Akcros Chemicals Limited

Directors' report and financial statements

Registered number 995767

31 December 2004

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Principal activities

The company is engaged in the manufacture and sale of PVC stabilisers and other speciality chemicals. It is part of a business unit within Akzo Nobel with companies in a number of countries worldwide also trading as Akcros and managed as a single entity.

Business review

Operating performance was broadly in line with expectations, although trading in the last year was hit by the global economic slowdown. A rationalisation programme has taken place during the year to secure the long term future of the company.

On 12th February 2003 an investigation was launched by the European Commission into alleged breaches of competition law by the Company. The investigation is ongoing and the Company is fully co-operating with the respective authorities. At present it is not possible to assess the likely level of financial exposure, if any.

On 30th September 2004, the share capital of the Company was transferred from Akzo Nobel NV to Akzo Nobel Chemicals International BV.

On 23rd December 2004, Akzo Nobel Chemicals International BV subscribed for 8,500,000 ordinary shares of £1.00 in the Company fully paid at par.

Results and dividends

The profit and loss account and balance sheet, together with appropriate notes, are set out on pages 5 to 15. The loss for the year was £902,000 (*2003:loss of £2,307,000*). The directors do not recommend the payment of a dividend (*2003: £nil*).

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the company is not materially different from the carrying value in the accounts.

Directors and directors' interests

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

M S Clark

J F Cryan (appointed 17th December 2004)

R V Savoy (resigned 31st December 2004)

The Companies Act Disclosure of Directors' Interests (Exceptions) Regulations 1985 (SI 1985 No.802) are applicable to the Company.

Employees

The management communicates regularly with employees through regular team briefings and a periodic staff newsletter. This is supplemented by appropriate information regarding the wider Akzo Nobel group.

The company is committed to equality of opportunity for existing and prospective employees, including those who are disabled or become disabled while employed.

Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amounted to £5,000 (*2003: £12,000*).

Directors' report *(continued)*

Auditors

An elective resolution has been passed in accordance with Section 386 of the Companies Act 1985, dispensing with the requirement to appoint auditors annually, and accordingly KPMG LLP will remain in office.

By order of the Board

O.H. SECRETARIAT LIMITED
AUTHORISED SIGNATORY

O.H.Secretariat Limited
Secretary

PO Box 20980
Oriel House
16 Connaught Place
London W2 2ZB

Date: 21 April 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

KPMG LLP

St James' Square
Manchester
M2 6DS
United Kingdom

Report of the independent auditors to the members of Akcros Chemicals Limited

We have audited the financial statements on pages 5 to 15.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

Date: 21 May 2005

Profit and loss account

for the year ended 31 December 2004

	Note	2004 £000	2003 £000
Turnover	2	**29,766**	27,030
Cost of sales		**(26,688)**	(25,502)
Gross profit		**3,078**	1,528
Distribution costs		**(2,754)**	(2,798)
Administrative expenses	3	**(2,129)**	(1,658)
Other operating income		**1,815**	1,645
Operating profit/ (loss)	4	**10**	(1,283)
Other interest receivable and similar income	7	**5**	8
Interest payable and similar charges	8	**(406)**	(679)
Loss on ordinary activities before taxation		**(391)**	(1,954)
Tax on loss on ordinary activities	9	**(511)**	(353)
Loss on ordinary activities after taxation	17	**(902)**	(2,307)

There were no recognised gains or losses, other than those set out in the profit & loss account.

Balance sheet
at 31 December 2004

	Note	2004 £000	£000	2003 £000	£000
Fixed assets					
Tangible assets	*10*		**2,056**		2,360
Investments	*11*		**9,600**		9,600
			11,656		11,960
Current assets					
Stocks	*12*	**3,976**		3,442	
Debtors	*13*	**8,950**		7,614	
Cash at bank and in hand		**6**		10	
		12,932		11,066	
Creditors: amounts falling due within one year	*14*	**(16,834)**		(22,980)	
Net current liabilities			**(3,902)**		(11,914)
Total assets less current liabilities			**7,754**		46
Provisions for liabilities and charges	*15*		**(834)**		(724)
Net assets/(liabilities)			**6,920**		(678)
Capital and reserves					
Called up share capital	*16*		**21,600**		13,100
Capital redemption reserve	*17*		**23,100**		23,100
Profit and loss account	*17*		**(37,780)**		(36,878)
			6,920		(678)
Shareholders' funds					
Equity			**6,420**		(1,178)
Non-equity			**500**		500
			6,920		(678)

These financial statements were approved by the Board of Directors on 2[illegible].4.05 and were signed on its behalf by:

J F Cryan
Director

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Cash flow statement

The company has taken advantage of the exemption in FRS 1 (revised) and has not prepared a cash flow statement as its ultimate parent undertaking, Akzo Nobel NV, has prepared, in its consolidated financial statements, a consolidated cash flow statement dealing with the cash flows of Akcros Chemicals Limited.

Related party transactions

As a subsidiary undertaking, 90% or more of whose voting rights are controlled within the group headed by Akzo Nobel NV, the company has taken advantage of the exemption in FRS 8 not to disclose related party transactions with other members of the group.

