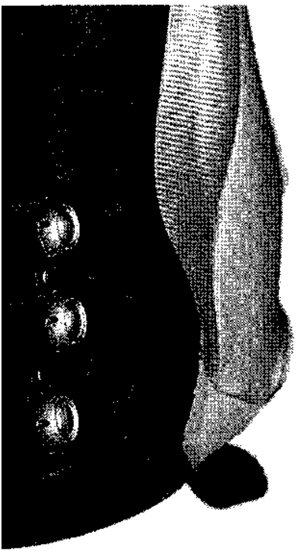
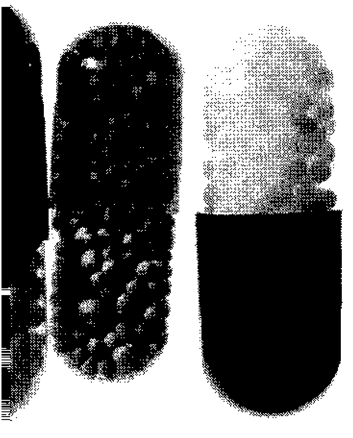
Laporte plc Annual Report and Accounts 1999





Content

Analysis of turnover/operating profit before tax, exceptional items and amortisation of goodwill

For the year ended 31 December 1999

	Europe 1999 £m	Europe 1998 £m	**North America 1999 £m**	North America 1998 £m	**Rest of World 1999 £m**	Rest of World 1998 £m	**Total 1999 £m**	Total 1998 £m	**1999 %**	1998 %
Speciality Organics										
Turnover	**303.0**	202.3	**68.7**	49.6	**10.2**	8.5	**381.9**	260.4	**42%**	34%
Operating profit	**59.1**	35.5	**10.9**	6.0	**0.9**	0.4	**70.9**	41.9	**45%**	33%
Pigments & Additives										
Turnover	**97.6**	102.0	**89.1**	82.5	**2.2**	1.6	**188.9**	186.1	**21%**	24%
Operating profit	**16.1**	19.1	**21.2**	16.8	**(0.1)**	(0.1)	**37.2**	35.8	**24%**	28%
Compounds & Electronics										
Turnover	**63.9**	74.8	**131.0**	134.4	**19.9**	14.8	**214.8**	224.0	**24%**	29%
Operating profit	**10.1**	15.9	**18.4**	20.7	**3.5**	2.3	**32.0**	38.9	**21%**	30%
Formulated Products										
Turnover	**20.3**	11.2	**98.7**	86.8	**–**	–	**119.0**	98.0	**13%**	13%
Operating profit	**2.2**	1.1	**14.1**	10.9	**–**	–	**16.3**	12.0	**10%**	9%
Total continuing operations										
Turnover	**484.8**	390.3	**387.5**	353.3	**32.3**	24.9	**904.6**	768.5		
Operating profit	**87.5**	71.6	**64.6**	54.4	**4.3**	2.6	**156.4**	128.6		
% Turnover	**54%**	51%	**43%**	46%	**3%**	3%			**100%**	100%
% Operating profit	**56%**	56%	**41%**	42%	**3%**	2%			**100%**	100%
Discontinued operations										
Turnover							**25.6**	60.1		
Operating profit							**4.2**	6.2		
Totals										
Turnover							**930.2**	828.6		
Operating profit							**160.6**	134.8		
Other operating income							**2.2**	3.0		
Associated undertakings							**0.8**	0.9		
Profit before interest and tax							**163.6**	138.7		
Interest (net)							**(31.2)**	(4.7)		
Group operating profit before tax, exceptional items and amortisation of goodwill							**132.4**	**134.0**		

Business Profile

Speciality Organics

Group Sales*	42%
Group Profit*	45%

* percentage from continuing operations

Divisional performance	
Sales	£381.9m
Profit	*£70.9m*
Margin	18.6%
Capital employed	£307.7m
People	2,198

Fine Chemicals
Contract research, development and manufacture of advanced organic intermediates and bulk actives targeted to the international pharmaceutical industry for customer specific products.

Markets
Global

Market position
Leading European and North American manufacturer

Manufacturing
UK, Italy, Canada, USA, Germany, France

Growth drivers
- Strong market growth
- Patented process technology
- Increased outsourcing by major customers

Performance Chemicals
A world leader in manufacture and distribution of speciality chemicals across a wide range of industrial applications e.g. lubricants, paper and starch, coatings and plastics.

Markets
Global/Regional

Market position
World or European leader in many products

Manufacturing
UK, Holland, Spain, Korea

Growth drivers
- Growth in automotive markets
- Technological changes
- New pharmaceutical applications

Catalysts & Initiators
Production of advanced catalysts and initiators for polymer and chemical synthesis. One of the leaders in the development of novel metallocenes and other emerging forms of catalysts for the next generation of polymeric compounds.

Markets
Global

Market position
Organic Peroxides: World No 3, Europe No 2,
Inorganic Persulphates: World No 2

Manufacturing
Europe, USA, Brazil, Australia, South Africa

Growth drivers
- Global polymer demand
- Emerging metallocene catalyst technology

Pigments & Additives

Group Sales*	21%
Group Profit*	24%

* percentage from continuing operations

Divisional performance	
Sales	£188.9m
Profit	*£ 37.2m*
Margin	19.7%
Capital employed	£113.6m
People	1,021

Pigments
The world's second largest supplier of iron oxide pigments with major production facilities in Europe and North America and a joint venture in China.
A complete colour range of pigments is available to service the construction, coatings and speciality applications markets with patented granular, powder and slurry grades, including granular pigment dispensing systems.

Markets
Global

Market position
World No 2

Manufacturing
Germany, Italy, USA, China

Growth drivers
- Increasing use of colour in construction materials
- Growth in demand for non-toxic pigments
- Enhanced safety characteristics of granular pigments
- Trend towards automated dispensing systems

Additives
A world leader in synthetic and organic thickeners for industrial, domestic, cosmetic and personal hygiene applications. There are specific applications in paints, inks and toners and new developments in additives to enhance the physical and barrier characteristics of polymers. In Europe there are additional activities in water treatment chemicals and carbonless paper coating clays.

Markets
Global/Regional

Market position
A world leader in rheological additives, European leader in clay-based paper coatings

Manufacturing
UK, USA

Growth drivers
- Increasing new opportunities in coatings, inks, oil drilling and plastics
- Expanding export business
- Increasing demand for potable water
- Purchasing bias moving towards accredited suppliers

Compounds & Electronics

Group Sales*	24%
Group Profit*	21%

* percentage from continuing operations

Divisional performance	
Sales	£214.8m
Profit	£ 32.0m
Margin	14.9%
Capital employed	*£121.8m*
People	1,336

Performance Polymer Compounds
Major specialist compounder of high specification PVC and TPE (thermoplastic elastomers) materials for data transmission cables and low smoke electrical insulation, including patented flame retardant technology; closure seals for the world drinks and beverage industries and regulated disposable medical components for surgical procedures and treatments.

Markets
Global/Regional

Market position
Leading North American and European supplier of performance specific polymer compounds

Manufacturing
UK, USA, Canada

Growth drivers
- Strong growth in voice and data transmission cabling
- Increasing demand for disposable medical components
- Growth in global branded drinks and beverages
- New processing plant capacity

Electronic Chemicals & Materials
Leading producer of materials and chemicals for the semi-conductor and electronics industries. Products include photo-imaging masks for the production of silicon chips, ultra pure chemicals for integrated circuit manufacture and chemicals and processes for printed circuit board manufacture. World leader in silicon wafer recycling.

Markets
Global/Regional

Market position
Photo-imaging masks: European leader
Wafer reclaim: European leader, North America No 2
Ultra pure chemicals: Europe No 2, UK No 1

Manufacturing
UK, France, USA, Singapore, Taiwan

Growth drivers
- Strong growth in consumer and industrial electronics
- Growing popularity of SMART cards
- Increased leading-edge production facilities
- Development of 300mm silicon wafers

Formulated Products

Group Sales*	13%
Group Profit*	10%

* percentage from continuing operations

Divisional performance	
Sales	£119.0m
Profit	£ 16.3m
Margin	13.7%
Capital employed	*£ 42.0m*
People	648

Timber Treatment Chemicals
The world's second largest supplier of primary wood preservatives with a leading position in the development, production and marketing of specialist formulations for protective, decorative and remedial treatments. Supplier of process technology for primary timber impregnation.

Water Technologies
Leading North American manufacturer of branded speciality pool and spa performance chemicals. Supplier of novel; environmentally safe herbicides for the control of intrusive vegetation in irrigation systems, lakes and ponds.

Industrial Products
Leading producer of fire-resistant fibres and foams for high technology applications such as high temperature gas filtration and lightweight insulation in aircraft and naval transport.

Markets
Global

Market position
Fibres: World No 1
Foams: World No 1

Manufacturing
Austria, USA

Growth drivers
- Tightening environmental and safety regulation
- New waste incineration facilities
- Growth in commercial aviation

Welcome

Laporte plc develops, produces and markets chemicals for increasingly global customers in niche markets worldwide. Having largely completed the transformation of the Group by the end of 1998, we are now concentrating all our efforts on creating ever more innovative solutions to our customers' problems, to the benefit of our shareholders and all other stakeholders.

Group Financial Highlights

		1999	1998	Change
Turnover				
Continuing operations	£m	**904.6**	768.5	+18%
Total	£m	**930.2**	828.6	+12%
Profit before interest				
Continuing operations	£m	**159.4**	132.5	+20%
Total	£m	**163.6**	138.7	+18%
Profit before tax	£m	**132.4**	134.0	-1%
Earnings per share	pence	**50.5**	51.1	-1%
Distribution per share				
Second half year	pence	**17.5**	17.25	+1%
Total	pence	**26.5**	26.5	–

All references to profit are before goodwill amortisation and exceptional items unless otherwise stated

Chairman's Statement

A year ago I reported that the pace of change being experienced, in terms of how businesses operate and compete, had been faster than at any time I could remember. If anything, the past year has seen a further acceleration in that pace of change. Certainly, the world's capital markets are increasingly placing value on internet and other technology businesses to the detriment of traditional sectors, particularly manufacturing, often with little relationship to the respective amount of real wealth creation these businesses generate.

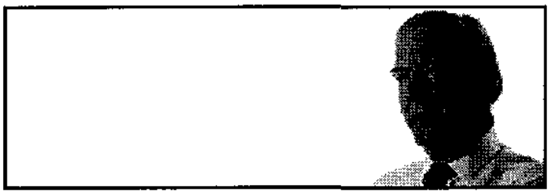
Within the world-wide chemical industry, greater value is being attributed to those companies that are global and hold strong market positions. Companies demonstrating a strong potential for organic growth are particularly favoured. This trend is mirrored in the transformation programme we embarked upon at the end of 1995 to increase our presence in the international speciality chemicals market, focusing on life sciences. In 1999, our Speciality Organics Division accounted for 45% of our operating profits, compared with only 15% in 1995. With the continued good prospects for growth in the medium term, we expect this sector to become an even more significant part of the Group in the years to come.

During the three years from 1995 to 1998, we reshaped Laporte's product portfolio, strengthened its management team and systems and stepped up its rate of organic growth and financial performance. In 1999, we did not let up in our efforts to drive the Group forward, despite facing some of the toughest external conditions for many years. Although we did not succeed, by a small margin, to set a new record for earnings per share, we have again reported record operating profits and margins. Over the past four years, the actions our management team has taken have resulted in a step change in the rate of volume growth, and an improvement in operating margins of more than half. They have also produced growth in earnings, before goodwill amortisation and exceptional items, of over 30%, with currency translation at constant rates. Whilst we believe these achievements stand comparison with the best in our global industry, we must continue to achieve yet higher levels of performance. In 1999, our actions were designed to lay the foundation upon which the next phase of growth and development of Laporte will be based. In the Chief Executive's Review on page 4, there is a more detailed analysis of our performance.

Distributions The Board is recommending a final dividend of 1.1453p per ordinary share. In February this year, an allotment of sixteen 1p redeemable B shares per ordinary share was announced. These B shares accrue a small dividend, which is payable on 15 June 2000. Together with the allotment of nine B shares in August 1999, and its attaching dividend, the total distribution to shareholders in respect of 1999 amounts to 26.5p – the same as the total of ordinary dividends paid in respect of 1998. As we pointed out at the time of announcing the scheme to allot B shares, we expect to retain this method of returning value to shareholders, alongside ordinary dividends, for another two years or so.

