

DEGUSSA UK HOLDINGS LIMITED

Directors' Report and Financial Statements

for the year ended 31 December 2005

Registered Number: 2695034

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Degussa UK Holdings Limited

Directors' report and financial statements

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Degussa UK Holdings Limited

Directors' report

The directors present their annual report, and the audited financial statements of the company, for the year ended 31 December 2005.

Principal activities

Degussa UK Holdings Ltd is a holding company and did not engage in any trading activities during the period. The principal activities of the company are concerned with deriving income from investments in subsidiary undertakings. This situation is expected to continue for the foreseeable future.

Business review

The Directors have prepared the accounts on a going concern basis as they maintain that there are sufficient distributable reserves in the Company's subsidiaries to offset the net current liabilities of the Company.

	2005 £'000	Restated 2004 £'000
Loss before taxation	(37,438)	(146,943)
Taxation	19,095	9,957
Loss for the year transferred to reserves	<u>(18,343)</u>	<u>(136,986)</u>

Dividends

The directors recommend that no dividend be paid in respect of the year (2004: £nil).

Directors and directors' interests

The officers that served during the year and after the balance sheet date are as follows:

B Hofmann	Chairman	(Resigned 21.2.2006)
A Oberholz	Chairman	(Appointed 20.2.2006, resigned 6.9.2006)
V Grunwald	Chairman	(Appointed 5.9.2006)
D C M Andrews	Managing Director	
Mrs G A Chapple	Director	(Resigned 30.11.2005)
B Lammert	Director	(Appointed 5.9.2006)
J L Hamilton	Company Secretary	(Resigned 25.02.2005)
J P R Lipman	Company Secretary	(Appointed 25.02.2005)

DCM Andrews held one 50p ordinary share in the Company at the beginning and end of the year.

None of the other directors held any beneficial interest in the shares of the company at any time.

Political and charitable contributions

The company made no political or charitable contributions during the year (2004: £nil).

Research and development

There were no research and development costs during the year (2004: £nil).

Post- balance sheet events

There were no post- balance sheet events to report.

Degussa UK Holdings Limited

Directors' report continued

Auditors

By a written resolution of the members dated 6 March 2006 PricewaterhouseCoopers LLP were appointed auditors of the company for an indefinite period in place of the retiring auditors KPMG LLP.

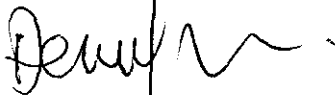
Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2005 and that applicable accounting standards have been followed.

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

By order of the Board



D C M Andrews
Director

29 December 2006

Tego House
Chippenham Drive
Kingston
Milton Keynes
MK10 0AF

Independent Auditors' report to the members of Degussa UK Holdings Limited

We have audited the financial statements of Degussa UK Holdings Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet, statement of total recognised gains and losses for the year and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not in giving our opinion, 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.

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 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.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

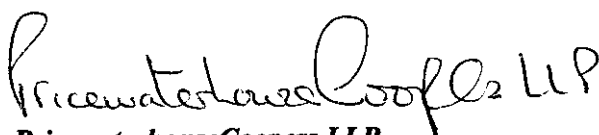
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes the examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

*Chartered Accountants and Registered Auditors
Milton Keynes*

4 January 2007

Degussa UK Holdings Limited

Profit and Loss Account

for the year ended 31 December 2005

	Note	2005 £'000	As restated 2004 £'000
Administrative expenses	2	2,999	1,341
Other operating income	2	2,626	2,269
Operating profit		5,625	3,610
Profit on disposal of investments	3	421	-
Interest receivable and similar income	4	264	2,314
Amounts written back/ (off) investments	5	-	(117,000)
Interest payable and similar charges	4	(43,748)	(35,867)
Other finance income		-	-
Loss on ordinary activities before taxation		(37,438)	(146,943)
Tax on loss on ordinary activities	6	19,095	9,957
Retained loss for the year	14	(18,343)	(136,986)

There are no material differences between the loss on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents.

