

AKZO NOBEL (CPS) PENSION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019
PENSION SCHEME REFERENCE NUMBER: 10161703

AKZO NOBEL (CPS) PENSION SCHEME

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YEAR ENDED 31 MARCH 2019

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AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE AND ADVISERS

YEAR ENDED 31 MARCH 2019

Principal Employer	Akzo Nobel UK Ltd The AkzoNobel Building Wexham Road Slough SL2 5DS
Trustee	Akzo Nobel (CPS) Pension Trustee Ltd
Trustee Directors	Mr R Waterbury (Chairman) (pensioner member) (retired 6 December 2018)*^ Mr R Dickinson-Deane (active member) (retired 30 July 2018) Mr P Brennan (active member) (retired 13 May 2018) Mr I Walton (pensioner member) (appointed 17 October 2019) Ms J Shannon (pensioner member) +^ Mr J Bradley (pensioner member) *^ Mr G Marsh (pensioner member) +^ Ms J Mellor (active member) The Law Debenture Pension Trust Corporation p.l.c *^+ *Investment committee member ^Valuation committee member +Administration committee member
Secretary to the Trustee	Mr M Trueblood The AkzoNobel Building Wexham Road Slough SL2 5DS
Administrator	Towers Watson Limited PO Box 545 Redhill Surrey RH1 1YX
Actuary	Mr G Oxtoby F.I.A Towers Watson Limited Watson House London Road Reigate Surrey RH2 9PQ
Independent auditor	KPMG LLP 1 Sovereign Square Sovereign Street Leeds LS1 4OA
Legal advisers	Travers Smith LLP 10 Snow Hill London EC1A 2AL

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE AND ADVISERS *(continued)*

YEAR ENDED 31 MARCH 2019

Investment consultants	Towers Watson Limited
Investment managers	BlackRock Investment Advisors (UK) Limited Henderson Global Investors Limited (until 12 December 2018) CB Richard Ellis Global Investors LLC Legal & General Investment Management Limited Nephila Capital Limited Bluebay Asset Management LLP (until 15 April 2019) Franklin Templeton Investment Management Ltd (until 29 January 2019) Bain Capital Credit (until 30 December 2018) Macquarie Group Limited Genesis Investment Management LLP Equitix Investment Management Limited Alcentra Limited Alpha Real Capital LLP Greencoat Capital LLP Dalmore Capital Limited State Street Bank and Trust Company (from 13 December 2018) Goldman Sachs International (from 7 December 2018)
Investment custodians	The Northern Trust Company
AVC providers	The Equitable Life Assurance Society The Standard Life Assurance Company The Prudential Assurance Company Limited Scottish Friendly Assurance Aviva Life and Pensions UK Limited (formerly Friends Life Pensions Limited) Phoenix Alba Life
Longevity insurer	ReAssure Limited
Bankers	Barclays Bank Plc

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S REPORT

YEAR ENDED 31 MARCH 2019

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 2019.

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 4 occasions. In addition, the investment committee met on a further 7 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 at the effective date of this report were Geoff Marsh and Jon Bradley.

The employer-appointed Trustee Directors were Julie Shannon and Jill Mellor.

Scheme advisers

There are written agreements in place or under review 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.

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.

Changes to the Scheme

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

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2019

Statement of Trustee's responsibilities

Trustee's responsibilities in respect of the financial statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including 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 period which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme period and of the amount and disposition at the end of the Scheme period of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme period; and
- 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 accounts have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. The Trustee is also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless it is aware of any intention of the Company to serve notice on the Trustee to terminate the Scheme, or has no realistic alternative but to do so; and
- making available each Scheme period, commonly in the form of a Trustee's report, information about the Scheme prescribed by pensions legislation, which it should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee summary of contributions.

The Trustee is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2019

Membership

The changes in membership during the year are as follows:

	Active members	Deferred members	Pensioners, spouses and dependants	Total
At 1 April 2018	420	7,365	18,197	25,982
Adjustments to prior period	(4)	25	9	30
Retirements	(25)	(357)	382	—
Members leaving with deferred benefits	(30)	30	—	—
Deaths	—	(25)	(851)	(876)
New spouses and dependants pensions	—	—	234	234
Commutations and entitlements ceasing	—	(168)	(114)	(282)
Transfers out	—	(103)	—	(103)
At 31 March 2019	<u>361</u>	<u>6,767</u>	<u>17,857</u>	<u>24,985</u>

In addition to the above there are 306 (2018: 322) contingent deferred pensioners and 4,186 (2018: 4,725) deferred pensioners due only a lump sum payment from the Scheme on retirement.