Delivering value through innovation In the three years to the end of 1998, a significant proportion of the Group's efforts was concentrated on its transformation from a federation of disparate businesses into a series of focused global divisions, each concentrating on higher value added sectors of the speciality chemicals industry. The rate of growth was also increased, propelled by increasing investment in research and development and in more efficient plant capacity and production facilities. These same priorities have guided our business during 1999, and will continue to do so going forward. In addition, we are now increasingly focusing on innovation as a means of delivering incremental value.

During 1999, the foundations were firmly established from which the next phase of our growth and development will be driven.



George Duncan Chairman

Innovation has manifested itself in a number of different ways in our businesses, but can be categorised into three main areas: product development, process development and business development. Details of some innovative steps we have recently taken are provided in four examples of 'Innovation at work', the first of which is on page 6.

Employees The unprecedented change in the business environment, to which I have referred, clearly has implications both for the Group and its employees. It, together with the impact of a strong pound and US dollar on our international competitiveness, have caused us again to implement a number of redundancies in 1999 – even in our most successful operations. The continued support and understanding of all our employees is recognised and appreciated. I thank them for this, and for the contribution they have made to the progress of the Group.

The Board Only last year, I paid tribute to Roy Parrott on his retirement after a remarkable forty-three year career with Laporte. As some of you will know, Roy's well-earned retirement was tragically cut short by his death in January this year, after an illness which he fought with typical fortitude. Although Roy retired from the Board at the end of 1998, he continued to serve on the Executive Committee for as long as he was able. His wisdom and friendship will be sorely missed.

In December of last year, I was delighted to announce the appointment of two new non-executive directors. Tony Alexander was a main board director of Hanson plc for many years and is currently a non-executive director of Imperial Tobacco, Misys and the Cookson Group. Bill Alexander – no relation – is Chief Executive of Thames Water. They both have a wealth of experience in international business and I am sure they will make a significant contribution to the work of the Board.

Outlook The transformation programme embarked upon at the end of 1995 has radically reshaped the Group. The Speciality Organics Division, which represented less than one sixth of the sales and profits in 1995, now accounts for almost a half of them. Within this activity, the new product pipeline in our Fine Chemicals business has never been stronger and 2001 is likely to see an even greater contribution from new product introductions than 2000 – reflecting the phasing of deliveries required by our major global customers. In the balance of our businesses, we have entered 2000 with greater momentum than we began 1999.

With the first quarter of the year behind us, results are in line with plan. However, the consequences of a stronger pound and dollar, at their highest levels for several years, together with rising interest rates, will mitigate the performance we could have expected from our better growth prospects.

With new products, a strong development and investment programme and our continuing aggressive approach to managing our cost base, we have considerable confidence in the healthy future prospects for the Group.

George Duncan

George Duncan *Chairman*

A G L Alexander Non-executive

W J Alexander Non-executive

99	**930.2**
98	828.6
97	830.3

Turnover £m

99	**163.6**
98	138.7
97	127.6

Profit before interest and tax £m

Our operating profits and margins were at record levels for the fourth successive year. Although pre-tax profits and earnings for the year as a whole were marginally below the record established in 1998, the second half of 1999 saw overall profits again improving. These commendable results continue to be achieved despite the difficulties posed by a strong pound.

Last year I covered the transformation programme embarked upon at the end of 1995 and which was substantially completed at the end of 1998. Our strategy concentrated on market leadership, with higher rates of sustainable growth, supported by focused investment. We recruited a completely new management team, which is still intact, and undertook a major restructuring of the portfolio. We also forged a number of global divisions, from what was in effect a federation of businesses. In 1999, we continued this process of transformation, albeit that the steps taken were individually less prominent than in the earlier years of the programme.

Following the acquisition of Inspec towards the end of 1998, the past year has seen our plans for integration implemented, with the benefits from the acquisition matching our expectations. Part of our plans included some divestments and in 1999 we sold the Chilean mining chemical business and the UK-based Four Ashes industrial chemical facility. Together with the sale of the US mining chemical operation in October 1998, the proceeds from the sale of former Inspec businesses are over £45m. All of these operations now reside with new owners more focused on their line of business.

During the year we also transformed our relationship with one of our key, and longest standing customers – Victrex plc. Our UK Fine Chemicals business has been the sole supplier of their essential raw material, BDF, used in the manufacture of PEEK, a high performance engineering polymer. By entering into a joint venture with Victrex, we have reinforced our long term supply relationship with them.

Performance Review Sales at £930m (£829m) reflect the full year impact of the acquisition of Inspec, and the disposals mentioned above, together with organic growth. On a comparable basis, volume growth of 2% would appear to be disappointing. However we have weathered the worst of the global recession in the semi-conductor industry and have, by design, exited lower margin products, for example in Compounding. Encouragingly, volume growth in the second half of the year rose to 4%. Operating profits from ongoing operations rose by 22% to £159m (£132m), assisted by the full year contribution from Inspec. Profit before tax, goodwill and exceptional items fell by 1%. Earnings per share fell by a similar amount, but margins from continuing operations increased, for the fourth year in a row, to 17.3% (16.7%).

At £81m, capital expenditure was, as expected, slightly below the record levels seen a year earlier (£84m), as the major infrastructure projects embarked upon in 1998 were completed. Our investment programme remains strong, particularly behind the ever improving growth prospects in our Speciality Organics Division. We helped finance this investment programme by our ongoing approach to working capital management. The key performance indicator, the ratio of working capital to sales, fell from 17.2% to 16.5%, as Group standards and procedures were applied to our newly acquired businesses. Despite the high investment programme, a combination of business disposals and tight management of working capital contributed to a fall in net debt to £478m (£551m).

The Group ended 1999 with 5,200 employees, compared with 5,500 a year earlier – and 7,400 at the end of 1995, the commencement of the

We are pleased to report another record year for operating profits and margins, despite facing a continuation of the very tough external conditions. We remain disappointed we have not created the shareholder value we believe our performance merits.

Jim Leng Chief Executive

transformation programme. With ongoing sales at these dates being roughly similar, the progression of the Group into higher value-added, less labour intensive, businesses is again demonstrated.

Whilst on average Sterling was at the same level during the year as in 1998, it ended the year at *DM 3.15, a full 14% stronger than a year earlier, and* a remarkable 42% stronger than the DM 2.22 level seen at the end of 1995 – the beginning of Laporte's transformation programme. The movement against other European currencies over the same periods is similar. We estimate that since the end of 1995, the strong pound has cost the Company almost £60m in lost profits, and £22m in 1999 alone. In response to this unprecedented movement, we have changed our procurement strategies so that we now have some relief from lower raw material input costs as Sterling strengthens. Our aggressive approach to the management of our cost base has also been an important feature, although, regrettably, this has resulted in a number of job losses.

Research and Development We remain committed to building on the very strong market positions we have in chosen niches within the speciality chemicals industry. We will continue with our various research and development programmes aimed at introducing novel and superior products which provide solutions for our industrial customers' problems. Over the past three years, we have increased the amount we spend on research and development by nearly 40%. *The Research and Development Review, on page 17,* contains more details about our activities in this area in 1999.

Information Technology and e-Business In 1997 and 1998 we developed and introduced a brand new platform for the Group's information technology and communications systems. This enables rapid internal communication via e-Mail and sharing of intelligence through a series of Group intranets. The speed at which the Group's financial reporting takes place has also been radically improved.

Whilst this initial investment was a critical first step for Laporte, we are now beginning to use information technology for tangible business benefits. For example, the Enterprise Resource Planning software we have installed in a number of our businesses allows our customers to track the status of their orders within our planning and manufacturing systems. We are also using e-Procurement to buy selected raw materials and services more cost effectively. Lastly, in a number of our businesses, our web sites are being enhanced to allow us to sell our products directly over the internet. As a manufacturer of highly specified products, often tailored to particular customer requirements, selling over the internet may not be a major feature of our sales effort, but it will allow us to reach a broader geographic audience and to sell through different channels of distribution than would otherwise be the case.

Year 2000 Our substantial investment of time and effort in planning, and then implementing, an appropriate action programme proved worthwhile, as none of our operations reported material malfunctions as a result of the 'millennium bug'. As we reported previously, the incremental investment in capital projects directly associated with this programme amounted to some £5m.

Safety, Health and the Environment In the second half of 1999, our lost time accident rate showed a significant improvement over 1998 as a whole. We have devoted considerable effort to education and training of line management to ensure that safe methods of operation not only become second nature, but also that fail-safe systems are in place should any unforeseen events occur. With this new programme in place, we can now target short and medium term improvement standards by site *as we aim for world class performance.*

Our Strategy Our strategy remains clear and unchanged. We shall continue to seek leadership in our chosen markets, focusing on growth sectors of speciality chemicals. We shall also continue to position and develop our business in markets with high barriers to entry, extending our international coverage to meet the needs of our global customers. In so doing, however, we have to reflect the priorities which the capital markets, and our shareholders, are focusing on. Our primary objective has been, and remains, the creation of shareholder value, an objective we remain fully committed to.

Jim Leng Chief Executive

99	**17.3**
98	16.7
97	15.8

Margins %
continuing operations

99	**26.7**
98	24.3
97	25.3

Return on capital employed %
continuing operations

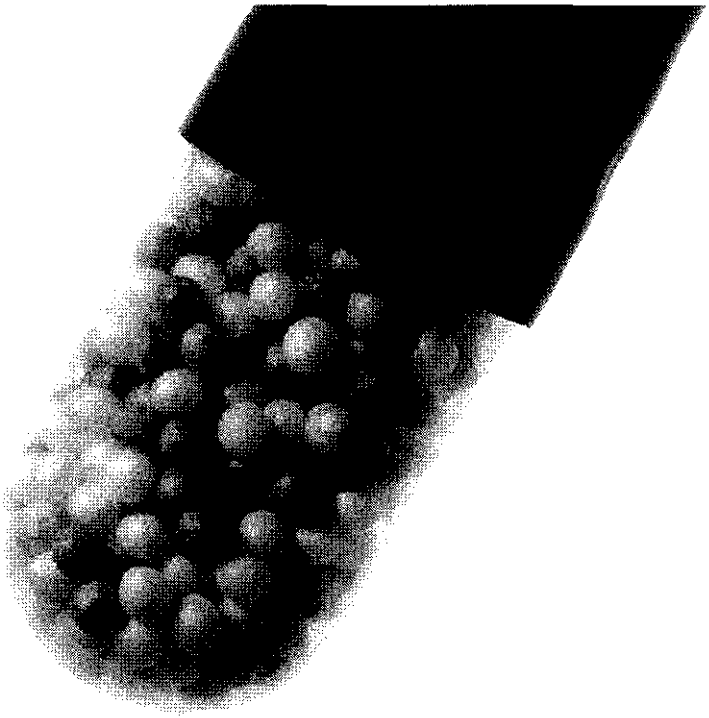
99	**9.0**
98	10.1
97	7.9

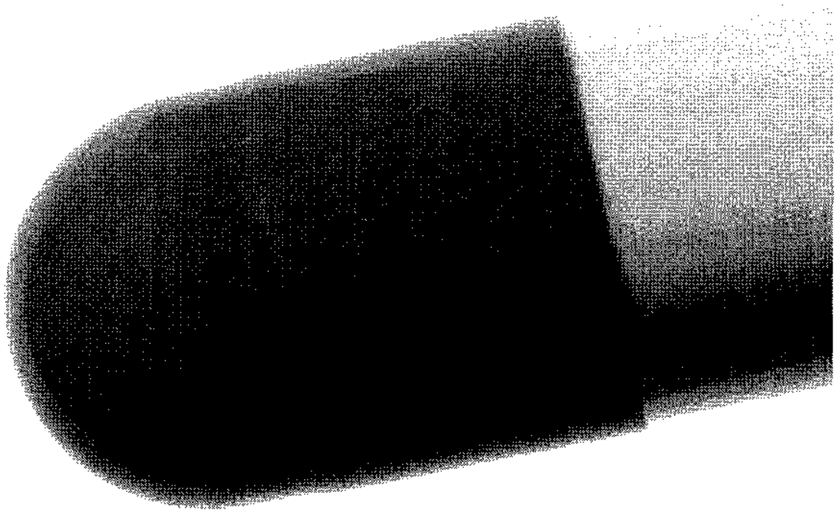
Capital expenditure as a % of sales

Laporte's Fine Chemicals business is developing ozonolysis as a clean oxidation technique with applications in the manufacture of pharmaceuticals, crop protection products and flavours & fragrances.

