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AVERY DENNISON MATERIALS U.K. LIMITED

Annual Report
Registration # 947962
Financial Year Ended 31 December 2017

CONTENTS

DIRECTORS AND OTHER INFORMATION

Board of Directors at 27 September 2018

M Collins
P Newman
E Alper
J Diderich

Solicitors

Eversheds
Central Square South
Orchard Street
Newcastle Upon Tyne NE1 3XX
United Kingdom

Gowling WLG LLG
4 More London Riverside
London SE1 2AU
United Kingdom

Registered office

Nelson Way
Nelson Park East
Cramlington
Northumberland NE23 1JR
United Kingdom

Bankers

Citibank
336 The Strand
London WC2R 1HB
United Kingdom

Registered Number: 947962

Auditors

PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
One Albert Quay
Cork
Republic of Ireland

STRATEGIC REPORT

The directors present their strategic report on the company for the financial year ended 31 December 2017.

Review of the business

The principal activity of the company is the provision of manufacturing, operational and management services to other Avery Dennison group undertakings under toller agreements.

Results and performance

The results for the company, as set out on page 9, show a loss on ordinary activities before income tax of £1,215,000 compared to a loss of £1,172,000 in the prior year. The total shareholders' funds of the company total £14,358,000 as at year end (2016: £15,367,000). Funding for the company is provided by the company's ultimate parent undertaking, Avery Dennison Corporation, when deemed necessary.

Key performance indicators

The company's directors consider the key performance indicators of the entity to be toll expenses incurred and defined benefit pension scheme costs as these are the key factors which drive financial performance. As disclosed in note 4 the only class of business which the entity is engaged in is that of a toll manufacturer. The profitability of this business is driven by activity levels as represented by the level of costs incurred and the mark-up that can be applied to those costs. Toll income earned for the year ended 31 December 2017 totalled £16,623,000 (2016: £16,627,000). The company has a defined benefit pension scheme which is now closed but where the benefits accrued in the scheme related to the period before the company acted as a toll manufacturer and hence the company incurs its share of the costs of meeting this scheme's liabilities and these costs do not form part of the toll manufacturing costs and hence impact on the financial performance of the entity. These costs were £1,750,000 (2016: £1,750,000) in the current year as set out in note 14 to the financial statements.

Business environment

The business environment continues to be competitive; however the directors remain confident that the level of performance will be sustained in the future through the execution of the strategic objectives of the company.

Strategy

The key strategic objective of the company is to deliver productivity improvements whilst maintaining high quality and service levels. The company aims to manage its cost base to support the overall profitability of the Materials Group - Europe division within Avery Dennison through the efficient allocation of capital and continuous technology and process improvements.

Future developments

The directors are aware of the competitive business environment, so as a result they work closely with the Avery Dennison group of companies to monitor the various trends in the labels business and ensure the manufacturing and operational capabilities evolve to meet the demands of the market.

Principal risks and uncertainties

The management of the company's business and the execution of the agreed strategy is subject to a number of risks. The key business risks affecting the company are set out below:

Productivity

The principal business risk is the management of the cost base of the company. The risk is mitigated through the establishment of appropriate processes to continuously identify and implement process, technology and procurement improvements.

STRATEGIC REPORT - continued

Principal risks and uncertainties - continued

Liquidity
The company is funded within the Avery Dennison group of companies. Its funding requirements are reviewed regularly by both the directors and the group treasury department to ensure the company has sufficient available funds for operations and planned expansions.

Foreign exchange risk
Foreign exchange risk is monitored and managed centrally by the Avery Dennison Group. All foreign exchange exposures of the entities in the group are identified, monitored and hedged to ensure that the exposure to movements in foreign exchange is mitigated.

Interest rate risk
On a group wide basis Avery Dennison monitors it interest rate exposures and take action to mitigate its exposure as appropriate by either changing how cash is managed or the use of derivatives as appropriate. In the entities within the group there is no external interest rate exposure but interest is levied on balances with or due from the other group members. The interest rate applicable is managed and reviewed centrally within the Avery Dennison Group.

September 27, 2018
By order of the board

M Collins
Director

DIRECTORS' REPORT

The directors present their directors' report and the audited financial statements of the company for the financial year ended 31 December 2017.

Results for the year
The results for the company, as set out on page 9, show a loss on ordinary activities before income tax of £1,215,000 compared to a loss of £1,172,000 in the prior year. The total shareholders' funds of the company total £14,358,000 as at year end (2016: £15,367,000). Funding for the company is provided by the company's ultimate parent undertaking, Avery Dennison Corporation, when deemed necessary.