At the year end there were 4,394 (2018: 4,549) 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 2017	1.0%
6 April 2018	3.0%
6 April 2019	2.4%

For most of the annual increases made, the CPS Section uses a reference period of the twelve months ending in the September prior to the increase date, and the increase is based on CPI. The minimum increase during the year was 2.4% and the maximum increase during the year was 2.5%.

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 mainly 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 2019

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 2017 and revealed a deficit of £123 million which equated to a funding level of 97%.

The funding level remained at 97% in 2015 to 97% in 2017 (an improvement in scheme funding) mainly due to an increase in the level of prudence in the basis adopted for the funding of the Scheme. The effect of this strengthening of the basis was offset by the payment of deficit repair contributions since 2015 and favourable investment returns.

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

- the Employer has paid additional contributions of £21 million in March 2018 and £26.1 million in March 2019, followed by £26.1 million a year for three years 2020 - 2022 inclusive, the last contribution payable by 31 March 2022. It has been agreed that the deficit contributions due from 2019 - 2022 will be paid from an escrow account set up by the Company from the proceeds arising from the sale of Specialty Chemicals.

The next full actuarial valuation of the Scheme is due to be carried out as at 31 March 2020.

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 2017. This showed that on that date:

The value of the Technical Provisions was:	£3,531 million
The value of the assets at that date was:	£3,408 million

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2019

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.

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 3.5% per annum plus a margin which reduces over 13 years, starting from 1.2% per annum in 2017 to 0.25% per annum from 2030 onwards.

Future Retail Price Index (RPI) inflation: 3.5% per annum.

Future Consumer Price Index (CPI) inflation: 2.5% 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: 2.5% per annum for the purpose of determining the technical provisions.

Mortality - base tables: for the period in retirement:

- standard tables S2PMA with a scaling factor of 100% for male CPS members and all widowers; 101% for male ex-UK members
- standard tables S2PFA with a scaling factor of 96% for all female members; and
- standard tables S2DFA with a scaling factor of 100% for all widows.

Mortality - future improvements: in line with the CMI 2016 core projection model from 2007 onwards with an assumed long term mortality improvement trend of 1.5% per annum.

Financial statements

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 2019

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 11.

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 2017 actuarial valuation, the Trustee is targeting an investment return on its assets of gilts +1.5% p.a. decreasing to gilts +0.25% over a 13 year period from 2017. The asset allocation as at 31 March 2019 is provided below.

Asset Class	Proportion as at 31/03/2019	Value as at 31/03/2019
	%	£m
Equities	5	183
Property	10	355
Reinsurance securities fund	3	121
Multi-strategy credit	-	-
LDI portfolio	72	2,517
Corporate bonds	4	134
CLO debt	3	103
Secure income assets	4	136
Cash deposits, derivatives and other pending investments	-1	-39
Total		3,510

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 2019

The Trustee has adopted a Scheme-specific performance 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
	%	%
2019	+6.2	+6.1
2018	+3.3	+2.8
2017	+20.1	+18.4
2016	+1.7	+1.9
2015	+19.5	+18.4
2014	+3.0	+1.8
3 year (annualised)	+9.6	+8.9
5 year (annualised)	+9.9	+9.3

Note: The numbers above have been provided by the Scheme's custodian, Northern Trust, as at 31 March 2019, 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.

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2019

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.

Custodial arrangements

Northern Trust acts as custodian for the great 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 Aviva 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 5% 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.

GMP equalisation

In October 2018 a Court ruling determined that defined pension schemes must equalise the guaranteed minimum pension ('GMP') element of men and women which was earned between May 1990 and April 1997. The disparity arose because of government legislation which required the GMP element of mens' and womens' pensions to be calculated differently in the past. The Trustee expects that the Scheme will therefore be liable for additional past service cost for members who did not receive equal GMPs in the past. The Trustee is working with the Scheme Actuary to determine the actual costs to the Scheme of equalising GMPs, which at 31 March 2019 could not be determined with reasonable certainty.