Fixed assets and depreciation

Depreciation is provided to write off the cost of tangible fixed assets on a straight line basis at the following rates:

Freehold buildings	-	2.5% to 10% per annum
Plant and machinery	-	4% to 33% per annum
Fixtures, fittings and equipment	-	10% to 20% per annum

No depreciation is provided on freehold land.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Post-retirement benefits

The company participates in a pension scheme operated by the parent company and which provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, and contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

Notes *(continued)*

Accounting policies *(continued)*

Research and development expenditure

Expenditure on research and development is written off against profits in the year in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts, net of rebates, (excluding value added tax) derived from the provision of goods and services to customers.

2 Analysis of turnover

The turnover and result for the year are entirely attributable to the manufacture and sale of PVC stabilisers and other speciality chemicals.

	2004	2003
	£000	£000
Analysis of turnover by geographical market		
UK	**7,253**	6,504
Rest of EU	**18,485**	15,643
Rest of world	**4,028**	4,883
	29,766	27,030

3 Exceptional items

Included within administration expenses and therefore the operating profit for the year are the following exceptional items:

- Legal fee charges of £0.2m in relation to the European Commission investigation, detailed within the directors' report; and
- A £1m redundancy provision required for reorganisation changes in the business.

Notes *(continued)*

4 Operating Profit/Loss

The operating profit is stated after charging	**2004 £000**	2003 £000
Auditors' remuneration:		
Audit	28	26
Other services – fees paid to the auditor and its associates	9	15
Depreciation and other amounts written off tangible fixed assets	290	274
Exceptional items (see note 3):		
Legal fees	179	440
Redundancy provision	984	(300)
Hire of plant and machinery – rentals payable under operating leases	66	61
Research and development expenditure	443	625

5 Remuneration of directors

The aggregate emoluments paid to the one director which received remuneration from the company during the year were as follows:

	2004 £000	2003 £000
Salary	**185**	137
Benefits	**160**	140
	345	277

6 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2004	2003
Production	93	95
Administrative and management	47	51
	140	146

The aggregate payroll costs of these persons were as follows:

	2004 £000	2003 £000
Wages and salaries	**4,294**	4,311
Social security costs	**437**	586
Other pension costs	**1,062**	835
	5,793	5,732

Notes *(continued)*

7 Other interest receivable and similar income

	2004 £000	2003 £000
Interest from group companies	**5**	8

8 Interest payable and similar charges

	2004 £000	2003 £000
On bank loans and overdrafts	**406**	679

9 Tax on loss on ordinary activities

(a) *Analysis of charge in period*

	2004 £000	2003 £000
UK corporation tax		
Current tax on income for the period	**(432)**	(1,448)
Adjustments in respect of prior periods	**121**	797
Total current tax	**(311)**	(651)
Deferred taxation		
Origination/reversal of timing differences	**350**	1,002
Adjustment in respect of previous years	**472**	2
Total deferred tax	**822**	1,004
Total Tax Charge	**511**	353

(b) *Factors affecting the tax charge for the current period*

	2004 £000	2003 £000
Current tax on reconciliation		
Loss on ordinary activities before taxation	**(391)**	(1,954)
Current tax at 30% *(2003: 30%)*	**(117)**	(586)
Effects of:		
Expenses not deductible/(taxable) for tax purposes	**35**	141
Capital allowances for period in excess of depreciation	**(329)**	(464)
Adjustment to tax charge in respect of previous periods	**121**	797
Other short term timing differences	**(21)**	(539)
Total current tax charge	**(311)**	(651)

Notes *(continued)*

10 Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Payments on account and assets in course of construction £000	Total £000
Cost					
At beginning of year	6,678	22,666	915	212	30,471
Additions	2	59	-	72	133
Disposals	(178)	-	-	-	(178)
Transfers	31	181	-	(212)	-
At end of year	6,533	22,906	915	72	30,426
Depreciation					
At beginning of year	5,955	21,274	882	-	28,111
Disposals	(31)	-	-	-	(31)
Charge for year	18	260	12	-	290
At end of year	5,942	21,534	894	-	28,370
Net book value					
At 31 December 2004	**591**	**1,372**	**21**	**72**	**2,056**
At 31 December 2003	723	1,392	33	212	2,360

The gross book value of land and buildings includes £185,200 (*2003: £185,200*) of non-depreciable assets.

11 Investments in subsidiary

At the year end the company held more than a 20% interest in the following undertaking:

Subsidiary undertaking	*Country of incorporation*	*Principal activity*	*Class and percentage of shares held*
Akzo Nobel (O) Limited	England	Non trading	100% of ordinary shares

12 Stocks

	2004 £000	2003 £000
Raw materials and consumables	**1,189**	1,494
Finished goods and goods for resale	**2,787**	1,948
	3,976	3,442

Notes *(continued)*

13 Debtors

	2004	2003
	£000	£000
Trade debtors	**5,260**	3,495
Amounts owed by group undertakings	**1,156**	463
Corporation tax	**962**	1,469
Other debtors	**331**	124
Deferred tax asset	**1,241**	2,063
	8,950	7,614

The company participates in a cash pooling arrangement with certain other group companies. This arrangement allows the company to draw upon or credit amounts to a separately designated facility within the cash pool in the name of Akzo Nobel Limited. The company operates the facility as if it were the Company's own bank account, however, the company has no legal title. Accordingly, the amounts have therefore been included within amounts due to/from group companies rather than cash at bank. All partners to the arrangement are jointly and severally liable to the bank for any overdraft thereon.