Dividends
The directors do not recommend payment of a dividend for the year (2016: £Nil).

Directors and their interests
The names of the persons who held office during the year and up to the date of signing the financial statements are set out below. Unless otherwise stated, they served as directors for the entire year:

P Newman
M Collins
J Diderich
E Alper

No director held any interests in the shares of the company or any group company within the United Kingdom at any time during the year or at the year end.

Going concern
The directors have satisfied themselves that the company is a going concern, having adequate resources to continue in operational existence for the foreseeable future. In forming this view, the directors made enquiries into the financial position and resources available to the company including a review of the budget for the next year. Therefore, the directors continue to adopt the going concern basis in preparing the financial statements.

Future developments
The directors are aware of the competitive business environment, so as a result they work closely with the Avery Dennison group of companies to monitor the various trends in the labels business and ensure the manufacturing and operational capabilities evolve to meet the demands of the market.

Research and development
The company did not engage in any research and development activities during the year.

Statement of directors' responsibilities
The directors are responsible for preparing the annual report in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

DIRECTORS' REPORT - continued

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

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

Political donations and political expenditure
The company made no political donations or did not incur any political expenditure in 2017 (2016: £Nil).

Disclosure of information to the auditor
Each of the persons who is a director at the date of approval of this report confirms that:

(a) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and

(b) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Post balance sheet events
There have been no significant events affecting the company since the year end.

Independent auditors
The auditors, PricewaterhouseCoopers, Republic of Ireland, Chartered Accountants and Statutory Audit Firm, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at an upcoming board meeting.

September 27, 2018
By order of the board

M Collins
Director

pwc

Independent auditors' report to the members of Avery Dennison Materials U.K. Limited

Report on the audit of the financial statements

Opinion

In our opinion, Avery Dennison Materials U.K. Limited's financial statements:

- give a true and fair view of the company's assets, liabilities and financial position as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework," and applicable law); and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise the statement of financial position as at 31 December 2017; the statement of comprehensive income for the year then ended, the statement of changes in equity for the year then ended, and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) and the Companies Act 2006 require us to also report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with the applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identified any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on pages 5 and 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsrespondibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 opinions on other matters

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Anthony Reidy (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Auditors
Cork
28 September 2018

STATEMENT OF COMPREHENSIVE INCOME
For the financial year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Operating income - toll fee	4	16,623	16,627
Operating income - other		433	843
Total operating income		17,056	17,470
Administration expenses		(2,150)	(2,379)
Operating expenses – toll fee		(16,153)	(16,257)
Operating loss	6	(1,247)	(1,166)
Finance income	7	35	9
Finance cost	7	(3)	(15)
Finance income/(expense) net before income tax		32	(6)
Loss before income tax		(1,215)	(1,172)
Income tax expense	8	206	306
Loss for the financial year		(1,009)	(866)
Other comprehensive income		-	-
Loss and total comprehensive loss for the year		(1,009)	(866)

All amounts included in the statement of comprehensive income arose solely from continuing operations.

The notes on pages 12 to 24 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Notes	2017 £'000	2016 £'000
Fixed assets			
Property, plant and equipment	9	7,257	7,849
Current assets			
Trade and other receivables	10	15,002	12,900
Cash and cash equivalents		-	-
		15,002	12,900
Creditors: Amounts falling due within one year	11	(7,901)	(5,237)
Net current assets		7,101	7,663
Total assets less current liabilities		14,358	15,512
Provisions for liabilities and charges	12	-	(145)
Net assets		14,358	15,367
Equity			
Ordinary shares	15	42	42
Share premium	16	2,687	2,687
Retained earnings	16	11,629	12,638
Total shareholders' funds		14,358	15,367

The notes on pages 12 to 24 are an integral part of these financial statements.

The financial statements on pages 9 to 24 were authorised for issue by the board of directors on September 27 2018 and were signed on its behalf by:

M Collins
Director
Avery Dennison Materials U.K.Limited

Registered number 947962

STATEMENT OF CHANGES IN EQUITY
For the financial year ended 31 December 2017

	Ordinary shares £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2016	42	2,687	13,504	16,233
Loss for the financial year	-	-	(866)	(866)
Balance at 31 December 2016	42	2,687	12,638	15,367
Balance at 1 January 2017	42	2,687	12,638	15,367
Loss for the financial year	-	-	(1,009)	(1,009)
Balance at 31 December 2017	42	2,687	11,629	14,358

The notes on pages 12 to 24 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Avery Dennison Materials U.K. Limited ("the company") provides manufacturing, operational and management services to other Avery Dennison group undertaking under toller agreements.