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2019

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)**

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

Trustee Director

Trustee Director

Date

Date

AKZO NOBEL (CPS) PENSION SCHEME

ACTUARIAL CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

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 2017 to be met by the end of the period specified in the recovery plan dated 28 September 2018.

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 28 September 2018.

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 28 September 2018

AKZO NOBEL (CPS) PENSION SCHEME

TRUSTEE'S SUMMARY OF CONTRIBUTIONS

YEAR ENDED 31 MARCH 2019

Statement of 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.

Trustee's Summary of Contributions payable under the Schedules in respect of the Scheme year ended 31 March 2019

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 22 September 2016 and 28 September 2018 in respect of the Scheme year ended 31 March 2019. The Scheme auditors report on contributions payable under the schedules in their auditors' statement about contributions.

	£000
Contributions required by the Schedules of Contributions	
Employers	
Normal contributions	8,194
Deficit funding contributions	26,100
Employees	
Normal contributions	65
Contributions payable under the Schedules (as reported on by the Scheme auditor)	34,359
Other contributions	
Employees	
Additional voluntary contributions	971
Total contributions reported in the financial statements	<u>35,330</u>

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

Trustee Director

Trustee Director

Date

Date

AKZO NOBEL (CPS) PENSION SCHEME

INDEPENDENT AUDITORS' STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE

YEAR ENDED 31 MARCH 2019

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 2019 which is set out on page 13.

In our opinion contributions for the Scheme year ended 31 March 2019 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid for the period 1 April 2018 to 27 September 2018 at least in accordance with the Schedule of Contributions certified by the Actuary on 22 September 2016 and subsequently at least in accordance with the Schedule of Contributions certified by the Actuary on 28 September 2018.

Respective responsibilities of Trustee and the 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 Schedules 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 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 Schedules 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 Schedules of Contributions.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Scheme's Trustee, 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, for our work, for this statement, or for the opinions we have formed.

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

Date

AKZO NOBEL (CPS) PENSION SCHEME

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEE

YEAR ENDED 31 MARCH 2019

Opinion

We have audited the financial statements of the Akzo Nobel (CPS) Pension Scheme ("the Scheme") for the year ended 31 March 2019 which comprise the:

- Fund account
- Statement of net assets available for benefits and
- the related notes to the financial statements (including the accounting policies in note 1).

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 2019 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 ended 31 March 2019;
- have been properly prepared in accordance with UK accounting standards, including FRS 102; The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- contain the information specified in Regulation 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to Britain exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Trustees and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Plan's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Plan's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

AKZO NOBEL (CPS) PENSION SCHEME

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEE *(continued)*

YEAR ENDED 31 MARCH 2019

Going concern

The Trustees have prepared the financial statements on the going concern basis as they do not intend to wind up the Plan, and as they have concluded that the Plan's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Trustees' conclusions, we considered the inherent risks to the Plan, including the impact of Brexit, and analysed how those risks might affect the Plan's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Plan will continue in operation.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions) and the actuarial certification of the schedules of contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in their statement set out on page 4, the Scheme's Trustee is responsible for supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so.

AKZO NOBEL (CPS) PENSION SCHEME

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEE *(continued)*

YEAR ENDED 31 MARCH 2019

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at:
www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Scheme's Trustee 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 those matters we are required to state to it 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 for our audit work, for this report, or for the opinions we have formed.

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

Date

AKZO NOBEL (CPS) PENSION SCHEME

FUND ACCOUNT

YEAR ENDED 31 MARCH 2019

	Note	2019 £000	2018 £000
Contributions and benefits			
Employer contributions		34,294	31,607
Employee contributions		1,036	406
Total contributions	3	35,330	32,013
Other income	4	1	7
		<u>35,331</u>	<u>32,020</u>
Benefits	5	(124,735)	(121,797)
Transfers out	6	(24,070)	(40,355)
Administrative expenses	7	(8)	(24)
		<u>(148,813)</u>	<u>(162,176)</u>
Net withdrawals from dealings with members		(113,482)	(130,156)
Returns on investments			
Investment income	8	68,217	38,101
Change in market value of investments	9	112,541	19,209
Investment management expenses	10	(658)	(1,506)
Net return on investments		180,100	55,804
Net increase/(decrease) in the fund during the year		66,618	(74,352)
Net assets of the Scheme			
At 1 April		<u>3,333,329</u>	<u>3,407,681</u>
At 31 March		<u>3,399,947</u>	<u>3,333,329</u>

The notes on pages 20 to 36 form part of these financial statements.