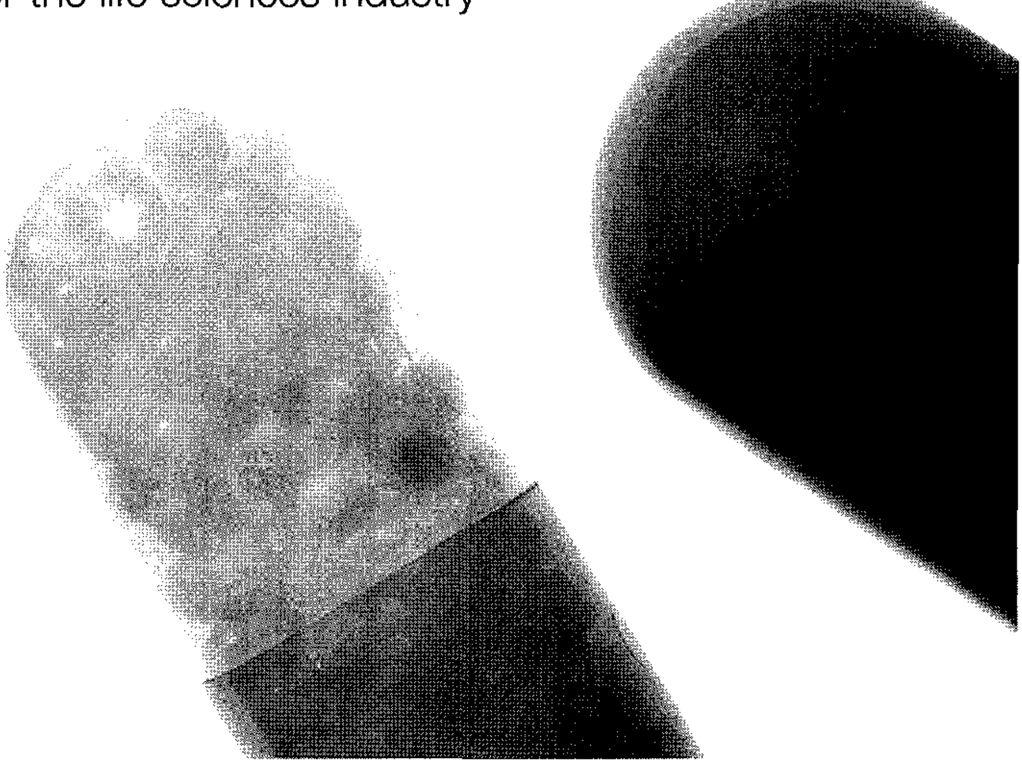
Ozone is an inherently clean raw material, formed by the action of electricity on oxygen, and its use produces only oxygen as a by-product. As a powerful reagent, it enables Laporte's scientists to develop and produce a range of aldehydes, ketones and acids that are valuable intermediates for the life sciences industry. Moreover, there are environmental benefits as the selectivity of ozone improves process efficiency and leads to a reduction in by-products.

Laporte's quest for innovation extends beyond pure research chemistry to encompass the commercially important field of process development, particularly for complex and difficult molecules. Laporte Fine Chemicals' involvement in ozonolysis started from an initial small-scale capability and has now been geared up to full-scale production, so that the business can act as a one-stop source for ozone-derived intermediates.





A cleaner building block for the life sciences industry



Fine Chemicals Laporte Fine Chemicals develops and produces key intermediate substances used in the manufacture of active ingredients for the pharmaceutical, animal health and agrochemical markets. Our strategy is continuously to improve the quality of our product pipeline, and thereby to become the supplier of choice to our target markets. At the end of 1999, we had 96 new products in our pipeline. Just a year ago, the comparable figure was 72, which clearly demonstrates our success in attracting new business from the global life science industry, and the pharmaceutical sector in particular.

Our strategy has been developed to dovetail with the growing trend for major pharmaceutical and agrochemical manufacturers to outsource highly specialised elements of the production process, while they concentrate on drug discovery and sales and marketing. With highly skilled personnel and sophisticated laboratories and production facilities in the UK, the US and Europe, we are developing world-beating products, processes and technologies that will, in turn, help our customers to compete effectively on a global basis.

CCMZ, a new multi-purpose intermediate developed at our Teesside site in the UK, was produced in commercial quantities for the first time in March from a new purpose-built production facility.

At the end of the year, a new hydrogenation facility for pharmaceutical intermediates was completed at Francis in Northern Italy. Built at a cost of just under £1 million, the 6,000 litre reactor features the latest Hastelloy construction for maximum process flexibility. The new facility provides Laporte with a significant increase in hydrogenation capacity.

In mid-summer, an FDA audit was successfully conducted at our plant in Germany that is manufacturing Lorazepam. Similarly, in August, a triple FDA inspection was carried out at our Clover Bar and Argyll Road sites in Canada. The successful outcome of all these inspections is an independent measure of the extremely high standards that Laporte's Fine Chemicals facilities consistently set for themselves.

Performance Chemicals Performance chemicals are products used as intermediates, additives in formulations, or process aids in a variety of manufacturing operations. Their use is specified on the basis of the effects they confer, rather than their chemical composition. Laporte's performance chemicals are used in a diverse range of consumer applications, including suntan lotion, rubber tyres, photographic film and synthetic lubricants.

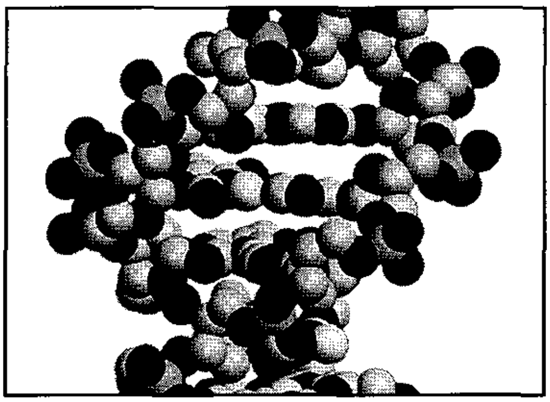
From manufacturing plants in the UK, Holland, Spain and Korea, Laporte Performance Chemicals has established itself either as the leading world or European manufacturer in most of its markets.

During 1999, the majority of markets started the year slowly but began to pick up by mid-summer, with recovery in Asia Pacific increasing in pace. In one or two areas, however, the recovery only began to become apparent as the year ended.

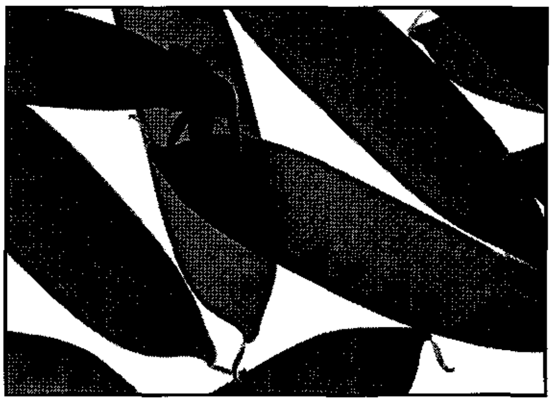
The business has established a strong position in PAG technology, principally for use in the production of synthetic lubricants. During the year, the business portfolio was successfully augmented with a range of allyl PAGs that will open up new marketing opportunities, particularly in the coatings area where there is substantial growth potential. Further PAG developments in other market areas are making good progress.

A range of new photo-imagable monomers, designed for the electronics industry, was introduced for application in high definition photopolymers.

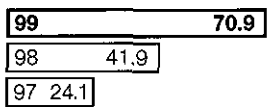
The Speciality Organics Division now represents 42% of sales and 45% of profits from continuing operations. Profits rose by 69% to £70.9 million (£41.9 million). Margins increased to 18.6% (16.1%).



Fine Chemicals' product pipeline continued to expand with the introduction of Lorazepam, a new anti-viral drug intermediate.



The first commercial production of CCMZ, an important new multi-purpose intermediate, which is used, for example, as an insecticide in the growing of beans, commenced from a new purpose-built facility on Teesside.



Operating profit £m

The opening of a new laboratory facility at Hythe, to serve the Performance Chemicals business, reflects the Group's continuing commitment to R&D.

Laporte Performance Chemicals strengthened its presence in the high-margin medical devices market with the introduction of new products, which have been supported by the installation of a new production plant to accommodate future growth.

The business achieved significant growth in the speciality acrylic monomers sector by developing the range of applications for these materials, and by extending marketing reach.

A deliberate re-focusing on R&D during the year, as evidenced by the opening of a new laboratory facility at the beginning of the year, helped us to introduce new products in the PAG and multi-functional monomers areas.

In the fluorides sector, the Rotherham DFDPM operation was sold to Victrex, while retaining a long-term contract to supply fluoroboric acid to the plant, and thus securing a continuing revenue stream from this business.

Laporte Performance Chemicals have also strengthened their global position as a supplier of cationizing agents for the starch industry: currently products are supplied to customers on all continents from the production site in Zaltbommel, Holland, where capacity has been increased substantially.

The Four Ashes site, acquired as part of the Inspec purchase, was sold at the end of the year. However, we retained the fine chemicals products made at the site, which will now be manufactured at other Laporte sites.

Catalysts & Initiators Laporte is a major supplier of catalysts and initiator products to the plastics industry. These products are used to initiate the chemical reactions that convert petrochemical feedstocks into plastics.

At the beginning of the year, we introduced a new low-cost grade of MEKP that is of higher quality than competing products and which is set to become a Laporte standard in the future.

In the spring, expansion of the Munich ammonium persulphate plant, employing electrolysis technology based on membrane cells, was completed.

In June, the business achieved its first commercial sale of metallocene products. This new technology offers plant operators a greater degree of production efficiency in return for a premium-priced product. We envisage that sales in this area will grow significantly as customers recognise the added value that metallocene catalysts can provide.

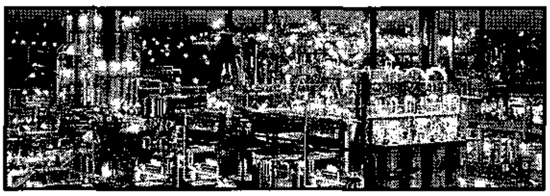
Among our sales successes during 1999 were a global contract to supply Dow with polystyrene initiators, and a marked improvement in sales of KMPS to the disinfectant and cosmetics markets.

In August, the first phase of our new synthetic macrocyclic musk product development programme was completed, and we are looking forward to generating new revenues from manufacturers who will benefit from this product's biodegradable characteristics. Shortly afterwards, the construction of a new pilot plant at Munich was started, which will ultimately provide Laporte with a new raw material platform for organic peroxides manufacture, eliminating our dependence on hydrogen peroxide.

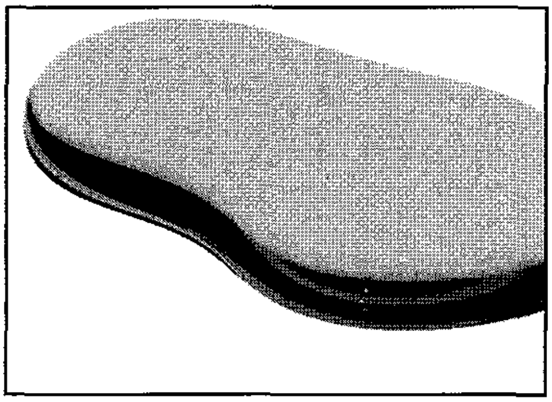
As part of our ongoing commitment to adding value through innovation, a dedicated Innovation Centre has been established in Munich. Its brief is to combine pure scientific R&D with process development and process safety, as improvements in each of these aspects give us fresh opportunities to differentiate ourselves from our competitors.