The company is incorporated and domiciled in the United Kingdom and limited by shares. The immediate parent is Avery Dennison Holding Limited, a company incorporated in the United Kingdom. The ultimate parent undertaking is Avery Dennison Corporation, a company incorporated in the United States of America.

The company's registered office is Nelson Way, Nelson Park East, Cramlington, Northumberland NE23 1JR, United Kingdom.

1.1 Statement of compliance

The financial statements of Avery Dennison Materials U.K. Limited have been prepared on a going concern basis and in compliance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 101, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 101") and the Companies Act 2006.

2 Summary of significant 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 years presented, unless otherwise stated. The company has adopted FRS 101 in the preparation of these financial statements.

2.1 Basis of preparation

The financial statements of Avery Dennison Materials U.K. Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

(i) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
   - Paragraph 79(a)(iv) of IAS 1
   - Paragraph 73(e) of AIS 16 'property, plant and equipment'

(ii) The following paragraphs of IAS 1, 'Presentation of financial statements':
   - 10(d), (statement of cash flows)
   - 10(f), (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it classifies items in its financial statements),
   - 16 (statement of compliance with all IFRS),
   - 38A (requirement for minimum of two primary statements, including cash flow statements),
   - 38B-D (additional comparative information),
   - 40A-D (requirements for a third statement of financial position),
   - 111 (cash flow statement information), and
   - 134-136 (capital management disclosures).

(iii) IAS 7 'Statement of cash flows'.

(iv) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'

2 Summary of significant accounting policies – continued

2.1 Basis of preparation - continued

(v) Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).

(vi) The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

(vii) IFRS 7 "Financial Instruments Disclosures".

(viii) Paragraph 91 to 99 of IFRS 13 "Fair Value Measurement" (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).

2.1.1 Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company, therefore, continues to adopt the going concern basis in preparing its financial statements.

2.2 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. All other foreign exchange gains and losses are presented in the income statement within 'Administration Expenses.'

2.3 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Freehold buildings	10 to 45 years
Plant and machinery	4 to 15 years
Furniture, fixtures and fittings	4 to 15 years

Freehold land and construction in progress are not depreciated.

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

2 Summary of significant accounting policies - continued

2.4 Impairment of non-financial assets

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

2.5 Financial assets

2.5.1 Classification

The company classifies its financial assets in the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current investments.

(b) *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise receivables and cash in the balance sheet.

2.5.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date – the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within interest income or expenses in the period in which they arise.

2.6 Impairment of financial assets

Assets carried at amortised cost

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2.7 Derivative financial instruments and hedging activities

The company has not applied hedge accounting and has no derivatives.

NOTES TO THE FINANCIAL STATEMENTS - continued

2 Summary of significant accounting policies - continued

2.8 Trade and other receivables

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

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

2.9 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.10 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.11 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

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

2.12 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTES TO THE FINANCIAL STATEMENTS - continued

2 Summary of significant accounting policies - continued

2.13 Employee benefits

The company operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

(a) Pension obligations – defined contribution

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

For defined contribution plans, the company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Pension obligations – defined benefit

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A defined benefit pension plan on behalf of a group of UK Avery Dennison companies exists to which this company contributes. The structure of this plan is deemed to be a multi-employer plan. The company has concluded that the structure of the plan does not enable it to identify its share of the scheme's underlying assets and liabilities on a consistent and reasonable basis as a result of an increased weighting of the scheme towards deferred members combined with the cumulative effect of restructuring within the UK group over a number of years.

Because of the nature of the information available to the company it is not possible for the company to obtain sufficient information to enable it to account for the plan as a defined benefit plan. Accordingly it accounts for the plan as a defined contribution plan. The defined benefit plan is now closed to future entrants and future accrual with effect from 31 December 2011. From this date the defined contribution scheme was offered to members. This move covered all the UK Companies in the Avery Dennison group. It is envisaged that the Scheme will carry on as a closed scheme.

Where the plan is in deficit and where the company has agreed, with the plan, to participate in a deficit funding arrangement the company recognises a liability for this obligation. The amount recognised is the net present value of the contributions payable under the agreement, that relate to the deficit, and the company expenses such amounts in income statement. There is a yearly contribution top up paid by the UK companies in order to meet the plan expenses and to eliminate the deficit on the UK pension fund. This will continue until 2019 if it is required.