AKZO NOBEL (CPS) PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

AS AT 31 MARCH 2019

	Note	2019 £000	2018 £000
Investment assets	9		
Equities		103	103
Bonds		2,516,688	1,096,572
Property	12	285,435	273,182
Pooled investment vehicles	13	761,436	1,965,820
Derivatives	14	5,965	10,850
Insurance policies	15	1,350	1,452
AVC investments	17	5,877	6,956
Cash	18	485,905	84,400
Other investment balances	19	113,295	9,233
		<u>4,176,054</u>	<u>3,448,568</u>
Investment liabilities	9		
Derivatives	14	(467)	(1,599)
Longevity hedging insurance contract	16	(119,400)	(94,000)
Other investment balances	19	(657,830)	(22,189)
		<u>(777,697)</u>	<u>(117,788)</u>
Total investments		<u>3,398,357</u>	<u>3,330,780</u>
Current assets	24	3,757	4,987
Current liabilities	25	(2,167)	(2,438)
Net assets of the Scheme at 31 March		<u>3,399,947</u>	<u>3,333,329</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:

Trustee Director

Trustee Director

Date

Date

The notes on pages 20 to 36 form part of these financial statements.

AKZO NOBEL (CPS) PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

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").

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 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
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

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.

Cash receipts and payments on derivative contracts are included in investment income when they are due, with the exception of the longevity swap where cash receipts and payments are accounted for within purchases and sales.

Interest income is accounted for on an accruals basis.

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

Annuity income received by the Scheme is accounted for in the period to which it relates.

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.

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.

AKZO NOBEL (CPS) PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

2. Accounting policies (continued)

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.

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'.

Under repurchase agreements, the Scheme continues to recognise and value the securities that are delivered out as collateral, and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount.

Under reverse repurchase agreements, the Scheme does not recognise the securities received as collateral in its financial statements. The Scheme does recognise the cash delivered to the counterparty as a receivable in the financial statements.

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. Premiums paid in relation to the longevity insurance contract are accounted for within purchases. 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
YEAR ENDED 31 MARCH 2019

3. Contributions

	2019	2018
	£000	<i>£000</i>
Employer contributions		
Normal	8,194	<i>10,607</i>
Deficit funding	26,100	<i>21,000</i>
	34,294	<i>31,607</i>
Employee contributions		
Normal	65	<i>76</i>
Additional voluntary contributions	971	<i>330</i>
	1,036	<i>406</i>
	35,330	<i>32,013</i>

Deficit funding contributions have been made by the Employer to assist the funding of the Scheme. Under the Recovery Plan in force, annual deficit funding contributions of £21 million were due and paid by 31 March 2018, to be followed by £26.1 million a year for four years 2019 to 2022 inclusive, the last contribution payable by 2022. It has been agreed that the deficit contributions due from 2019 to 2022 are to be financed by an escrow account, to be established by the Employer.

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. Other income

	2019	2018
	£000	<i>£000</i>
Other income	1	<i>7</i>

AKZO NOBEL (CPS) PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

5. Benefits

	2019	2018
	£000	£000
Pensions	109,278	107,086
Commutations and retirement lump sums	14,862	14,111
Lump sum death benefits	632	380
Taxation (where lifetime or annual allowance exceeded)	(37)	220
	<u>124,735</u>	<u>121,797</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.

During the year the taxation (where lifetime or annual allowance exceeded) is negative due to members requesting refunds from HMRC of lifetime allowance tax paid in previous years.

6. Transfers out

	2019	2018
	£000	£000
Individual transfers out	<u>24,070</u>	<u>40,355</u>

7. Administrative expenses

	2019	2018
	£000	£000
Other fees	<u>8</u>	<u>24</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.