99	**18.6**
98	16.1
97	13.0

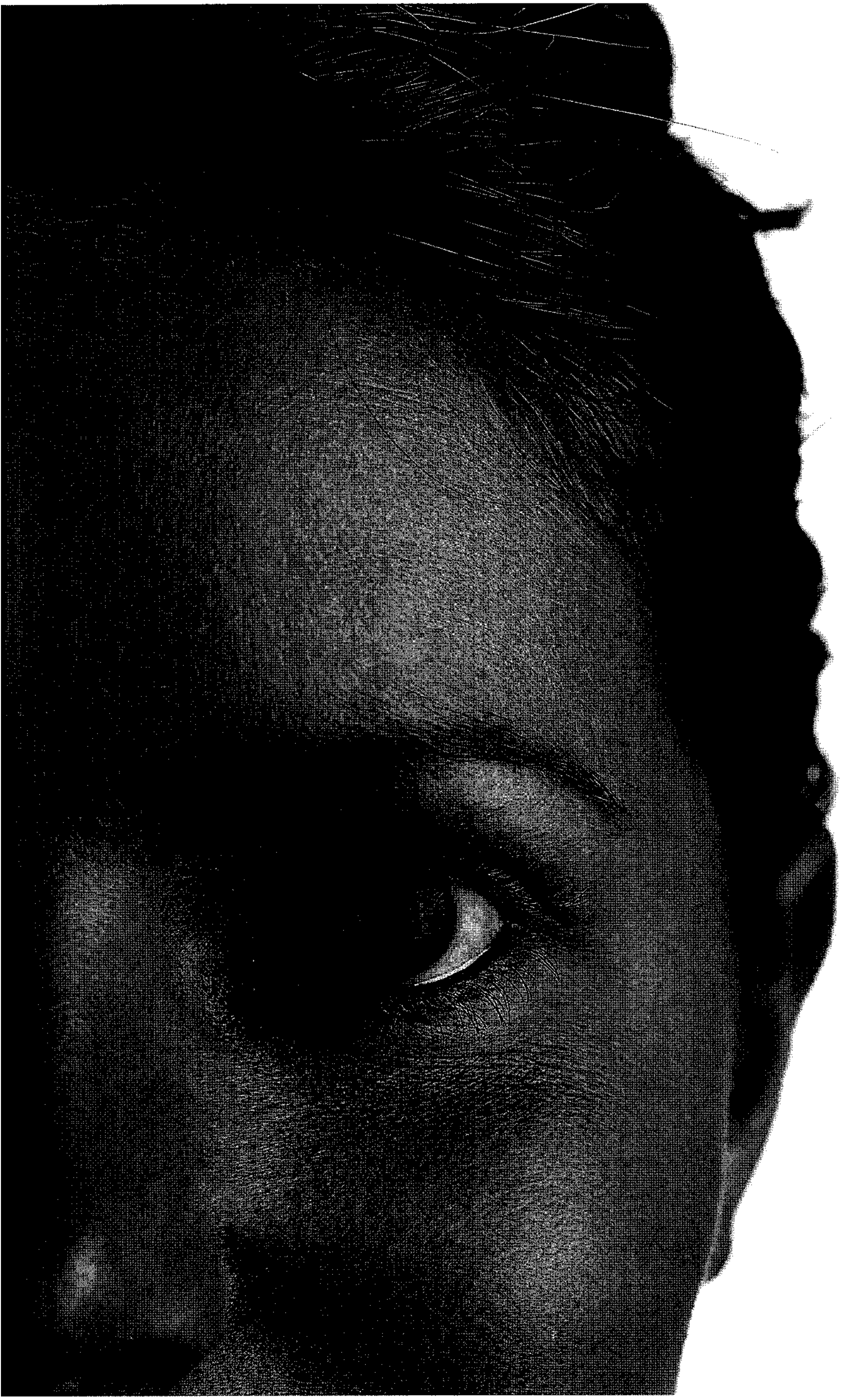
Margin %



Throughout the world, the oil and gas industry uses Laporte's Sulfolane for producing aromatic hydrocarbons and in gas sweetening applications.



As an important producer of PAGs, from which synthetic lubricants are made, the Group is positioned to benefit from increased revenue streams from new product ranges in niche applications.



One of Laporte's key strategies is to use its innovative technical acumen to develop its presence in niche markets where appropriate returns can be earned for its intellectual and technological input.

Working closely with medical device manufacturers, Laporte Performance Chemicals has used its advanced technical skills to develop a number of new materials and processes. These include novel monomers to help prevent the harmful deposition of proteins on plastics used during surgery, and to enhance both the appearance and practicality of contact lenses for everyday use.

The success of the project provides a clear vision of how Laporte Performance Chemicals has increased its profitability by finding and deploying technical solutions that precisely meet the individual needs of customers in niche sectors.

An innovative process that enhances the appearance of contact lenses

Pigments The key driver behind the growth in Laporte's pigments business has been the continuing success of the Granumat® system, particularly in North American markets. Granumat® is the world's leading granulated pigment dosing system, primarily used for colouring concrete. Backed by a strong technical organisation and rising demand for coloured concrete products, sales of Granumat® and Granufin® (the pigment granules used by the system) increased strongly during 1999. Granumat® is now installed in over 300 customer sites throughout the world.

In a highly innovative step, the Granumat® system was enhanced to facilitate direct communication between the pigment dispensing unit and production equipment such as concrete batch mixers. By providing real-time information on production and pigment consumption, the Granumat® system enables users to reduce labour and pigment handling costs while increasing operating efficiency. By year-end, some 32 enhanced Granumat® systems had been installed worldwide.

Plans to expand distribution of value added pigments are well advanced. We already have a significant presence in the major markets of continental Europe. In the UK, the second largest market in Europe, we acquired two small companies that we have now integrated. Finally, we have now opened an office in Shanghai as an initial move in expanding our presence in the Asia Pacific market.

Additives Laporte's additives business is a global leader in the formulation of clay-based additives for applications in the papermaking, coatings, plastics, personal care and drilling fluids industries.

Sales to papermaking markets increased as we continued to consolidate our leading position with Fulacolor®, the colour developer for carbonless copy paper, and with Fulgel® in the area of retention and drainage in the papermaking process. The product range has also been broadened to increase its appeal in new regional markets and in new market niches for retention and drainage.

In the coatings markets, sales growth was largely driven by demand for Permont® and Laponite®. The continued strength of the US new home construction sector, coupled with the trend towards all-liquid paint formulation, provided an excellent market environment for the first full sales year of Permont®, our patented additive for water-based architectural paints.

With increasing constraints on the use of volatile organic compounds in coatings, a new Garamite® grade, using our patented clay technology, was successfully launched.

Sales to the personal care markets increased as the global customer base for Laponite® broadened and new grades of Gelwhite® and Bentolite® gained additional market share. A new distribution alliance with a global supplier to the personal care market was formed, triggering investment in new plant capacity.

Sales to plastic resin markets more than doubled as both Garamite® and Cloisite® gained increasing acceptance in polyester resins and nanocomposites respectively. The business achieved its first commercial sales of Cloisite® nanoclay for gas barrier applications and increased large sample sales for customer trials.

The Pigments & Additives Division now represents 21% of sales and 24% of profits from continuing operations. Profits rose by 4% to £37.2 million (£35.8 million). Margins increased to 19.7% (19.2%).

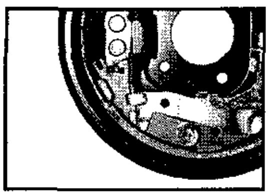
99	**37.2**
98	35.8
97	33.4

Operating profit £m

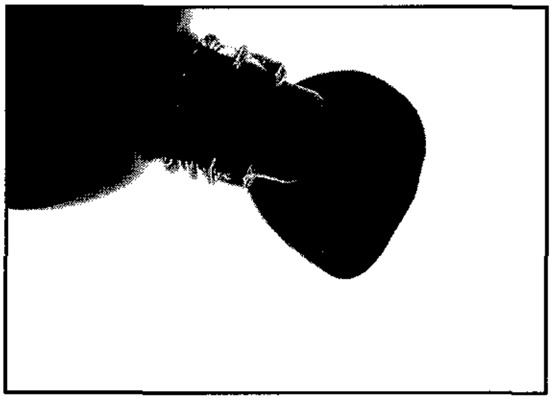
99	**19.7**
98	19.2
97	18.3

Margin %

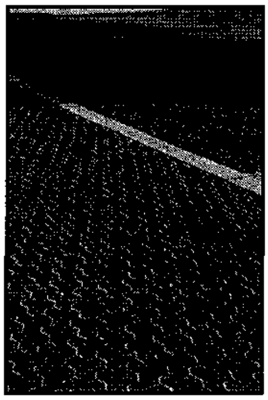
Already successful in marine fibreglass products, a new range of Garamite was introduced at the 1999 International Coatings Exposition.



Ambrake Corporation in the USA utilises Laporte's iron oxide pigments to enhance the performance of automotive brake linings.



Laponite®, a synthetic clay additive, is widely used in nail varnish, toothpaste and other personal and household care products.



Roccia, a customer in Australia, used 600 tonnes of Laporte's Granufin® pigment to create a colourful courtyard for the 2000 Olympics in Sydney.

Compounds Compounds is now operating as a unified, global performance plastics compounding business under a single brand name, capable of serving the needs of customers worldwide. As part of this development, a state-of-the-art £15m compounding plant was built in Melton Mowbray, UK. The new plant is exceptionally versatile, and can be rapidly reconfigured to produce a wide variety of formulations. Its segregated regulated production area is the first of its kind in Europe and provides sufficient capacity to support significant expansion in European markets.

The Compounds business signed a strategic alliance and exclusive manufacturing agreement with Coca-Cola for the joint development of barrier closure materials for bottled beverages.

In the wire and cable sheathing sector, our technicians and chemists have played a leading role in creating formulations and specifications for compounds that offer the highest possible performance in terms of safety and product capability. Many of our customers have now upgraded their orders to the Smokeguard III® specification.

In North America, where distribution systems are crucial to sales success, a new distributor network was established to add fresh impetus to the promotion of Evoprene® TPE products, which provide the soft feel to plastics, such as for tooth brush handles.

Electronics

Chemicals The Electronic Chemicals business continued to deliver vital innovation to its customers by developing higher performance products and expanded support services. In France, we initiated construction of an advanced, computer-controlled, high purity facility to produce a range of precision formulations for microchip manufacturers.

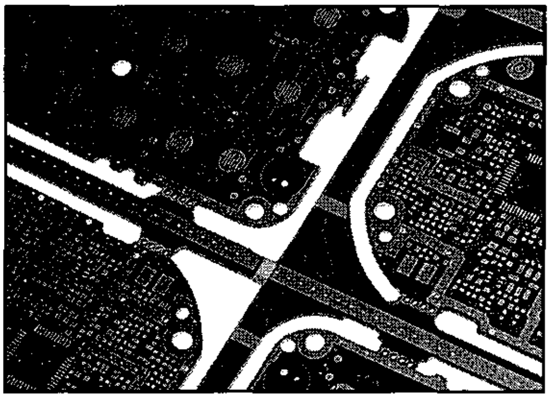
An intimate knowledge of the printed circuit board (PCB) sector led to the successful introduction of Cobrabond®, a new product for advanced multi-layer board manufacture that provides a viable alternative to oxide in the lamination process. In addition, our highly regarded Shadow® system was developed for the production of high density interconnects. Our Taiwanese PCB chemical business recorded its third consecutive year of significant growth, and initiated a capacity expansion project to optimise its ability to capitalise on significant future growth prospects.

In October, our Singapore operation secured a new Total Chemical Management (TCM) contract from a major local customer, further enhancing our status as a major TCM provider to the highly active Singapore semiconductor market.

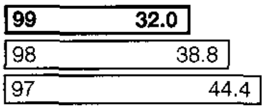
Wafer Reclaim The key event for our Wafer Reclaim business was the transfer of production from the older technology plant at Sulphur, Oklahoma to the brand new, leading edge reclaim plant at Prescott, Arizona. As well as providing us with a highly efficient facility for processing 200mm wafers, the new plant gives us access to the 300mm wafer market.

Photomasks The innovative use of manufacturing technology enabled the Photomask business to survive the semiconductor industry recession and emerge in robust health. Standards of specification, quality, delivery and manufacturing efficiency were all raised through outstanding statistical process control to achieve the highest standards of performance and cost in the industry. As a result, we were able to strengthen our European operations and initiate the growth of a new business in North America.

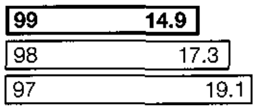
The Compounds & Electronics Division now represents 24% of sales and 21% of profits from continuing operations. Profits fell by 18% to £32.0 million (£38.9 million). Margins were reduced to 14.9% (17.3%).



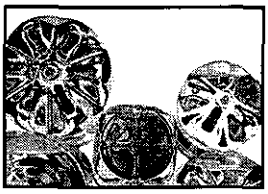
Cobrabond, developed by Laporte as a cost-effective alternative to oxide for laminating printed circuit boards, was successfully launched in the North American market.



Operating profit £m

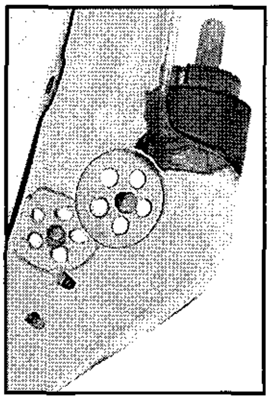


Margin %



In-depth technical expertise has enabled the Group to establish an outstanding reputation as a developer of specialist packaging and sealing materials for the beverage and water industries.

