054</u>		<u>2,341</u>	<u>(1,916)</u>

At the year end there were 1 credit default swaps, one equity index swap and 14 interest rate swap contracts of which 9 were in the UK and 5 were Overseas.

**Forward FX contracts**

The Scheme had open forward foreign exchange contracts at the year end as follows:

<b>Contract</b>	<b>Settlement date</b>	<b>No. of contracts</b>	<b>Currency bought '000</b>	<b>Currency sold '000</b>	<b>Asset _value £000</b>	<b>Liability value £000</b>
OTC traded	1 months	7	EUR 1,335	GBP 1,159	–	(17)
OTC traded	1 months	3	GBP 6,290	EUR 7,207	115	–
OTC traded	1 months	20	GBP 289,269	USD 358,171	2,889	–
OTC traded	1-3 months	1	SEK 43,845	GBP 4,013	–	(79)
OTC traded	1 months	2	USD 1,602	GBP 1,283	–	(2)
<b>Total 2017</b>					<u>3,004</u>	<u>(98)</u>
Total 2016					<u>1,126</u>	<u>(24)</u>

**14. Insurance policies**

	<b>2017 £000</b>	<b>2016 £000</b>
Buy-in policy	<u>1,628</u>	<u>1,579</u>

**AKZO NOBEL (CPS) PENSION SCHEME**  
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**15. Longevity hedging insurance contract**

	2017	Restated 2016
	£000	£000
Longevity hedging insurance contract	<u>(67,800)</u>	<u>(25,100)</u>

The Trustee has entered into a longevity hedging insurance contract designed to protect the Scheme and Employer against the risk of certain members living significantly longer than expected.

The longevity hedging insurance contract is with ReAssure Limited, a subsidiary of Swiss Re, and was signed in May 2012. Under this agreement, the Scheme agrees to make a series of cash flows (the premiums) to be paid over an agreed term (sixty years from 1 August 2011) in exchange for ReAssure paying the actual pension benefits paid to the members (the claims). Under the agreement, collateral amounts are calculated on 31 December 2012 and quarterly thereafter. Under the terms of the agreement, collateral of index linked gilts of £97.1m has been pledged during the year (2016: £16.3m) and the collateral as at the year-end was £74.3m (2016: £16.6m).

The valuation of the longevity hedging insurance contract is the present value of the difference between future premiums payable from the Scheme to ReAssure (fixed) and future pension payments payable from ReAssure to the Scheme (variable depending on how long members live). The valuations use discount rates and inflation assumptions derived from the swap market. Future mortality assumptions are realistic assumptions chosen by ReAssure based on experience within the Scheme.

The prior period has been restated to align of the valuation methodology with the requirement of the SORP. The SORP requires that longevity swaps should have a nil fair value at inception if traded in the open market where there is no consideration paid or received. The SORP also refers to the use of different discount rates for each swap leg to achieve this. The previously applied method used does not do either of these.

The revised methodology gives a market consistent fair value in line with IFRS 13 principles, and aligns with the requirements set out in the SORP. The valuation methodology has been applied prospectively in line with prior year adjustment guidance.

**16. AVC investments**

	2017	2016
	£000	£000
The Standard Life Assurance Company: unit linked	339	388
Phoenix Life Limited: unit linked	5	18
The Equitable Life Assurance Company: unit Linked	1	1
Friends Life: unit linked	5,809	4,438
The Equitable Life Assurance Company: with Profits	813	874
The Prudential Assurance Company: unit linked	1,391	1,514
MGM Limited: unit linked	1	1
	<u>8,369</u>	<u>7,234</u>

The Trustee hold assets invested separately from the main fund in the form of insurance policies, which secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement confirming the amounts held on their behalf and the movements in the asset values. The aggregate amounts of AVC investments are shown above.

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**17. Cash**

	2017 £000	2016 £000
<b>Cash assets</b>		
Cash	<u>6,568</u>	<u>16,558</u>

Included within cash balances is £333,000 (2016: £235,000) in respect of initial and variation margins arising on certain open derivative contracts at the year end.