8. Investment income

	2019	2018
	£000	£000
Net income from properties	13,057	5,440
Income from bonds	28,648	8,660
Dividends from equities	–	2,645
Income from pooled investment vehicles	29,147	18,136
Income from derivatives	(72)	254
Income from annuities	332	365
Income from repurchase agreement	(4,204)	–
Income on cash deposits and cash equivalents	<u>1,309</u>	<u>2,601</u>
	<u>68,217</u>	<u>38,101</u>

The net income from properties above has been reduced by an amount of £2,047,000 (2018: £3,665,000) relating to property expenses deducted.

AKZO NOBEL (CPS) PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

9. Investments

	Value as at 01/04/18	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value as at 31/03/19
	£000	£000	£000	£000	£000
Equities	103	–	(6)	6	103
Bonds	1,096,572	1,622,651	(294,674)	92,139	2,516,688
Property	273,182	17,408	(14,964)	9,809	285,435
Pooled investment vehicles	1,965,820	685,643	(1,956,400)	66,373	761,436
Derivatives	9,251	44,215	(23,120)	(24,848)	5,498
Insurance policies	1,452	–	–	(102)	1,350
Longevity swap	(94,000)	4,866	–	(30,266)	(119,400)
AVC investments	6,956	567	(2,000)	354	5,877
	<u>3,259,336</u>	<u>2,375,350</u>	<u>(2,291,164)</u>	113,465	<u>3,456,987</u>
Cash	84,400			(1,077)	485,905
Other investment balances	(12,956)			153	(544,535)
	<u>3,330,780</u>			<u>112,541</u>	<u>3,398,357</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:

	Fees	Commission	Taxes	2019 Total	2018 Total
	£000	£000	£000	£000	£000
Equities	292	–	–	292	239
Other	1,705	–	–	1,705	–
Total 2019	<u>1,997</u>	<u>–</u>	<u>–</u>	<u>1,997</u>	<u>–</u>
Total 2018	<u>165</u>	<u>74</u>	<u>–</u>		<u>239</u>

10. Investment management expenses

	2019	2018
	£000	£000
Management fees	<u>658</u>	<u>1,506</u>

AKZO NOBEL (CPS) PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

11. 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.

12. Property

	2019	2018
	£000	£000
UK Property - direct	<u>285,435</u>	<u>273,182</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.

13. Pooled investment vehicles

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

	2019	2018
	£000	£000
Equity	183,168	614,359
Bond	236,556	942,571
Hedge funds	121,116	253,016
Private equity	136,324	85,814
Property	69,972	50,858
Cash	14,300	19,202
	<u>761,436</u>	<u>1,965,820</u>

AKZO NOBEL (CPS) PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

14. 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 2019		<i>31 March 2018</i>	
	Assets	Liabilities	<i>Assets</i>	<i>Liabilities</i>
	£000	£000	£000	£000
Futures	–	–	158	(29)
Options	–	–	85	(101)
Swaps	95	(87)	2,039	(1,343)
Forward FX contracts	5,870	(380)	8,568	(126)
	<u>5,965</u>	<u>(467)</u>	<u>10,850</u>	<u>(1,599)</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.

Options - option contracts are used within certain mandates to adjust exposure to particular investments or asset classes.

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

Forward foreign exchange contracts - to reduce the risk resulting from investing in securities denominated in currencies other than Sterling.

The notional principal of the swap is the amount used to determine the swapped receipts and payments. The Scheme paid collateral of £91,000 (2018: £5,838,000) and £(1,125,000) (2018: £(4,942,000)), this collateral is reported within other investment balances.

AKZO NOBEL (CPS) PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

14. Derivatives (continued)

Swaps

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

Nature	No. of contracts	Notional amounts £000	Expires	Asset value £000	Liability value £000
Interest rate swap (receiving fixed/paying floating)	1	9,256	2023	95	–
Inflation rate swap (paying fixed/receiving floating)	1	8,157	2023	–	(87)
Total 2019		<u>17,413</u>		<u>95</u>	<u>(87)</u>
Total 2018		<u>458,110</u>		<u>2,039</u>	<u>(1,343)</u>

At the year end there was 1 inflation rate swap and 1 interest rate swap contracts all of which were in the UK.