Bob Gingue, MD Compounding with HRH The Princess Royal, who opened our new compounding plant at Melton Mowbray (UK) in January. It will serve markets throughout Europe.



Evoprene TPE's combination of strength and flexibility has rapidly made it a favoured material for products as diverse as respirators, toothpaste tubes and tool-handles.

A new generation of athletic shoes was launched in the USA in 1999. Its most revolutionary aspect is that it uses helium rather than air as a cushioning gas. Materials supplied by Laporte have played a vital role in achieving this breakthrough.

The helium is contained within impermeable pouches made from a nanocomposite material. This material, a mixture of a commodity plastic and a small proportion of montmorillonite clay, provides enhanced barrier resistance to gas flow so that even a gas as prone to leakage as helium can be successfully contained. The montmorillonite, brand-named Cloisite®, is produced by Southern Clay Products, a Texas-based Laporte Additives subsidiary.

The attraction of nanocomposites – essentially montmorillonite clay-reinforced plastics – lies in their ability to provide disproportionately large improvements in mechanical, heat distortion, barrier and other properties without significantly raising density or reducing light transmission. The global market for nanocomposites in 1999 was 3 million lbs, and estimates suggest that this figure will rise to 1.2 billion lbs in 2009, of which over 90% will be reinforced with nanoclays such as Laporte's Cloisite®. Applications will be wide-ranging from automotive parts to pharmaceutical packaging.

An advanced material that improves the performance of plastics

Timber Treatment This business responded to consumer demand for alternative methods of treating timber by developing innovative products that provide better preservation qualities through smarter use of chemical technology. This approach has made us the world's second largest supplier of timber treatment chemicals, with a customer base that covers North America, Europe and Japan. During 1999, sales of our ACQ® product range were further expanded in markets where environmentally advanced wood preservatives are required, such as Europe and Japan.

The business further consolidated its market presence through a long-term exclusive partnership with the leading wood treater in North America, to whom it supplies both wood protection chemicals and process technologies.

Sales of speciality chemicals for industrial applications also achieved strong growth following the installation of a new manufacturing plant offering greater process efficiency and capacity.

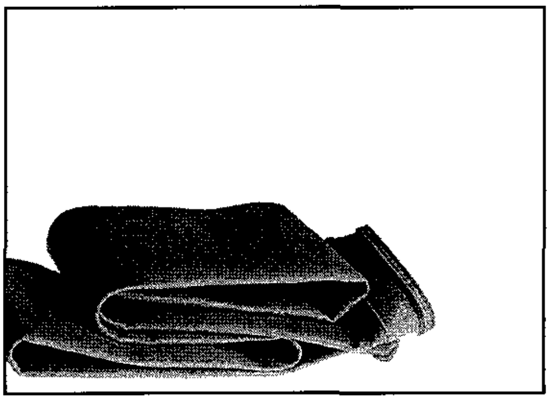
Water Technologies At Laporte Water Technologies, the most significant progress was in the Pool and Spa chemical sector where a modest sales increase led to an improvement in profitability. The business continued to focus on identifying and providing superior service to strategically significant customers. A carefully developed programme, aimed at enhancing relationships with these priority clients, is now in operation. The renewed drive for cost control and efficiency improvements is now being applied throughout the business with impressive results. For example, the business's main manufacturing facility in Georgia, USA, increased output by 6% and reduced costs by 12% during the period under review.

Water Technologies continued to develop and launch new products for improving the quality of water, both in the private and public sectors. During 1999, a new product was brought to market for the removal of metallic stains in swimming pools without the need for draining and replacing water. This product, which relies on reducing agents and chelation chemistry, clearly demonstrates Laporte's technical strength in its chosen market.

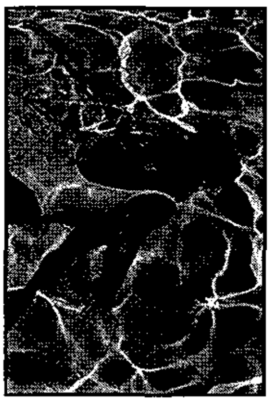
Fibres The Fibres business enjoyed a successful year. Serving a global market, it recorded major growth in sales and a very substantial increase in profits over 1998. The business is committed to maintaining its position as a leading innovator in its field. Increasingly, environmentally critical applications such as waste incineration, cement manufacture and coal-fired furnaces require the use of filter materials made from polyimide fibres, a sector in which Laporte is strongly positioned. Wherever near-zero emission limits are mandatory, its P84 fibres are ideal for achieving the highest possible particle filtration efficiency. The business has successfully extended its geographic reach, particularly in Asia Pacific, where it has now begun to win new customers in China.

Foams The Foams business achieved very substantial improvements in both sales and profitability in 1999. Its flame-retardant foams, chiefly used to fill aircraft fuselages and ships' hull cavities, are widely acknowledged for their exceptional characteristics. The key raw material for these foams (and fibres) is supplied by Laporte Fine Chemicals, enabling the Group to participate in a greater proportion of the margin. In November 1999, the business broadened its marketing scope by introducing a new polycoustic non-fibrous duct liner made from polyimide foam, specifically for use in the construction market.

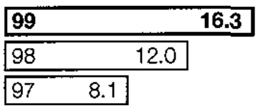
The Formulated Products Division now represents 13% of sales and 10% of profits from continuing operations. Profits rose by 36% to £16.3 million (£12.0 million). Margins increased to 13.7% (12.3%).



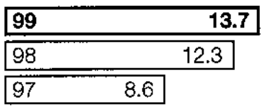
Laporte's Fibres business manufactures fibres which can withstand high temperatures and show excellent filtration characteristics. They are, therefore, used to clean flue gases in coal fired boilers or waste incinerators to prevent the environment from harmful emissions.



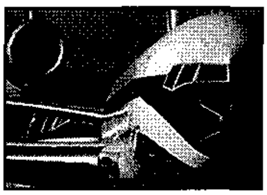
Stain Magnet® is a new product that uses reducing agents and chelation chemistry to dissolve metallic stains in swimming pools without the need for draining.



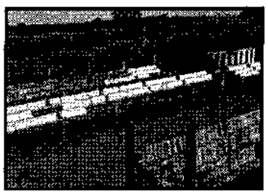
Operating profit £m



Margin %



Laporte's fire-retardant foams are widely acknowledged as the most effective in the world. They are used to fill hull and fuselage cavities in ships and aircraft.



Laporte maintains a timber treatment testing station in Hawaii, where the high temperature, damp conditions and insects naturally accelerate the ageing process.

Operations Review Research & Development

The biggest increase in R&D expenditure during the year was in Fine Chemicals, where spend increased by 7%. The new laboratories at Seal Sands in the UK, constructed in 1998, achieved full operational status during the year and were instrumental in keeping Laporte at the forefront of R&D in the area of pharmaceutical and agrochemical intermediates.

During 1999, R&D efforts were focused particularly on process development, the stage at which products move from development to manufacturing. By enhancing our process skills across a broad range of chemistries, we were able to optimise yields and efficiencies, and deliver high quality products at competitive prices.

In Fine Chemicals, several major product processes were developed. We have patented a process technology for CCMZ (chloro chloromethyl thiazole), an important intermediate for both anti-Aids drugs and insecticides and we have developed a safer and lower cost process for the production of Clorsulon, an intermediary veterinary product. We have also developed new routes for anti-viral products and multi-client pharmaceutical intermediates as well as continuing to work with our customers to refine further the processes used in the manufacture of their existing products.

In Pigments, process improvement work continued in the production of iron oxide toner blacks for photocopiers and laser printers and an improved yellow toner was developed in Turin for use in coatings, an area of potential high growth.

We also continued our development work, in both timber treatment and water treatment, on extending our product range beyond the conventional range offered by our principal competitors.

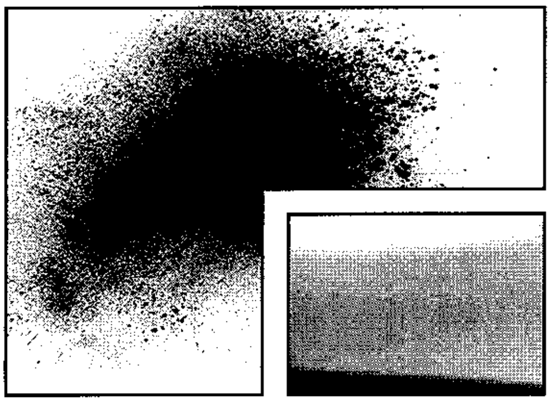
Other important areas of development include new compound materials incorporating additives which increase the shelf life of carbonated beverages; new shrink wrap materials which are phthalate-free; and lead and halogen-free materials for flame retardant wire and cable coatings.

Within Electronics, our new Cobrabond® oxide layer replacement chemistry came onstream, enabling our Printed Circuit Board (PCB) customers to produce multi-layer PCBs at lower costs. Likewise our Shadow® technology for 'through the hole' plating was further developed for the plating of micro vias, which connect the layers on multilayered PCBs.

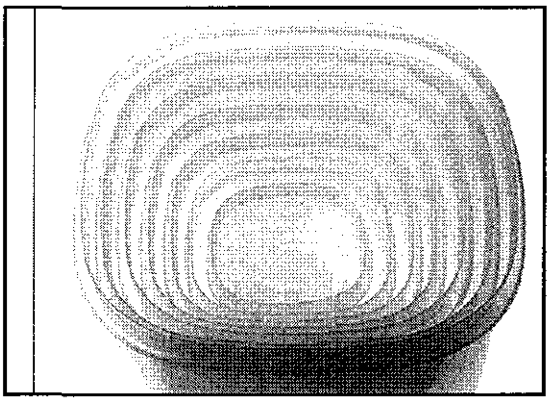
We support our development work with the highest calibre of graduates and with continual upgrading and renewal of our R&D facilities.

We are customer and market led and, although we carry out some original research work in-house, our main focus is on improving the way we manufacture chemicals for today's market and in developing the optimum process for the production of tomorrow's key molecules.

Research & Development expenditure rose again in 1999 and is now around 40% higher than it was three years ago.

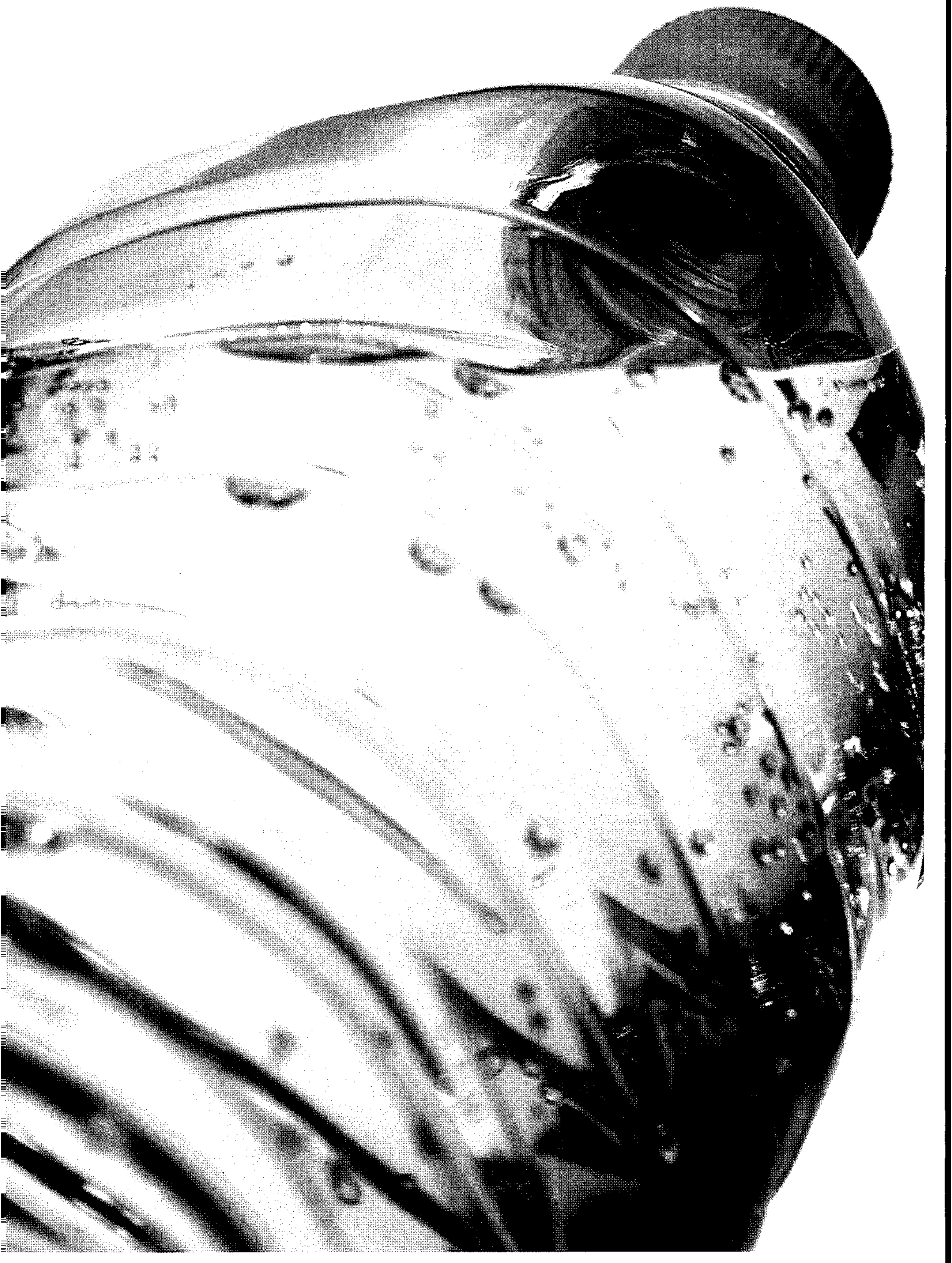


The Pigments Division is simultaneously developing the properties of materials as diverse as photocopier toner and engine paint.