**18. Other investment balances**

	2017 £000	2016 £000
<b>Other investment balances assets</b>		
Amounts due from brokers	3,760	394
Accrued income	3,176	3,404
Obligation to return collateral	420	-
Cash collateral held elsewhere	650	560
	<u>8,006</u>	<u>4,358</u>
<b>Other investment balances liabilities</b>		
Amounts due to brokers	(921)	(560)
Deferred rental income	(3,161)	(2,997)
Obligation to return collateral	-	(540)
	<u>(4,082)</u>	<u>(4,097)</u>
	<u>3,924</u>	<u>261</u>

**19. Fair value determination**

The fair value of financial instruments has been estimated using the following fair value hierarchy:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

**AKZO NOBEL (CPS) PENSION SCHEME**  
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**19. Fair value determination (continued)**

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	At 31 March 2017			Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Equities	230,988	103	-	231,091
Bonds	1,032,212	-	-	1,032,212
Property	-	-	263,570	263,570
Pooled investment vehicles	-	1,461,050	460,554	1,921,604
Derivatives	97	1,835	-	1,932
Insurance policies	-	-	1,628	1,628
Other investments	-	-	(67,800)	(67,800)
AVC investments	-	7,192	1,167	8,359
Cash	6,568	-	-	6,568
Other investment balances	6,052	(2,128)	-	3,924
	<u>1,275,917</u>	<u>1,468,052</u>	<u>659,119</u>	<u>3,403,088</u>

  

	At 31 March 2016			Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Equities	298,240	103	-	298,343
Bonds	734,408	-	-	734,408
Property	-	-	246,535	246,535
Pooled investment vehicles	-	1,314,948	333,135	1,648,083
Derivatives	(12)	1,527	-	1,515
Insurance policies	-	-	1,579	1,579
Other investments	-	-	(25,100)	(25,100)
AVC investments	-	5,962	1,272	7,234
Cash	16,558	-	-	16,558
Other investment balances	1,240	(979)	-	261
	<u>1,050,434</u>	<u>1,321,561</u>	<u>557,421</u>	<u>2,929,416</u>

**AKZO NOBEL (CPS) PENSION SCHEME**  
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**20. Investment risk disclosures**

**Investment risks**

FRS 102 requires the disclosure of information in relation to certain investment risks.

**Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Market risk:** this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines its investment strategy after taking advice from its investment consultant. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks, including credit risk and market risk, which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.



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The following table summarises the extent to which the various classes of investments are affected by financial risks:

	Credit risk	Currency	Market risk Interest rate	Other price	2017 Value (£000s)	2016 Value (£000s)
<b>Scheme assets</b>						
Equities	*	^	*	#	231,091	298,343
Bonds (LDI)	*	*	#	*	1,032,212	734,408
Property	^	*	*	#	263,570	246,535
<i>Pooled investment vehicles</i>						
Equities	*	^	*	#	510,765	428,504
Bonds	#	^	#	*	501,900	472,510
Property	^	*	*	#	25,646	10,333
Reinsurance	^	#	^	#	131,295	111,199
EM Currency	#	#	#	*	–	31,576
Infrastructure	^	*	^	*	44,246	24,330
Multi-strategy	#	^	#	*	155,674	96,816
CLO debt	#	^	#	*	103,694	100,790
Pooled bonds (LDI)	*	*	#	*	337,458	327,875
Cash (pooled)	^	*	*	*	110,926	44,150
Cash (incl derivatives)	^	*	*	*	12,424	18,334
Longevity Contract	*	*	#	*	(67,800)	(25,100)
<b>Total DB section investments</b>					<b>3,393,101</b>	<b>2,920,603</b>

Note: The figures in the above table have been provided by the custodian, Northern Trust and excludes the buy-in policy and AVC investments.

In the above table, the risk noted affects the asset class “#” significantly, “^” partially or “\*” hardly/not at all.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include the legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

**Investment strategy**

The investment objective is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits under the trust deed and rules as they fall due.

The Trustee sets the investment strategy taking into account considerations such as the strength of the employer covenant, the long term liabilities and the funding agreed with the Employer.

Following the 2015 actuarial valuation, a new de-risking plan has been put in place. As part of this approach, the Trustee is targeting an investment return on its assets of gilts+1.7% p.a. decreasing to gilts+0.5% over a 20 year period from 2016.

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#### 20. Investment risk disclosures *(continued)*

##### **Credit risk**

The Scheme is subject to credit risk because the Scheme directly invests in government bonds, corporate bonds, property (let to tenants) and has cash balances. These investments will be subject to varying degrees of credit risk and the Scheme mitigates such risk by holding a diverse range of investments including global corporate credit, UK corporate credit, global sovereign credit, high-grade securitised credit and alternative credit.

The Scheme invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in such vehicles. The Scheme is also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee receives investment and legal advice on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled manager. Pooled investment arrangements used by the Scheme comprise unit linked insurance contracts and authorised unit trusts.

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicle which are credit unrated. This risk is mitigated by either investing in funds which hold at least investment grade credit rated investments and/or ensuring that any sub-investment grade exposure is well diversified.

The Scheme is exposed to a measure of credit risk relating to the longevity insurance contract.

Cash is held with financial institutions which are at least investment grade credit rated. The Trustee consider financial instruments and counterparties to be of investment grade if they are rated at BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's. For details of assets exposed to direct and indirect risk, see table on page 31 and notes 8 and 12 of the financial statements.