Forward FX contracts

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

Contract	Settlement date	No. of contracts	Currency bought '000	Currency sold '000	Asset value £000	Liability value £000
OTC traded	1 months	5	EUR 6,413	GBP 5,621	2	(92)
OTC traded	1 months	1	GBP 23,070	EUR 26,173	498	–
OTC traded	1 months	16	GBP 87,379	USD 113,734	391	(251)
OTC traded	3 months	13	GBP 277,419	USD 356,483	4,360	(37)
OTC traded	1 months	1	USD 1,268	GBP 952	20	–
OTC traded	3 months	8	USD 194,294	GBP 148,247	599	–
Total 2019					<u>5,870</u>	<u>(380)</u>
Total 2018					<u>8,568</u>	<u>(126)</u>

15. Insurance policies

	2019 £000	2018 £000
Buy-in policy	<u>1,350</u>	<u>1,452</u>

AKZO NOBEL (CPS) PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

16. Longevity hedging insurance contract

	2019	2018
	£000	£000
Longevity hedging insurance contract	<u>(119,400)</u>	<u>(94,000)</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 nominal and index linked gilts of £130.3m has been pledged during the year (2018: £118.2m) and the collateral as at the year-end was £138.7m (2018: £110.5m).

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.

17. AVC investments

	2019	2018
	£000	£000
The Standard Life Assurance Company: unit linked	247	293
Phoenix Life Limited: unit linked	6	5
The Equitable Life Assurance Company: unit Linked	1	1
Aviva: unit linked	4,021	4,785
The Equitable Life Assurance Company: with Profits	604	736
The Prudential Assurance Company: unit linked	997	1,135
MGM Limited: unit linked	1	1
	<u>5,877</u>	<u>6,956</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.

18. Cash

	2019	2018
	£000	£000
Cash assets		
Cash	<u>485,905</u>	<u>84,400</u>

AKZO NOBEL (CPS) PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

18. Cash (continued)

Included within cash balances is £nil (2018: £300,000) in respect of initial and variation margins arising on certain open derivative contracts at the year end.

19. Other investment balances

	2019	2018
	£000	£000
Other investment balances assets		
Amounts due from brokers	36,299	77
Reverse repurchase agreements	65,930	–
VAT due from HMRC	77	176
Accrued rental income	677	886
Accrued income	10,221	2,256
Cash collateral held elsewhere	91	5,838
	<u>113,295</u>	<u>9,233</u>
Other investment balances liabilities		
Repurchase contracts	(639,333)	–
Deferred rental income	(3,300)	(3,120)
Rental deposits due to tenants	(14,072)	(14,127)
Obligation to return collateral	(1,125)	(4,942)
	<u>(657,830)</u>	<u>(22,189)</u>
	<u>(544,535)</u>	<u>(12,956)</u>

As at 31 March 2019 bonds are held by the Scheme amounting to £580,978,857 (2018: £nil) as part of the reverse repurchase agreements, these bonds are not recognised in the Scheme's financial statements.

As at 31 March 2019 £68,281,307 (2018: £nil) of bonds reported in the Scheme assets and recognised in the Scheme's financial statements are held by counterparties in respect of amounts payable under repurchase agreements.

20. 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
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

20. 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 2019			Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Equities	–	103	–	103
Bonds	–	2,516,688	–	2,516,688
Property	–	–	285,435	285,435
Pooled investment vehicles	133,513	197,467	430,456	761,436
Derivatives	–	5,498	–	5,498
Insurance policies	–	–	1,350	1,350
Other investments	–	–	(119,400)	(119,400)
AVC investments	–	5,023	854	5,877
Cash	485,905	–	–	485,905
Other investment balances	(3,797)	(540,738)	–	(544,535)
	<u>615,621</u>	<u>2,184,041</u>	<u>598,695</u>	<u>3,398,357</u>

	<i>At 31 March 2018</i>			<i>Total</i>
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Equities	–	103	–	<i>103</i>
Bonds	–	1,096,572	–	<i>1,096,572</i>
Property	–	–	273,182	<i>273,182</i>
Pooled investment vehicles	371,664	1,100,420	493,736	<i>1,965,820</i>
Derivatives	129	9,122	–	<i>9,251</i>
Insurance policies	–	–	1,452	<i>1,452</i>
Other investments	–	–	(94,000)	<i>(94,000)</i>
AVC investments	–	5,910	1,046	<i>6,956</i>
Cash	95,736	(11,336)	–	<i>84,400</i>
Other investment balances	1,375	(14,331)	–	<i>(12,956)</i>
	<u>468,904</u>	<u>2,186,460</u>	<u>675,416</u>	<u><i>3,330,780</i></u>

AKZO NOBEL (CPS) PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

21. 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.