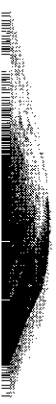


Laporte has played a major role in the development of metallocenes, a new breed of catalysts that significantly improve yield in plastics manufacturing.

Investment in R&D rose significantly, as Laporte seeks to differentiate itself through the quality of its products, its technology and its processes, as well as its people.



A revolutionary material that keeps bottled drinks fresher



Laporte's plastics compounding business, which trades under the name AlphaGary, has played an important role in extending the useful shelf life of still and carbonated bottled drinks. Working hand-in-hand with a major global beverage manufacturer for two years, AlphaGary's technologists undertook a major programme of research and analysis to match the manufacturer's marketing objectives with a specific polymer formulation.

The resulting material, part of the Alphaseal® range, is now being used as a sealing material inside the bottle cap where it is fulfilling its primary role of maintaining the drink's effervescence and original flavour for substantially longer than was previously possible.

At a stroke, the development of this new closure material has substantially enhanced the shelf life of products for the worldwide beverage industry. It has also reinforced AlphaGary's status as an innovative supplier with the ability to roll back the frontiers of packaging technology.

Operations Review Safety, Health and the Environment & Human Resources

In every aspect of SHE we remain committed to following the world chemical industry's principles of Responsible Care as well as complying with local laws and working closely at site level with the community and with authorities to develop the best safety, health and environmental practices. Our SHE management system was strengthened by further incorporation of the best practices found across industry as well as building on our own traditional areas of strength.

Safety In 1999 we extended our record of operating without a major incident. We also introduced a tighter global measuring system for accidents and, using that basis, improved on our 1998 performance, remaining in line with the industry average. For the first time one of our major Divisions achieved more than one million hours worked without injury across all its sites. Our Freeport site was awarded a Certificate of Honour for its health and safety performance under the CMAs 'Responsible Care' Code.

Health The outcome of a global health review undertaken across the Group in 1998 was implemented including the introduction of working groups to share best practices.

Environment We remain committed to continuous improvement in environmental performance. Examples include continuing waste reduction and other rolling programmes of environmental improvement at our Hythe and Seal Sands sites. *Environmental reporting practices were improved* further in accordance with CEFIC guidelines that demand increasing detail and scope in reporting.

In all cases we take account of environmental issues in our investment decisions and, where appropriate, invest directly for environmental benefit. For instance, a new treatment system significantly improved the quality of waste water discharged from our Jayhawk facility and further investment in incineration facilities at Seal Sands will lead to improvements in atmospheric emissions.

A number of sites were re-certified during the year under the environmental management system standard ISO 14001 and new sites achieving that distinction included operations in Singapore, at Zaltbommel, Holland and at both the St Fromond and Greasque sites in France.

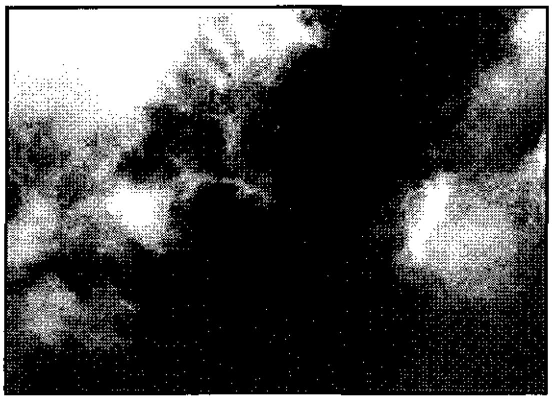
In June, the Rotherham fluorides site was awarded the Cremer and Warner Environmental Protection Subject Group Award for the cryogenic emission control unit installed on the DFDPM plant. This award formed part of the Chemical Engineer Excellence in Safety and Environment Award. In California, Exsil received an environmental award for reducing chemical waste and conserving water.

In the wafer reclaim business where quality control is of paramount importance, many of our plants received higher level certification during 1999. The Prescott site received ISO 9002 certification, while our UK reclaim site achieved the QS9000 standard.

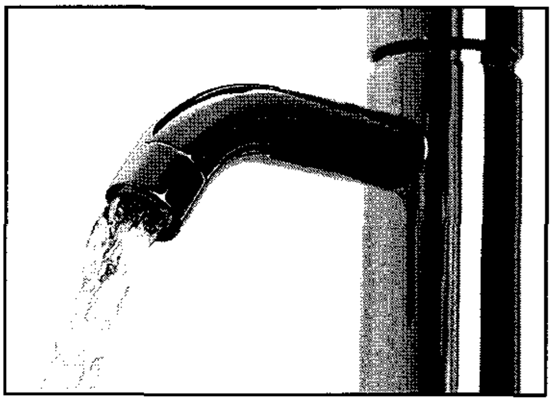
Human Resources The rapidly changing face of the chemical industry has provided a great deal of uncertainty for our employees. The fact that Laporte has continued to make progress in this challenging environment is largely due to their ability to embrace change and constantly seek to make improvements to the way in which we operate.

With the restructuring of the Group largely complete, we are now placing a great deal of emphasis on ensuring our managers and employees are equipped with the skills to stay ahead of the competition. For our most senior managers we have worked with Wharton Business School to design a management development programme tailored to Laporte's needs. This is an important investment, which we believe will help us to attract and retain talented individuals and ensure they develop their potential and make a full contribution to the future success of the Group.

Safety, health and environmental (SHE) considerations are close to the heart of our business. We share the concern of all our stakeholders for the protection of people and the environment and continue to work hard to match the standards they rightly expect from us.



Sites achieving ISO 14001 certification for the first time included those in Singapore, Holland and France.



All of Laporte's operations are conducted according to sound environmental principles. During 1999, Laporte Water Technologies was honoured for its recycling efforts by the State of Georgia.

Laporte was one of the first signatories to the UK Chemical Industry Association's Responsible Care programme.

Results before exceptional items Group turnover was £930m (£829m), impacted by the full year contribution from the acquisition of Inspec in September 1998, by disposals and by organic growth in the Group. Like-for-like volumes grew by 2% in the year, with second half growth at around 4% following only a small increase in the first half. Two of the main factors in this pick-up in the second half were Catalysts & Initiators, which grew volumes at 9% in the second half following a flat first half and Electronics, which grew by 7% in the second half, following an 11% decline in the first half. For the year as a whole, Fine Chemicals continued to generate the most significant volume growth for the Group. Despite marked increases in some areas, notably pvc for our Compounds business, the Group's raw material input prices fell by some 2% during the year, following larger decreases seen in 1998. With the strength of Sterling and the US dollar playing their part, unit selling prices fell by just over 1% in 1999. The combination of all of the above led to an 18% increase in operating profit to £164m (£139m). Margins in continuing operations rose to 17.3% (16.7%).

With the effect of the full year financing cost of the Inspec acquisition, compared with only four months in 1998, interest costs were £31m (£5m). Pre-tax profits, before exceptional items and goodwill amortisation, fell by a little over 1% to £132m (£134m). Earnings per share fell by the same percentage to 50.5p (51.1p), with the full year tax rate unchanged at 26.0%.

Exceptional items and amortisation of goodwill Other than the amortisation of goodwill, principally arising from the acquisition of Inspec, of £28m (£9m), pre-tax exceptional charges amounted to £26m (£54m). Of this, the balance of the costs of integrating Inspec within the Speciality Organics Division amounted to £8m. The net costs of closure of our UK fluorspar mining operation came to £6m and the one-off costs associated with the creation of a global organisation in our Pigments business were £4m. The remaining £8m is largely accounted for by the write-off of goodwill on the disposal of the Chilean mining chemical operation.

Dividend and other distributions The Board has recommended a final dividend of 1.1453p per ordinary share. This will be paid on 7 June 2000 to ordinary shareholders on the register at the close of business on 2 May 2000. In conjunction with the allotment of 25 redeemable B shares of 1p each, and the dividends attaching thereto, the total distribution to shareholders in respect of 1999 will remain unchanged at 26.5p.

Cash flow Cash inflow from operating activities rose to an all-time record of £234m (£149m), or 1.4 times the operating profits of the Group. Gross capital expenditure fell back slightly to £81m (£84m) following the completion of two major infrastructure projects initiated in 1998. Following an £18m outflow in respect of operating working capital in the prior year, 1999 saw an inflow of £39m, as Group standards and procedures were applied to the former Inspec businesses. Net debt at the year end stood at £478m (£551m) benefiting from the £27m inflow from corporate activity in the year, comprising the sale of the Chilean mining chemical operation and the Four Ashes (UK) industrial chemical site.

Treasury policy Treasury policy aims to ensure that the Group has sufficient resources, while monitoring and minimising risks. The Group Treasury function is monitored by the Treasury Committee in accordance with the policies, procedures and limits established by the Board. The Board receives monthly reports that compare levels of risk against

Tight management of working capital assisted the Group in making a substantial reduction in its net debt.

Michael Kayser Finance Director

all limits established and examines variances from the policy. The Group does not engage in speculative transactions and its policy in respect of the major treasury risks is as follows:

Foreign Currency Risks

Translation exposure The results of our businesses around the world are translated into Sterling at the average exchange rates for the year. Although differences in the average rates between years affect reported sales and profits of the Group, they do not directly impact on the Group's cash resources. To reduce its exposure to the volatility of Sterling, the Group now hedges, on a rolling 12 month basis, the translation of 20% of its future profits denominated in Euros, US Dollars and Canadian Dollars using a proprietary bank system that replicates the use of currency options.

The balance sheets of the Group's overseas businesses are translated into Sterling at the year end rate of exchange. Differences arising on translation are accounted for in the Group's reserves, in accordance with accounting standards, where they match differences arising on the translation of the Group's foreign currency borrowings and currency swaps held to hedge foreign investments.

Currency transaction exposure Where a business buys raw materials or sells goods in a currency other than that of its country of operation then currency transaction exposure exists. As detailed in note 17, the Group's policy is to cover projected future trading cash flows up to 12 months ahead, in currencies other than the domestic currency of the business, by use of forward foreign exchange contracts. In 1998, the Group outsourced the operation of its foreign currency payments and hedging to a world leading bank in the area of cash management. This has enabled the Group to benefit from the natural hedging that exists from payments and receipts being made in a series of currencies from its operations throughout the world. Overall control of this operation remains with the Group Treasury function.

Liquidity Risk The Group's policy on funding capacity is to ensure that it always has sufficient long term funding and bank facilities in place to meet foreseeable borrowing requirements and that unutilised committed borrowing facilities should not fall below £100 million. At 31st December 1999 the Group had at its disposal £242 million of committed borrowing facilities maturing between 2002 and 2003 (note 17).

Interest rate risk The Group manages its portfolio through the use of interest rate swaps and caps. The proportion of the Group's borrowings managed in this way is determined by limits approved by the Board and monitored regularly as detailed in note 17. As at 31st December 1999, 64% of the Group's net borrowings were at fixed interest rates.

Counterparty risk Limits established by reference to guidelines approved by the Board are used to monitor the exposure of the Group to any one institution or territory, both in terms of deposits and interest rate and foreign exchange derivatives.