At 31 December 2004, the cash at Bank was £0.7million. Therefore, included within amounts owed by other group companies is £0.7million *(2003: £6.3 million due to other group companies)* in respect of the company's share of the account.

The elements of deferred taxation are as follows:

	2004	2003
	£000	£000
Differences between accumulated depreciation and amortisation and capital allowances	**1,201**	2,019
Other timing differences	**40**	44
At end of year	**1,241**	2,063

14 Creditors: amounts falling due within one year

	2004	2003
	£000	£000
Trade creditors	**3,517**	3,532
Loans from other group undertakings	**11,401**	17,696
Amounts owed to other group undertakings	**639**	872
Accruals and deferred income	**1,277**	716
Tax and social security	**-**	164
	16,834	22,980

Notes *(continued)*

15 Provisions for liabilities and charges

	Restructuring provision £000	Other £000	Total £000
At beginning of year	44	680	724
Released during year	-	(419)	(419)
Additions during year	984	19	1,003
Utilised during year	(341)	(133)	(474)
At end of year	687	147	834

Other provisions are in relation to claims against the company.

16 Called up share capital

	2004 £	2003 £
Authorised		
Equity: ordinary shares of £1 each	**25,000,000**	25,000,000
Non equity: 4% redeemable preference shares of £1 each	**500,000**	500,000
	25,500,000	25,500,000
Allotted, called up and fully paid		
Equity: ordinary shares of £1 each	**21,100,100**	12,600,100
Non equity: 4% redeemable preference shares of £1 each	**500,000**	500,000
	21,600,100	13,100,100

The preference shares are redeemable at the registered holders' request with four weeks notice at par together with any arrears or accruals of the fixed preferential dividend on such shares whether or not declared or earned, calculated down to the date of redemption. On a winding up, they would rank in priority to all other shares and would be entitled to repayment in full of the capital paid up on such preference shares.

A 4% fixed preferential dividend shall be paid on 31 December each year in the event that the company has sufficient profits available for distribution but shall not be cumulative.

The holders of the preference shares will not have voting rights unless:

(i) when the General meeting is convened the fixed preference dividend payable has been in arrears for at least six months.

(ii) the Company has defaulted in payment of redemption monies due in respect of preference shares and is still in default when the notice convening a General Meeting is sent out to members; or

(iii) the business of the meeting includes a resolution for winding up the company or affecting, altering or abridging the rights or privileges or restrictions attached to preference shares.

Notes *(continued)*

17 Shareholders' funds

	Share capital £000	*Profit and loss* account £000	Capital Redemption service £000	Shareholders' funds £000
At beginning of year	13,100	(36,878)	23,100	(678)
Issue of ordinary shares	8,500	-	-	8,500
Loss for year	-	(902)	-	(902)
At end of year	**21,600**	**(37,780)**	**23,100**	**6,920**

18 Commitments

(a) Capital commitments at the end of the financial year for which no provision has been made were £30,000 *(2003: £29,000)*

(b) Annual commitments under operating leases are as follows:

	2004 Other £000	2003 Other £000
Operating leases which expire:		
Within one year	**160**	86
In the second to fifth years inclusive	**240**	431
	400	517

19 Pension scheme

The company is a member of the group-wide Akzo Nobel UK pension scheme ("the scheme") providing benefits based on final pensionable pay. Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 "Retirement Benefits", the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme.

The latest full actuarial valuation was carried out at 31 March 2003 by a qualified independent actuary. At this valuation the market value of the scheme assets were sufficient to cover 78% of the benefits that had accrued to members at that date.

The contribution for the year was £1,062,000 (*2003: £835,000*).

The employer contribution rates which applied were 22.3% and 13.5% of pensionable pay for members of the closed section and open section respectively. In the light of the deficit revealed by the valuation, additional employer contributions, currently equivalent to 7.6% of pensionable pay, were paid on both sections from 1 April 2004. This brings the total employer contribution to 29.9% and 21.1% on the closed section and open section respectively.

Notes *(continued)*

20 Ultimate parent company

The company is a wholly owned subsidiary undertaking of Akzo Nobel Chemicals International BV, a company incorporated in the Netherlands.

The largest group in which the results of the company are consolidated is that headed by Akzo Nobel NV, incorporated in the Netherlands. The consolidated accounts of Akzo Nobel NV may be obtained from Akzo Nobel NV, Velperweg 76, PO Box 9300, SB 6800 Arnhem, Netherlands.

21 Contingent liability

On 12th February 2003 an investigation was launched by the European Commission into alleged breaches of competition law by the Company. The investigation is ongoing and the Company is fully co-operating with the respective authorities. At present it is not possible to assess the likely level of financial exposure, if any.