##### **Currency risk**

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments (direct exposure) or via pooled investment vehicles (indirect exposure). Direct currency exposure is mainly in the directly held equities portfolio where some 69% (2016: 52%) of the equity portfolio are securities priced in a currency other than GBP; mainly US\$ - 48% (2016: 32%) and Euro - 7% (2016: 6%) of equity portfolio. The Trustee has delegated the hedging of such risks to the investment managers through choice of suitable share class, where possible and inexpensive to do so. The Scheme is also subject to direct currency risk in its holdings of pooled investment vehicles which are not priced in GBP. As at the year-end, £385.6 million (2016: £265.9 million) of pooled investment vehicles are held in non-Sterling denominated currencies (mainly US\$ and Euro). These are not hedged.

The Scheme is also subject to indirect currency risks through its investments in pooled funds that invest in non-Sterling underlying securities/assets. The extent to which these pooled vehicles (by asset class) are subject to indirect currency risks are set out in the table on page 31. It is the responsibility of the pooled fund managers to manage the currency risks and the Trustee monitors the performance of these funds which take into account the impact of currency movements.

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**20. Investment risk disclosures (continued)**

**Interest rate risk**

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds and gilt funds (either as segregated investments or through pooled vehicles), and cash. The Trustee has recently agreed to target a hedge ratio of 70% of liabilities, on a self-sufficiency basis. Under this strategy, if interest rates fall, the value of liability hedging (LDI) investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. At the year end the LDI portfolio represented 41% of the total investment portfolio (2016: 37%). Assets subject to interest rate risk are set out in the table on page 31 and also notes 8 and 12 of the financial statements.

**Other price risk**

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes directly held equities, equities held in pooled vehicles, reinsurance, and property. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets. See the table on page 31 and notes 8 and 12 of the financial statements for amounts of those assets subject to this risk.

**21. Concentration of investments**

No investments amounted to more than 5% of the total net assets of the Scheme with the exception of certain pooled investment vehicles, namely the BlackRock Aquila Life World ex UK Equity Fund (6.8%) (2016: (6.53%)), UK(GOVT OF) 2.5% SNR 22/07/2065 (5.42%)(2016: nil) and the Henderson Global Invs All Stocks Credit Fund (5.15%) (2016: (5.28%)).

**22. Employer related investments**

Employer related investments are held through pooled investment vehicles (BlackRock Aquila Life World ex-UK Equity Fund and Legal & General RAFI AW 3000 Index Fund) and through a direct property tenancy. The value of these investments was less than 0.05% of the Scheme's Net Assets at the year end. There were no other employer related investments during the year or at the year end.

**23. Current assets**

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Other debtors and prepayments	<b>1,703</b>	<b>21</b>
Cash balances	<b>4,345</b>	<b>4,865</b>
	<b><u>6,048</u></b>	<b><u>4,886</u></b>

## AKZO NOBEL (CPS) PENSION SCHEME

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#### 24. Current liabilities

	2017	2016
	£000	£000
Unpaid benefits	343	862
PAYE payable	1,077	1,083
Other creditors	36	35
	<u>1,456</u>	<u>1,980</u>

#### 25. Related party transactions

From 1 April 2013, all administrative expenses of the Scheme are met by the Principal Employer. Trustee Directors were paid fees totalling £126,281 (2016: £142,000) directly by the Principal Employer during the year.

During the year, four Trustee Directors received a pension from the Scheme and three Trustee Directors were contributing members (see page 1 for details).

As set out on page 6 and referred to in note 3, deficit funding contributions have been paid out of an escrow account set up following the 2006 valuation. As at 31 March 2017 the balance in the escrow account was £nil (2016: £44,892,816) as the account was closed and the amount of £46,256,532 were transferred into the Scheme as per Schedule of Contributions dated 22 September 2016.

#### 26. Contingent liabilities and contractual commitments

Other than the obligation to pay continuing premiums under the longevity insurance contract after the year end, the Scheme had the following contingent liabilities and contractual commitments at 31 March 2017 : £nil (2016 : £nil).

The Scheme has outstanding capital commitments in relation to the Macquarie Infrastructure Debt (UK Inflation Linked) Fund L.P. Commitments initially contracted were £25m with undrawn commitments at the year end of £4.2m (2016: £12.0m).

The Scheme has outstanding capital commitments in relation to Equitix Infrastructure Partnership. Commitments initially contracted were £50m with undrawn commitments at the year end of £32.6m (2016: £39.1).

The Scheme has outstanding capital commitments in relation to the Alpha Real capital Index-linked Income Fund. Commitments initially contracted were £50m with undrawn commitments at the year end of £32.0m (2016: £nil).