Statement of total recognised gains and losses for the year

	Note	2005 £'000	As restated 2004 £'000
Loss for the financial year		(18,343)	(136,986)
Total recognised gains and losses relating to the year		(18,343)	(136,986)
Prior year adjustment - FRS17	17	(14,747)	
Total gains and losses recognised since last annual report		(33,090)	

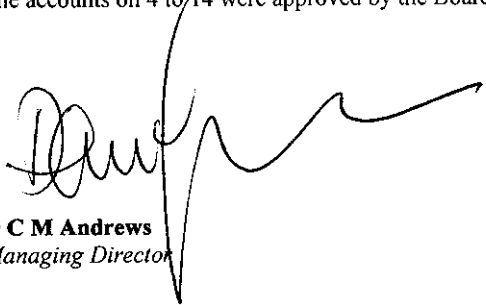
Degussa UK Holdings Limited

Balance Sheet

at 31 December 2005

		2005		As restated 2004	
	Note	£'000	£'000	£'000	£'000
Assets employed					
Fixed Assets					
Investments	7		882,961		885,761
Current Assets					
Debtors falling due within one year	9	33,646		25,540	
Total debtors		33,646	-	25,540	-
Creditors falling due within one year	10	(761,084)		(704,302)	
Net current liabilities			(727,438)		(678,762)
Total assets less current liabilities			155,523		206,999
Creditors falling due after one year	11		-		(23,900)
Provisions for liabilities and charges	12		(40,664)		(49,897)
Net assets			114,859		133,202
Capital and reserves					
Called up share capital	13		98,423		98,423
Share premium account	14		195,007		195,007
Capital redemption reserve	14		64,182		64,182
Merger reserve	14		124,800		124,800
Profit and loss account	14		(367,553)		(349,210)
Equity shareholders' funds	15		114,859		133,202

The accounts on 4 to 14 were approved by the Board on 29 December 2006 and signed on its behalf by:


D C M Andrews
Managing Director

Notes to the financial statements

1. Principal accounting policies

The principal accounting policies of the company are set out below. The policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements with the exception of the adoption of the provisions of FRS17 'Retirement benefits', FRS 21 'Events after the balance sheet date' and FRS 25 'Financial Instruments'. There is no significant effect on the financial statements as a result of adopting the new policies except for pension. Please refer to accounting policy for pension for more details.

Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting standards are set out below.

The company is a wholly owned subsidiary of Degussa AG, and is included in the consolidated financial statements of RAG AG, which are available from Rellinghauser Strasse 1-11, 45128 Essen, Germany. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1. The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the RAG AG group or investees of the RAG AG group.

The company is exempt by virtue of s248 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Fixed assets investments

All shares in group undertakings are stated at cost less any permanent diminution in value, as adjusted by directors' valuations, based on underlying net asset values.

Dividends received or receivable are credited to the company's profit and loss account to the extent that they represent a realised profit for the company

Gilts

Gilts are accounted for at historical acquisition cost less any impairment for permanent diminution in value.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or the forward cover rate. 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.

Pensions

The company has adopted FRS 17, 'Retirement benefits' in these financial statements. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. The company participates in Laporte Group Pension Trust which has defined benefit, defined contribution and hybrid components. As the company is unable to identify its share of the underlying assets and liabilities in the scheme and it would be impractical to allocate any actuarial surplus or deficit therefore the scheme will be treated as a defined contribution scheme on adoption of FRS 17. The contributions paid by the company are accounted as if the scheme were a defined contribution scheme. The effect of the change in accounting policy to adopt FRS 17 was to increase pension cost to £3,782,000 (2004: £148,000).

Taxation

The charge for taxation is based on the profit 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.