AKZO NOBEL (CPS) PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2019

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

	Credit risk	Market risk Currency	Interest rate	Other price	2019 Value (£000s)	2018 Value (£000s)
Scheme assets						
Equities	*	^	*	#	103	103
Bonds (LDI)	*	*	#	*	2,516,688	1,096,572
Property	^	*	*	#	285,435	273,182
<i>Pooled investment vehicles</i>						
Equities	*	^	*	#	183,168	614,359
Bonds	#	^	#	*	133,513	313,054
Property	^	*	*	#	69,972	50,858
Reinsurance	^	#	^	#	121,116	114,566
Infrastructure	^	*	^	*	136,324	85,814
Multi-strategy	#	^	#	*	–	138,450
CLO debt	#	^	#	*	103,043	288,809
Pooled bonds (LDI)	*	*	#	*	–	340,708
Cash (pooled)	^	*	*	*	14,300	19,202
Cash (incl derivatives)	^	*	*	*	(53,132)	80,695
Longevity Contract	*	*	#	*	(119,400)	(94,000)
Total investments					3,391,130	3,322,372

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 2017 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+1.5% p.a. decreasing to gilts+0.5% over a 13 year period from 2017.

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21. 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 33 and notes 9 and 13 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). The Scheme is subject to direct currency risk in its holdings of pooled investment vehicles which are not priced in GBP. As at the year-end, £158.7 million (2018: £361.5 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 33. 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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21. 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 48% of the total investment portfolio (2018: 43%). Assets subject to interest rate risk are set out in the table on page 33 and also notes 9 and 13 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 33 and notes 9 and 13 of the financial statements for amounts of those assets subject to this risk.

22. Concentration of investments

No investments amounted to more than 5% of the total net assets of the Scheme. Last year this was with the exception of certain pooled investment vehicles, namely the BlackRock Aquila Life World ex UK Equity Fund 6.5% and the Henderson Janus All Stocks Credit Fund 5.2%.

23. 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 5% 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.

24. Current assets

	2019	2018
	£000	£000
Other debtors and prepayments	5	1,756
Cash balances	<u>3,752</u>	<u>3,231</u>
	<u>3,757</u>	<u>4,987</u>

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25. Current liabilities

	2019	2018
	£000	£000
Unpaid benefits	715	1,017
Accrued expenses	350	336
PAYE payable	1,062	1,044
Other creditors	40	41
	<u>2,167</u>	<u>2,438</u>

26. 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 £220,475 (2018: £211,747) 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 2017 valuation. As at 31 March 2019 the balance in the escrow account was £75.4m (2018: £nil).

27. 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 2019: £nil (2018: £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 £2.1m (2018: £4.2m).

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 £8.7m (2018: £20.2m).

The Scheme had outstanding capital commitments in relation to the Alpha Real capital Index-linked Income Fund at 31 March 2018 of £17.9m. These were met in full during the year and there are no outstanding amounts.

The Scheme has outstanding capital commitments in relation to the Dalmore Capital Fund 3 LP. Commitments initially contracted were £50m with undrawn commitments at the year end of £16.6m (2018: £47.1m).

In October 2018 a Court ruling determined that defined pension schemes must equalise the guaranteed minimum pension ('GMP') element of men and women which was earned between May 1990 and April 1997. The disparity arose because of government legislation which required the GMP element of mens' and womens' pensions to be calculated differently in the past. The Trustee expects that the Scheme will therefore be liable for additional past service cost for members who did not receive equal GMPs in the past. The Trustee is working with the Scheme Actuary to determine the actual costs to the Scheme of equalising GMPs, which at 31 March 2019 could not be determined with reasonable certainty.