Michael Kayser Finance Director

Net debt analysis	**£m**
US dollars	(223)
Euros (incl. constituent currencies)	(123)
Sterling	(116)
Other	(16)
	(478)

The net position of the Group at 31 December 1999 in net currency and Sterling borrowings

Exchange Rates	**1999**	1998
Average		
US Dollars	**1.62**	1.66
Deutsche Marks	**2.97**	2.91
Year End		
US Dollars	**1.62**	1.66
Deutsche Marks	**3.15**	2.77

Executive Committee

Jim Leng
Chief Executive
Jim Leng (54) joined Laporte plc in 1995 as Chief Executive. Prior to joining Laporte he was Chief Executive of Low & Bonar plc and previous to that was Managing Director of one of the major subsidiaries of John Waddington plc.
He is a non-executive director of Pilkington plc and a Vice President of the Chemical Industries Association.

Peter Fearn
Director and Divisional Chairman
Peter Fearn (46), a chartered accountant, was appointed to the Board in 1996.
As a director and Divisional Chairman of Laporte he has worldwide responsibilities for the Group's Speciality Organics businesses. Prior to joining Laporte he was Chief Executive, Courtaulds Coatings, Europe, Africa and the Middle East before which he held various other senior appointments within Courtaulds in Italy, Australia and Singapore.

Michael Kayser
Finance Director
Michael Kayser (44) is a Fellow of the Chartered Institute of Management Accountants. Before joining Laporte in 1996 he was Finance Director, Guinness Brewing Worldwide, now part of Diageo plc. Previously he had held appointments as Group Financial Controller and as Head of Corporate Finance for Guinness plc. Prior to that he held appointments with Samuel Montagu and Andersen Consulting, having worked initially with Unilever in both the UK and Holland.

Michael Kenny
Director and Divisional Chairman
Michael Kenny (54) was appointed to the Board in 1996. As a director and Divisional Chairman, he has responsibility for Laporte's activities in Pigments, Additives, Plastic Compounding, and the Formulated Products Division. He joined Laporte from Church & Dwight, having previously served with NL Industries where he established Rheox Inc., being appointed its first President and Chief Operating Officer.

Clive Rankin
Divisional Chairman and Director of Business Development
Clive Rankin (53) joined Laporte in 1996 and has responsibility for the Group's Electronics businesses together with business development, including IT strategy. He has a doctorate in polymer chemistry and is a Member of the Chartered Institute of Marketing. Prior to joining Laporte he was Director of Development & Environmental Affairs at Low & Bonar plc.

George Battersby
Director of Human Resources
George Battersby (53) was appointed as Director of Human Resources in July 1996. Before joining Laporte he was with Fisons plc where he was Group Human Resources Director and a member of the Executive Committee. Previously he had held appointments at International Computers Ltd and Air Products.

Nick Smith
Director of Legal Affairs, Company Secretary
Nick Smith (51) was born and educated in Australia. He joined Laporte in 1997. He is a corporate lawyer with more than 20 years experience including periods with Smiths Industries PLC and Tiphook plc as Legal Director and Company Secretary, where he played a key role in its flotation and subsequent global expansion.







Directors

G Duncan*	Chairman
J W Leng	Chief Executive

A G L Alexander*	(appointed 20 December 1999)
W J Alexander*	(appointed 20 December 1999)
P H Fearn	
R A Gardner*	
M A Kayser	
M J Kenny	
A M Thomson*	

*Non-executive directors

Executive Committee

J W Leng	Chief Executive
G W Battersby	Director of Human Resources
P H Fearn	Divisional Chairman
M A Kayser	Finance Director
M J Kenny	Divisional Chairman
C T Rankin (Dr)	Divisional Chairman and Director of Business Development
N H Smith	Director of Legal Affairs, Company Secretary

Independent non-executive directors

Biographical details

G Duncan	Age 66. Appointed non-executive director February 1987, Chairman November 1995. Executive Chairman of Alldays plc, Chairman of ASW Holdings plc, and Swan Hill Group plc, and a director of a number of other public companies.
A G L Alexander	Age 61. Appointed non-executive director December 1999. Deputy Chairman of Imperial Tobacco Group PLC. Non-executive director of Inchcape plc, Misys plc and Cookson plc.
W J Alexander	Age 53. Appointed non-executive director December 1999. Chief Executive of Thames Water Plc
R A Gardner	Age 54. Appointed non-executive director December 1996. Chief Executive of Centrica plc and a non-executive director of Manchester United PLC.
A M Thomson	Age 53. Appointed non-executive director October 1996. Finance Director of Smiths Industries PLC.

Senior management

Speciality Organics

D H Warner	Managing Director, Performance Chemicals
A Jackson (Dr)	Managing Director, Fine Chemicals Business Development
W H Muhs (Dr)	Managing Director, Catalysts & Initiators
R Taylor (Dr)	Managing Director, Fine Chemicals

Pigments & Additives

R Rapaport	Managing Director, Pigments
D C Stocker	Managing Director, Additives

Compounds & Electronics

R N Gingue	Managing Director, Compounding
G E Letman	Divisional Managing Director, Electronic Chemicals and Wafers
A Hawryliw	Divisional Managing Director, Photomasks

Formulated Products

S B Ainscough	President, Timber Chemicals
S D'Onfro	President, Water Technologies

Corporate staff

J A Brown	Deputy Finance Director and Commercial Director, Speciality Organics
R G Yeldham	Group Manager, Safety, Health and Environment

Principal activities
The principal activities of Laporte are the manufacture and distribution of speciality chemicals and performance materials and the provision of related services. These activities are directed towards industrial and commercial applications, particularly in the life sciences industries, and are conducted world-wide.

Business review and developments
The Operating and Financial Reviews on pages 6 to 22 contain information on developments and investments during the year and a comprehensive review of the financial performance of the Group.

Profit and dividends
Profit attributable to shareholders for the year amounted to £49.8m (1998: £28.2m). No interim dividend was paid. The directors recommend the payment of a final dividend of 1.1453p net per share on 7 June 2000 to shareholders on the register at the close of business on 2 May 2000.

Directors
The directors of the Company at the date of this report appear on page 24. Dr J Hollowood resigned as a director on 8 March 1999. Mr R R Knowland and Mr A H Simon resigned as directors on 11 June 1999. Mr A G L Alexander and Mr W J Alexander were appointed to the Board on 20 December 1999.

The directors retiring by rotation at the Annual General Meeting are Mr M A Kayser, Mr M J Kenny, Mr R A Gardner and Mr A M Thomson who, being eligible, offer themselves for re-election. Mr A G L Alexander and Mr W J Alexander were appointed since the last Annual General Meeting and retire in accordance with Article 81 of the Company's Articles of Association. Being eligible, they offer themselves for election.

Mr Gardner, Mr Thomson, Mr A G L Alexander and Mr W J Alexander are non-executive directors and do not have service agreements.

Mr Kayser and Mr Kenny have service agreements with the Company, terminable in the manner stated in the section on Directors' Remuneration on page 29 dealing with service agreements.

Directors' remuneration and interests
Details of the remuneration paid to directors who held office during the year are given in the section on Directors' Remuneration on pages 28 and 29 and in note 36 to the accounts on pages 58 to 61, which also contains each director's interests appearing in the register maintained by the Company pursuant to Section 325 of the Companies Act 1985 as at 31 December 1999. All the interests are beneficial.

Employees
Laporte continues to develop its employment policies to suit the requirements of the changing Group. Employee relations are of a high order and are the result of a flexible approach from both management and employees, which ensures a broad degree of employee commitment and involvement. Laporte's policy is to give disabled people equal consideration and opportunity for employment, subject to their capabilities. Employees who become disabled are assisted and encouraged to continue in their existing employment or, where appropriate, are redeployed in suitable alternative work.

Laporte endeavours constantly to ensure regular communication and consultation with employees and extensive use is made of the Company's intranet system. Annual and half year results and information on major developments are communicated promptly to business units for communication to employees. Communications on pensions, employee share schemes and incentive benefits are made on a collective or individual basis as appropriate. In accordance with the European Works Council Directive, Laporte has an established European Employee Council consisting of employee representatives elected from across the Group's European businesses including the UK.

Employee share schemes
Note 37 to the accounts on pages 62 and 63 details the employee share schemes currently capable of being operated by the Company.

Share capital
Details of fully paid shares issued by the Company during the year are set out in note 20 on pages 50 and 51 and details are given on page 65 of the interests in 3% or more of the nominal value of the Company's issued share capital appearing in the register maintained pursuant to Section 211 of the Companies Act 1985.

Redeemable B shares
On 23 August 1999, the Company issued new B shares with a nominal value of 1p each to its ordinary shareholders by way of bonus issue on the basis of nine B shares for each ordinary share held at the close of business on 20 August 1999. The B shares were issued pursuant to the authority given by a special resolution passed at the Company's Annual General Meeting on 11 June 1999. The Company offered to redeem these B shares on 15 December 1999 at their nominal value of 1p per share.

On 17 February 2000, the Company made a second issue of redeemable B shares with a nominal value of 1p each to its ordinary shareholders by way of bonus issue on the basis of sixteen B shares for each ordinary share held at the close of business on 16 February 2000.

Annual General Meeting

At the Annual General Meeting, to be held on 2 June 2000, two special resolutions will be proposed, renewing the Company's existing authorities to disapply pre-emption rights in respect of not more than 5% of the nominal value of the Company's issued share capital, and to make market purchases in respect of not more than 10% of its issued share capital. An ordinary resolution will also be proposed to provide for the creation of further B shares.

Research and development

Research and development makes a vital contribution to the organic growth of Laporte and facilities are now established at all of the Group's major manufacturing sites. A further comment is contained in the Chief Executive's Review and in the R&D Review on page 17. Current year expenditure is shown in note 2 to the accounts.

Donations

Charitable donations made in the UK totalled £67,000 (1998: £50,000). No political contributions were made.

Going concern statement

It should be recognised that any consideration about the foreseeable future involves making a judgement at a particular point in time about future events, that are inherently uncertain. Notwithstanding this, after making enquiries, the directors confirm that they have reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future, and accordingly, for this reason, they continue to adopt the going concern basis in preparing the accounts.

Payment to suppliers

Terms and conditions are agreed with suppliers in advance. Payment is then made in accordance with the agreement, providing the supplier has met the terms and conditions. The Group's trade creditors at 31 December 1999, were equivalent to 62 days based on average amounts invoiced by suppliers during the year. The Company has no trade creditors.

Auditors

In accordance with Section 381 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company will be proposed at the Annual General Meeting.

Corporate governance

The Combined Code ('the Code'), detailing the Principles of Good Corporate Governance and Code of Best Practice, was published in June 1998. In accordance with the Listing Rules of the London Stock Exchange, the Company is required to report on how it has applied the Principles set out in the Code and to state whether or not it has complied with the Code Provisions throughout the year to 31 December 1999. Except as stated below, the Company has complied throughout the year with the Code Provisions set out in Section 1 of the Code.

Application of the Code Principles

The Code Principles, which the Company has applied throughout the year, cover four areas: The Board; directors' remuneration, which is covered in the section on Directors' Remuneration on pages 28 and 29; relations with shareholders; and accountability and audit.

1 The Board

At 31 December 1999, the Board of the Company comprised five independent non-executive directors and four executive directors and had met, as a full Board, on nine occasions during 1999. There continues to be a clear separation of the role of chairman, Mr G Duncan, and the chief executive, Mr J W Leng. The Board continues to review the formal appointment of a senior non-executive independent director but considers that such an appointment is inappropriate at the present time. Consequently, the Company has not complied with that Provision under the Code.

The full Board exercises overall leadership and control of the Group's affairs by the schedule of matters reserved for its decision. These include major acquisitions and disposals, the approval of financial statements, authority levels for expenditure and succession plans for senior executives. Where the Board is responsible for determining the remuneration of an executive or non-executive director, the individual concerned takes no part in the decision process.

The Board pays particular attention to key areas of risk, such as safety, health and the environment and during 1999 also focused on the Group's preparations for Year 2000. All Board and Committee members are briefed by means of information papers which are circulated in advance of each meeting and by presentations given by members of the executive management team. Procedures are in place for directors to seek both independent advice, at the Company's expense, and the advice and services of the Company Secretary.

The Board delegates day to day management of the Group's activities to the Executive Committee, which comprises the executive directors and the other senior executives whose details are set out on pages 23 and 24.

2 Committees of the Board

The Board has appointed the following committees comprised solely of non-executive directors. Each committee operates under formal written terms of reference that have been approved by resolution of the Board.