Degussa UK Holdings Limited

Notes to the financial statements (continued)

2. Operating profit / (loss), directors and employees

	2005 £'000	Restated As restated 2004 £'000
Operating loss is stated after charging/(crediting):		
Auditor's remuneration for audit work	60	60
Auditor's remuneration for other work	6	14
Administration services provided to other group companies	829	1,799
Release of provisions	(8,258)	(3,127)
Recharge of provisions to other group companies	(1,764)	-
Management fees for services provided to other group companies	(862)	(2,269)
Pension cost/(income)	<u>3,782</u>	<u>(148)</u>

Degussa UK Holdings Ltd incurs the audit costs on behalf of certain other Group companies, which for 2005 were included in the administration costs provided by subsidiary companies, being £60k for audit work and £6k for other work.

The company has had no employees since 30 June 2001. All the directors are employees of other Group undertakings and receive no emoluments in respect of services provided to the Company.

A deficit payment of £3,782,000 was made to the Laporte Group Pension Trust during the year (2004: nil)

3. Profit on disposal of investments

	2005 £'000	2004 £'000
Net Profit on disposal of investments	<u>421</u>	<u>-</u>

The Net profit on sale of investments relates to the sale of 1,309,882 gilts for £3,283,873 less cost of £2,734,489 leaving a profit on sale of £549,384, less an adjustment relating to the disposal of a subsidiary, Hüls (UK) Limited of £128,000.

Degussa UK Holdings Limited

Notes to the financial statements (continued)

4. Interest and other income and charges

	2005 £'000	2004 £'000
Other interest receivable and similar income		
Bank interest receivable	-	1,006
Other interest income	139	158
Corporation tax interest	125	816
Net exchange gains	-	334
	<u>264</u>	<u>2,314</u>
Interest payable and similar charges		
Amounts owed to group undertakings	(42,958)	(33,376)
Bank interest payable	-	(1,493)
Other interest payable	(790)	(998)
	<u>(43,748)</u>	<u>(35,867)</u>

Other interest income includes £138,500 (2004: £157,581) of interest earned on Gilts.

5. Amounts written off investments

	2005 £'000	Restated 2004 £'000
Investments in subsidiary undertakings	-	(117,000)
	<u>-</u>	<u>(117,000)</u>

Amounts written off investments in subsidiary undertakings represent a prior year impairment in respect of the Company's investment in the subsidiary Laporte Speciality Organics Limited as described in note 8.

Degussa UK Holdings Limited

Notes to the financial statements (continued)

6. Tax on loss on ordinary activities

	2005 £'000	2004 £'000
UK Corporation tax credit at 30% (2004:30%)	12,558	9,955
Adjustments relating to prior years	6,537	(34)
Current tax credit	19,095	9,921
Deferred taxation credit for year (note 10)	-	36
Net tax (charge) / credit	19,095	9,957

There is currently no unprovided deferred taxation (2004: £nil).

Factors affecting the tax credit for the current period

The current tax credit (2004: credit) for the period differs from the standard rate of corporation tax in the UK (30%) (2004:30%). The differences are explained below.

	2005 £'000	Restated 2004 £'000
<i>Current tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	(37,438)	(146,943)
Expected current tax (charge) / credit at 30% (2002:30%)	11,231	44,083
<i>Effects of:</i>		
Expenses not deductible for tax purposes :		
- On amounts written back/(off) investments	-	(35,100)
Income not taxable (primarily profit on disposal and provision releases)	2,605	1,008
Losses carried forward	(1,278)	-
Adjustments in respect of prior years	6,537	(34)
Timing differences	-	(36)
Total current tax credit (see above)	19,095	9,921

Degussa UK Holdings Limited

Notes to the financial statements (continued)

7. Investments

	Shares in group undertakings £'000	Gilts £'000	Total £'000
At 1 January 2005	880,873	4,888	885,761
Impairment	-	-	-
Sale of gilts	-	(2,800)	(2,800)
At 31 December 2005	880,873	2,088	882,961

The Directors performed an impairment review for all investment in its subsidiaries and in the opinion of the Directors the value of the Company's investments in its subsidiary undertakings is not less than the amount at which they are stated in the balance sheet.