The company provides a range of benefits to employees, including short term employee benefits such as annual bonus arrangements and paid holiday arrangements.

Short term employee benefits

Short term employee benefits, including paid holiday arrangements and other similar non-monetary benefits, are recognised as an expense in the financial year in which employees render the related service. The company operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the company has a present legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

NOTES TO THE FINANCIAL STATEMENTS - continued

2 Summary of significant accounting policies - continued

2.14 Operating income – toll fee

Toll fee operating income is derived from providing manufacturing services to other Avery Dennison companies in Europe under the terms of toller agreements in place. Toller income is recorded within "Operating income" included in the income statement. Toll fee income which is based on cost incurred, is recognised as services are delivered in accordance with the terms of the agreements in place.

2.15 Interest income

Interest income is recognised using the effective interest method.

2.16 Dividend income

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

2.17 Leases

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

2.18 Dividend distribution

Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Except as noted in note 2.13, the company has not used any critical judgements in applying the accounting policies.

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

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 9 for the carrying amount of the property plant and equipment, and note 2.3 for the useful economic lives for each class of assets.

Recoverability of intercompany balances

Management have made an assessment on the recoverability of the intercompany debtors by reviewing factors such as the financial position of the counterparty, post year payments received, historical experience, group policies on the settlement of such balances and the current and predicted future profitability of the relevant entities. Should the assumptions used in this assessment change significantly then this could impact on the future profitability and financial position of the entity.

NOTES TO THE FINANCIAL STATEMENTS - continued

4 Operating income – toll fee

The directors consider that the company has only one class of business. The company entered into a toller agreement with effect from 28 August 2010, whereby the company earns a Toller income acting as a manufacturing agent for a principal company based in the Netherlands, Avery Dennison Materials Europe B.V. Consistent with the terms of these agreements, Toller income of £16,623,000 (2016: £16,627,000) generated for the financial year has been recorded within "Operating income" included in the statement of comprehensive income. Toll fee income which is based on cost incurred, is recognised as services are delivered in accordance with the terms of the agreements in place.

5 Employees and directors

The average monthly number of persons (including executive directors) employed during the year was:

	2017 No.	2016 No.
By activity:		
Production	172	165
Administration	10	11
	182	176

Employee costs (for the above persons):	2017 £'000	2016 £'000
Wages and salaries	6,798	6,822
Social security costs	700	836
Other pension costs:		
- contributions paid to defined benefit pension fund (note 14)	1,750	1,750
- contributions paid to defined contribution pension scheme (note 14)	529	558
	9,777	9,966

Directors' remuneration (included above)	2017 £'000	2016 £'000
Aggregate remuneration	135	186
Aggregate amounts receivable under long term incentive plans	41	24
	176	210

Highest paid director

The highest paid directors emoluments were as follows:

	2017 £'000	2016 £'000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive scheme	124	171
Defined contribution scheme	11	15
	135	186

Directors' remuneration for certain directors has been borne by another group company. The directors are also directors or officers of a number of the companies within the Avery Dennison Group. Their directors' services to the company do not occupy a significant amount of their time. As such these directors do not consider that they have received any remuneration for their incidental services to the company for the years ended 31 December 2017 or 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS - continued

6 Operating loss

	2017 £'000	2016 £'000
Operating loss is stated after charging/(crediting):		
Depreciation of owned property, plant and equipment	1,072	1,053
Auditors' remuneration – audit services	14	12
Auditors' remuneration – other services	6	7
Operating leases - Hire of plant and machinery	174	176
Operating leases - Hire of other assets	69	53
Foreign exchange loss/(gain)	86	(7)
Restructuring costs	82	-

7 Finance income and cost

	2017 £'000	2016 £'000
Interest receivable on loans owed by group undertakings:		
- repayable within one year	35	9
Interest payable on loans owed to group undertakings:		
- repayable within one year	(3)	(15)
Net finance income/(expense)	32	(6)

8 Income tax

	2017 £'000	2016 £'000
Tax credit included in profit and loss:		
Current tax:		
United Kingdom corporation tax on loss for the year	-	-
Adjustment in respect of prior years	(61)	(61)
Total current tax credit	(61)	(61)
Deferred tax:		
Origination and reversal of timing differences (note 12)	(145)	(245)
Total deferred tax credit	(145)	(245)
Tax credit on loss	(206)	(306)

The tax credit on loss on ordinary activities for the year is lower than (2016: higher than) that calculated by applying the average rate of corporation tax in the UK of 19.25% (2016: 20%) to loss on ordinary activities. The differences are reconciled below:

	2017 £'000	2016 £'000
Loss before taxation	(1,215)	(1,172)
Loss on ordinary activities multiplied by the average rate of corporation tax in the U.K. of 19.25% (2016: 20%)	(234)	(234)
Effects of:		
Re-measurement of deferred tax - change in UK tax rate	28	(11)
Surrender of tax losses to group	61	-
Adjustment in respect of prior years	(61)	(61)
Tax credit	(206)	(306)

NOTES TO THE FINANCIAL STATEMENTS - continued

8 Income tax - continued

The tax rate for the current year is lower than the prior year due to changes in the U.K. corporation tax rate which decreased from 20% to 19% from 1 April 2017.

The main rate of corporation tax is 20% as of 1 April 2015 as enacted by the Finance Bill 2015. Additional changes to the UK corporation tax rates were substantively enacted on as part of Finance Bill 2016 on 15 September 2016. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements

9 Property, plant and equipment

	Freehold land and buildings	Plant and machinery, fixtures and fittings	Construction in progress	Total
	£'000	£'000	£'000	£'000
At 1 January 2017				
Cost	4,088	35,396	162	39,646
Accumulated depreciation	(3,675)	(28,122)	-	(31,797)
Net book amount	413	7,274	162	7,849
Year ended 31 December 2017				
Additions	-	-	481	481
Disposal	(69)	(948)	-	(1,017)
Re-categorisations	-	639	(639)	-
Depreciation	(56)	(1,016)	-	(1,072)
Depreciation on disposal	69	947	-	1,016
Closing net book amount	357	6,896	4	7,257
At 31 December 2017				
Cost	4,019	35,087	4	39,110
Accumulated depreciation	(3,662)	(28,191)	-	(31,853)
Net book amount	357	6,896	4	7,257

10 Trade and other receivables

	2017	2016
	£'000	£'000
Amounts owed by group undertakings	13,913	11,810
Value added tax receivable	845	918
Prepayments and accrued income	186	129
Corporation tax receivable	58	43
	15,002	12,900

Included in amounts owed by group undertaking is a balance of £7,192,000 (2016: £3,132,000) which is unsecured, interest free, have no fixed date for repayment and is repayable on demand. The remaining balance of £6,721,000 (2016: £8,678,000) is unsecured, interest bearing and is repayable within three months. Each advance of funds bears an interest rate based on the three month LIBOR or comparable rate. Interest rates are set by the Avery Dennison Corporate Treasury department quarterly.

NOTES TO THE FINANCIAL STATEMENTS - continued

11 Creditors: Amounts falling due within one year

	2017 £'000	2016 £'000
Trade creditors	841	592
Amounts owed to group undertaking	5,787	3,191
Taxation and social security	185	213
Accruals and deferred income	1,088	1,241
	7,901	5,237

Included in amounts owed by group undertaking is a balance of £2,941,000 (2016: £1,009,000) which is unsecured, interest free, have no fixed date for repayment and is repayable on demand. The remaining balance of £2,846,000 (2016: £2,182,000) is unsecured, interest bearing and is repayable within three months. Each advance of funds bears an interest rate based on the three month LIBOR or comparable rate. Interest rates are set by the Avery Dennison Corporate Treasury department quarterly.

Trade and other creditors are payable at various dates in the three months after the end of the financial year in accordance with the creditors usual and customary credit terms. Creditors for taxation and social security are payable in a timeframe set down in the relevant legislation.

12 Provisions for liabilities and charges

	2017 £'000	2016 £'000
Deferred taxation	-	145

	£'000
At 1 January 2017	145
Credit to the statement of comprehensive income (note 8)	(145)
At 31 December 2017	-

The breakdown of the deferred tax provision is as follows:	2017 £'000	2016 £'000
Accelerated capital allowances	226	358
Tax losses carried forward	(226)	(213)
Deferred tax liabilities	-	145

Deferred tax assets	2017 £'000	2016 £'000
Deferred tax assets to be recovered after more than twelve months	(226)	(213)
Deferred tax assets to be recovered within twelve months	-	-
	(226)	(213)
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than twelve months	226	358
Deferred tax liabilities to be recovered within twelve months	-	-
	226	358

NOTES TO THE FINANCIAL STATEMENTS - continued

12 Provisions for liabilities and charges - continued

	2017	2016
	£'000	£'000
The movement in deferred income tax account is as follows:		
At 1 January	145	390
Tax credit in statement of comprehensive income	(145)	(245)
At 31 December	-	145

13 Financial commitments

At 31 December 2017, the company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2017	2016
	£'000	£'000
Payments due:		
Not later than one year	49	20
Later than one year not later than five years	290	518
Later than five years	-	-
Total payments	339	538

The operating leases relate to machinery and equipment which are leases over five years with between one and five years remaining. Vehicles which are leased over five years with between one and three years remaining.

14 Post-employment benefits

A defined benefit pension plan on behalf of a group of UK Avery Dennison companies exist to which this company contributes. Defined benefit pension plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The directors have concluded that the structure of the scheme does not enable the company to identify its share of the scheme's underlying assets and liabilities on a consistent and reasonable basis as a result of an increased weighting of the scheme towards deferred members combined with the cumulative effect of restructuring within the UK group over a number of years. Therefore as a result the company accounts for the scheme as if it was a defined contribution scheme as permitted by IAS 19. The Defined Benefit Pension Plan is now closed to future entrants and future accrual with effect from 31 December 2011. From this date the Defined Contribution scheme was offered to members. This move covered all the UK Companies. It is envisaged that the Scheme will carry on as a closed scheme. Each year the cost of funding the scheme is determined and an allocation of the cost between Avery Dennison companies is agreed.

Contributions made to the defined benefit scheme during the year amounted to £2,860,000 of which £1,750,000 related to Avery Dennison Materials U.K. Ltd (2016: £1,750,000) with amounts payable into this scheme at year end amounting to £Nil (2016: £Nil). Contributions for 2018 are expected to be £700,000 for this company.

Contributions paid to the Defined Contribution Pension Plan for the year amounted to £529,000 (2016: £558,000).

NOTES TO THE FINANCIAL STATEMENTS - continued

14 Post-employment benefits – continued

In accordance with IAS 19 set out below are the details of the UK Group Avery Dennison Pension Plan at the balance sheet date:

	2017 £'000	2016 £'000
Present value of scheme liabilities	(149,677)	(149,443)
Fair value of scheme assets	147,555	138,424
Pension liability	(2,122)	(11,019)

The movement in the group scheme assets and liabilities for the current and prior year are as follows:

	Scheme assets £'000	Scheme liabilities £'000	Pension deficit £'000
At 1 January 2016			
Movement in year:	114,229	(118,694)	(4,465)
Benefits paid	(5,723)	5,723	-
Employer contributions	2,860	-	2,860
Interest income/(costs)	4,378	(4,483)	(105)
Return on plan assets excluding interest income	23,065	-	23,065
Actuarial loss on changes in financial assumptions	-	(31,989)	(31,989)
Expenses paid	(385)	-	(385)
At 31 December 2016	138,424	(149,443)	(11,019)
At 1 January 2017			
Movement in year:	138,424	(149,443)	(11,019)
Benefits paid	(5,449)	5,449	-
Employer contributions	2,860	-	2,860
Interest income/(costs)	3,682	(3,932)	(250)
Return on plan assets excluding interest income	8,526	-	8,526
Actuarial loss on changes in financial assumptions	-	(1,751)	(1,751)
Expenses paid	(488)	-	(488)
At 31 December 2017	147,555	(149,677)	(2,122)

15 Share capital

	2017 £'000	2016 £'000
Authorised		
75,000 Ordinary shares of £1 each	75	75
Allotted, called-up and fully paid		
42,100 Ordinary shares of £1 each	42	42

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Reserves

A description of each reserve within equity is outlined below:

Retained earnings
The retained earnings account represents accumulated comprehensive income for the financial year and prior financial years less dividends.

Share premium
Share premium account represents accumulated amounts received by the company for share issued above the par value for each share.

17 Controlling parties

The immediate parent company is Avery Dennison Holding Limited, a company incorporated in England and Wales. The directors regard Avery Dennison Corporation, a company registered in the USA, as the ultimate parent undertaking and the ultimate controlling party.

Copies of the financial statements of the ultimate parent and immediate parent respectively can be obtained from the following addresses:

Avery Dennison Corporation	Avery Dennison Holding Limited
207 Goode Avenue	1 Albemarle Street
Glendale	London
California	W1S 4HQ
91203-1222 USA	United Kingdom

Avery Dennison Corporation is the parent undertaking of the smallest and largest group to consolidate these financial statements. Therefore the company is exempt, by virtue of section 400 of the Companies Act 2006, from the requirement to prepare consolidated financial statements.

These financial statements are separate financial statements.

18 Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 27 September 2018 and were signed on its behalf on that date.