The index-linked gilts are listed on the London Stock Exchange and act as security against unapproved unfunded pension obligations that are provided for in subsidiary undertakings. The open market value of the Gilts based on the Stock Exchange value as at 31 December 2005 is £2,603,497, (2004: £5,697,088).

8. Subsidiaries

Details of the company's subsidiary undertakings are as follows:

<i>Name of company</i>	<i>Country of registration, incorporation and operation</i>	<i>Holding %</i>	<i>Class of shares held</i>	<i>Nature of business</i>
Subsidiary undertakings				
Degussa Amalgamation Limited	England	100	Ordinary	Holding Company
Laporte Specialty Organics Ltd	England	100	Ordinary	Holding Company
Trustees held by the Company				
EG Pension Trust Ltd	England	100	Ordinary	Pension scheme trustee
Laporte Group Pension Trustees Ltd	England	100	Ordinary	Pension scheme trustee
Laporte Quest Trustees Ltd	England	100	Ordinary	SAYE scheme trustee

Degussa UK Holdings Limited

Notes to the financial statements (continued)

9. Debtors

	2005	Restated 2004
	£'000	£'000
Falling due within one year		
Amounts owed by other group entities	173	121
Taxation	30,480	22,239
Other debtors	2,993	3,180
	<u>33,646</u>	<u>25,540</u>

10. Creditors falling due within one year

	2005	Restated 2004
	£'000	£'000
Unsecured loan notes	2,190	3,421
Bank loans and overdrafts	-	3
Amounts owed to group undertakings	757,400	699,532
Other creditors	1,494	1,346
	<u>761,084</u>	<u>704,302</u>

On 11 September 1998, the Company created Floating Rate Unsecured Loan Notes 2008 up to a maximum nominal amount of £149,821,749, to be issued in connection with the acquisition of the ordinary share capital of Inspec Group plc (now Laporte Specialty Organics Limited). Loan notes totalling £74,861,466 were issued between 15 September 1998 and 17 November 1998 to certain Inspec Group plc shareholders in consideration of their acceptance of the recommended offer for Inspec. The loan notes bear interest at 1% per annum below LIBOR. The total value of the loan notes outstanding on 31 December 2005 was £2,190,246. Since 2 July 2002, the Company may redeem all remaining loan notes, provided that at least 75% of the loan notes issued have by then been redeemed or repaid and the Company must redeem all remaining loan notes by 2 January 2008.

Deferred Tax

	2005	Restated 2004
	£'000	£'000
Total provision for deferred tax	-	-
1 January 2005 as previously reported	6,413	6,449
Prior year adjustment - FRS17	(6,413)	(6,413)
1 January 2005 as restated	-	36
Deferred tax charge in profit and loss account (note 6)	-	(36)
At 31 December 2005	-	-

Degussa UK Holdings Limited

Notes to the financial statements (continued)

11. Creditors falling due after one year

	2005 £'000	2004 £'000
Debenture loan	-	23,900

On 25 July 2003, £23,899,714 of Floating Rate Unsecured Loan Notes were replaced by a debenture loan (of an equivalent amount) from the Company's subsidiary Ineos Noteco Limited. The debenture loan bears interest at the same rate as the Floating Rate Unsecured Loan Notes. Ineos Noteco Ltd is not entitled to require repayment of the debenture loan until 2 October 2005 – being two years after the first quarterly interest payment following the disposal of Ineos Noteco Limited to an unrelated third party on 25 July 2003. The company repaid the lender, Ineos Noteco Limited £23,899,714 on 4 October 2005 in full redemption of the loan.

12. Provisions for liabilities and charges

	Warranties, indemnities and other £'000
At beginning of year	(49,897)
Credited/(charge) to profit and loss for the year	8,258
Utilised in the year	975
At end of year	(40,664)

Warranties, indemnities and other provisions

The warranties and indemnities provision relates primarily to existing or future claims arising under business and share sale agreements where the company has guaranteed or procured the performance of subsidiary undertakings. Provisions in respect of existing claims will either be utilised or released when the obligations of the claim have been resolved. Provisions in respect of future claims will be released at the expiry of the warranty period unless a claim has been received.

13. Called up share capital

	Ordinary shares of 50p each £'000	No. '000
Authorised		
At start and end of year	130,000	260,000
Issued and fully paid		
At start and end of year	98,423	196,845

Degussa UK Holdings Limited

Notes to the financial statements (continued)

14. Reserves

	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Profit and loss £'000
1 January 2005 as previously reported	195,007	64,182	124,800	(334,463)
Prior year adjustment - FRS17	-	-	-	(14,747)
1 January 2005 as restated	195,007	64,182	124,800	(349,210)
Retained loss for the financial year	-	-	-	(18,343)
31 December 2005	<u>195,007</u>	<u>64,182</u>	<u>124,800</u>	<u>(367,553)</u>

During 1993, 20,637,252 ordinary shares of 50p each were issued in connection with the acquisition of Evode Group plc, 13,370,824 ordinary shares being issued as consideration for 65,110,130 Evode ordinary shares of 20p each and 7,266,428 ordinary shares being issued for 40,692,040 Evode convertible cumulative redeemable preference shares of 10p each. The remaining Evode ordinary and convertible cumulative redeemable preference shares were purchased for £8.4m. In accordance with the merger relief provisions of ss131 and 133 of the Companies Act 1985, the premium on the shares issued of £124.8m was credited to a merger reserve.

The capital redemption reserve relates to the redemption of redeemable B shares of 1p each, which were issued and redeemed (at nominal value) by the Company between 23 August 1999 and 31 December 2000.

15. Reconciliation of movements in shareholders' funds

	2005 £'000	As restated 2004 £'000
Loss for the year	<u>(18,343)</u>	<u>(136,986)</u>
Net addition/(reduction) to shareholders' funds	<u>(18,343)</u>	<u>(136,986)</u>
Opening shareholders' funds as previously reported	147,949	285,168
Prior year adjustment - FRS17	<u>(14,747)</u>	<u>(14,980)</u>
Opening shareholders' funds as restated	<u>133,202</u>	<u>270,188</u>
Closing shareholders' funds	<u>114,859</u>	<u>133,202</u>

Notes to the financial statements (continued)

16. Ultimate holding company

The Company's immediate holding company is Degussa SKW Co., a company registered and incorporated in England and Wales.

The ultimate parent company of Degussa UK Holdings Limited is RAG AG a company registered and incorporated in Germany. The consolidated financial statements of RAG AG can be obtained from Rellinghauser Strasse 1-11, 45128 Essen, Germany.

17. Pensions commitments

The Laporte Group Pension Trust is divided into a number of sections, defined benefit, hybrid arrangements and a defined contribution scheme. The Trust's schemes are funded within a separately administered fund. The Trust provides pension arrangements on behalf of many employers within the Degussa group including Degussa UK Holdings Ltd.

The Laporte Group Pension Trust has defined benefit, defined contribution and hybrid components. As the company is unable to identify its share of the underlying assets and liabilities in the scheme and it would be impractical to allocate any actuarial surplus or deficit therefore the scheme will be treated as a defined contribution scheme on adoption of FRS 17. The contributions paid by the company are accounted as if the scheme were a defined contribution scheme. The cost of contributions to the group scheme amount to £4,758,000 (2004: £411,000), as recommended by the scheme actuary, and are based on pension costs across the group as a whole. Under FRS17 the surplus in the plan at the end of the year was £17,111,000 (2004: £9,459,000).

Before 2005, the pension prepayment balance under SAAP 24 was recognised in the financial statements. As mentioned above and in pension accounting policy, the company has adopted FRS17, 'Retirement benefits' in these financial statements and has recognised the scheme as a defined contribution scheme. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. All pension prepayment net of deferred tax has been adjusted and included in prior year adjustment of £14,747,000 (2004: £14,980,000).