The Remuneration Committee makes recommendations to enable the Board to determine the remuneration, incentive arrangements, pensions and benefits of the executive directors and certain senior executives and to oversee the Company's employee share schemes. In carrying out these duties, the Committee is able to take advice from the Chief Executive, the Director of Human Resources and external advisers. In a change from previous best practice provisions with which the Company had been complying, the new Code provides that the Board, rather than the Remuneration Committee, should determine the remuneration policy. This change to the Committee's terms of reference was implemented during May 1999 and consequently, the Company has not complied with that Provision under the Code for all of the year to which this report relates. At the date of this report, the members of this Committee were: Mr A G L Alexander (Chairman), Mr W J Alexander, Mr G Duncan, Mr R A Gardner and Mr A M Thomson. Mr A G L Alexander and Mr W J Alexander were appointed to the Committee during the year. Mr R R Knowland and Mr A H Simon retired from the Committee on 11 June 1999. Mr A G L Alexander was appointed as Chairman on 8 March 2000, prior to which Mr Duncan acted as Chairman of the Committee following the retirement of Mr Knowland as Committee Chairman on 11 June 1999. The executive directors may attend meetings of the Committee by invitation. The Committee meets regularly twice a year, with further meetings as required.

The Nomination Committee considers and recommends to the Board appointments of new executive and non-executive directors and proposals for the retirement and re-election of directors. All directors are required to submit themselves for re-election by the shareholders at least every three years. Since 1996, new non-executive directors have been appointed for initial periods of three years. The Company will provide training, as required, to Board members in support of their responsibilities as directors of a listed company. At the date of this report, the members of this Committee were: Mr G Duncan (Chairman), Mr A G L Alexander, Mr W J Alexander, Mr R A Gardner and Mr A M Thomson. Mr A G L Alexander and Mr W J Alexander were appointed to the Committee during the year. Mr R R Knowland and Mr A H Simon retired from the Committee on 11 June 1999. The Committee meets as required.

The Audit Committee reviews the interim and annual accounts and other financial matters with the external auditors and receives regular reports from the Group's external and internal auditors who are represented at meetings of the Committee. Additionally, the Committee reviews the operation and effectiveness of the Group's system of internal financial controls. It also reviews the scope of the audit, its cost-effectiveness and the independence and objectivity of the auditors. The Committee has reviewed the extent and value of non-audit services provided to the Company during the year by KPMG Audit Plc and its associates. At the date of this report, the members of this Committee were: Mr A M Thomson (Chairman), Mr A G L Alexander, Mr W J Alexander, Mr G Duncan and Mr R A Gardner. Mr A G L Alexander and Mr W J Alexander were appointed to the Committee during the year. Mr R R Knowland and Mr A H Simon retired from the Committee on 11 June 1999. The executive directors may attend meetings of the Committee by invitation. The Committee met twice during 1999.

3 Relations with shareholders

The Company seeks to maintain an effective dialogue with its shareholders and particularly with the major institutional shareholders. A series of meetings has taken place throughout the year, attended by Mr Leng, Chief Executive and Mr Kayser, Finance Director together with other members of the Executive Committee, to explain the Company's business objectives and trading prospects. These meetings, some of which have been on a one-to-one basis, also enable the Company to gain a clearer understanding of the investment objectives of its major shareholders. The Company regards the Annual General Meeting as a valuable opportunity for improving its communications with all shareholders, particularly those individual shareholders for whom this may be the only opportunity they have to meet and question the Board of directors. The Company counts all proxy votes cast in respect of the AGM and makes available the voting figures (for and against and abstentions) on each resolution.

4 Accountability and audit

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Combined Code introduced a requirement that the directors review the effectiveness of the Group's system of internal controls. This extends existing requirements in respect of internal financial controls to cover all internal controls related to business operation, including financial, operational, strategic, compliance and risk management.

Guidance for directors *Internal Control: Guidance for Directors on the Combined Code* (the Turnbull Guidance) was published in September 1999. However, the directors have adopted the London Stock Exchange's transitional rules and have continued to report upon internal financial controls in accordance with the ICAEW's 1994 guidance *Internal Control and Financial Reporting*.

Nevertheless, the Board confirms that they have established procedures necessary to implement the Turnbull Guidance such that they can fully comply with it for the accounting period ending on 31 December 2000.

Key elements of the Group's system of internal financial controls are as follows:

Organisation structure – An organisation structure with clearly defined lines of responsibility and delegation of authority has been fully set out in the Group's policies.

Reporting – The annual budget of each division and operating unit is reviewed by the Executive Committee. Monthly actual results are reported against budget; significant adverse variances are examined by management and remedial action taken. There is monthly cash reporting. Forecasts for the year are revised periodically.

Control procedures – Group policies and procedures manuals, supplemented by local variants, are maintained by all operating units. There are clearly defined policies for capital expenditure, including appropriate authorisation levels. Larger capital projects, acquisitions and disposals require Board approval.

Monitoring – Management of each division and operating unit periodically conduct a formal risk assessment to identify and evaluate risks and carry out an assessment of both the control environment and the controls in place to mitigate risks. The Board reviews these assessments. Operating units are subject to internal audit and to routine control visits to monitor compliance with Group policies. Treasury issues are considered at meetings of the Treasury Committee.

Directors' Remuneration

Remuneration

The Company's remuneration policy is based on the following principles:

- remuneration packages should be competitive when compared with organisations of similar size, type and complexity;
- the design of packages should attract and retain high calibre executives;
- the packages should be simple to understand and motivate the executive; and
- the packages should demonstrate to shareholders that their interests are aligned with those of the executive.

The remuneration of the executive directors currently consists of the following elements:

- base salary
- annual bonus
- long-term incentive
- non-contributory pension
- other benefits normal for executives of their status.

Base salary

With regard to base salary, the Committee takes into account the responsibilities, individual performance and experience of the director in the relevant position. Salaries are normally subject to an annual review which takes account of external survey data and pay and conditions elsewhere within the Group.

Annual bonus

Annual bonuses are non-pensionable and are made within an overall incentive remuneration framework. A maximum of 50% of base salary per annum is payable subject to performance against targets which are set on an annual basis. For 1999, these bonuses were based on earnings per share of the Company. In order to encourage share ownership and retention, part of the bonus may be matched with a deferred award of shares that must be held for a stated period. Details of base salaries and annual bonus awards are shown in the table of directors' remuneration in note 36 to the accounts.

Long-term incentives

Long-term incentives are provided for executive directors and certain other key executives throughout the Group in the form of a restricted share plan, approved by shareholders in 1996. The Company's policy is to make phased, annual awards under the plan to senior executives who are in a position to influence significantly the performance of the Group. The main features of this long-term incentive plan are that:

- all awards are subject to a three-year performance period;
- annual awards are made to participants in the form of shares in the Company;
- the comparator group is made up of the chemical sector companies in the FTSE 350 Index at the date of award;

- awards will vest after a three-year performance period depending on the Group's performance against its comparator group;
- the performance measure is 'total shareholder return' (being the change in the share price plus reinvested dividends and other distributions over the performance period) compared to the comparator group;
- in line with current best practice, awards will not vest for performance below the median of the comparator group; 50% of the awards will vest at median and 100% will vest at the upper quartile level.

The Company has previously granted options to directors under the Laporte Executive Share Option Scheme 1992 and the Laporte Share Option Scheme 1984. The Company did not make any grants under these schemes during the year and has no current plans to do so in the future. Existing holdings under these schemes are shown in the tables of directors' remuneration in note 36 to the accounts. Executive directors may, when eligible, choose to participate in The Laporte Savings-Related Share Option Scheme 1992.

Pensions
The Company's policy on pensions is to offer benefits which provide security for executives and their families and encourage loyalty and long-term retention. Base salary is normally the only element of remuneration which is pensionable. The executive directors, with the exception of Mr Kenny, are members of the Group's non-contributory pension plan for all eligible employees. For UK-based directors the plan is designed to pay two-thirds of salary at age 60 inclusive of pensions receivable from previous employments. Further details on pensions are disclosed in the tables of directors' remuneration in note 36 to the accounts.

Other benefits
Other benefits are principally, car, fuel, medical insurance and in the case of Mr Leng, a salary supplement in respect of his pension entitlement. The level of benefits provided is reviewed on a regular basis to take account of market practice. Details of the amounts involved are disclosed in the tables of directors' remuneration in note 36 to the accounts.

Service agreements
Mr Leng has a service agreement with the Company terminable by the Company on not less than 24 months notice and by Mr Leng on not less than 12 months notice. In the event of termination of the agreement by the Company without cause, Mr Leng will be entitled to receive two years basic salary and medical insurance at the rate immediately before termination, and an augmentation of pension entitlement by a two-year service credit. A service agreement with the inclusion of these terms was negotiated in order to secure Mr Leng's acceptance of the position of Chief Executive in 1995 and was considered to be competitive with market practice at that time. The Committee believes that this notice period remains appropriate for a position of this nature in the current market.

Mr Kayser, Mr Kenny and Mr Fearn have service agreements with the Company which are terminable by either party on 12 months written notice. These service agreements contain provisions which entitle the relevant director to receive one year's remuneration based on basic salary, benefits in kind, loss of pension rights and an amount equal to the average of the previous three years' bonuses as compensation for loss of incentives in the event of termination, other than for misconduct or voluntary resignation, during a period of three years following a change of control. Mr Leng's contract provides for payment of two years basic salary in the event that he should terminate his employment within a period of six months of a change of control. Such payments are not subject to mitigation.

Non-executive directors' remuneration
The remuneration of the non-executive directors is determined by the Board and is reviewed, with the benefit of independent advice and in consultation with the executive directors, on an annual basis for the Chairman of the Board and on a biennial basis for the other non-executive directors.

Non-executive directors' letters of appointment
Non-executive directors have letters of appointment for specific periods. Mr Duncan's appointment may be terminated by either the Company or Mr Duncan giving six months notice. The appointment of the other non-executive directors may be terminated by either the Company or the non-executive directors giving three months notice.

By Order of the Board
N H Smith
Company Secretary
13 March 2000

Directors' Responsibility Statement

The following statement, which should be read in conjunction with the auditors' report, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

The financial statements have been prepared on a going concern basis.

The directors consider that in preparing the financial statements on pages 32 to 63 applicable accounting standards have been used, appropriate accounting policies have been applied consistently, and reasonable and prudent judgements and estimates have been made.

The directors have responsibility for ensuring that accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have overall responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors' Report to the members of Laporte plc

We have audited the financial statements on pages 32 to 63.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the Annual Report. As described on page 30, this includes responsibility for preparing 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, the Listing Rules of the London Stock Exchange, 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. 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 or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 26 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risks and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 Group'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 affairs of the Company and the Group as at 31 December 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
13 March 2000

Consolidated Profit and Loss Account for the year ended 31 December 1999

	Notes	Before goodwill & exceptional items 1999 £m	Goodwill & exceptional items 1999 £m	Total 1999 £m	Before goodwill & exceptional items 1998 £m	Goodwill & exceptional items 1998 £m	Total 1998 £m
Turnover							
Continuing operations		**904.6**	**–**	**904.6**	768.5	–	768.5
Discontinued operations		**25.6**	**–**	**25.6**	60.1	–	60.1
Total turnover	1	**930.2**	**–**	**930.2**	828.6	–	828.6
Net operating costs before amortisation of goodwill		**(767.4)**	**(15.3)**	**(782.7)**	(690.8)	(2.9)	(693.7)
Amortisation of goodwill		**–**	**(28.0)**	**(28.0)**	–	(9.3)	(9.3)
Net operating costs		**(767.4)**	**(43.3)**	**(810.7)**	(690.8)	(12.2)	(703.0)
Operating profit							
Continuing operations	2, 3	**158.6**	**(15.3)**	**143.3**	**131.6**	**(2.9)**	**128.7**
Amortisation of goodwill		**–**	**(28.0)**	**(28.0)**	**–**	**(9.3)**	**(9.3)**
Total continuing operations		**158.6**	**(43.3)**	**115.3**	131.6	(12.2)	119.4
Discontinued operations		**4.2**	**–**	**4.2**	6.2	–	6.2
Group operating profit	2	**162.8**	**(43.3)**	**119.5**	137.8	(12.2)	125.6
Share of operating profit of associated undertakings							
Continuing operations		**0.8**	**–**	**0.8**	0.9	–	0.9
Total operating profit		**163.6**	**(43.3)**	**120.3**	138.7	(12.2)	126.5
Sale of discontinued operations							
(Loss)/surplus before goodwill		**–**	**(0.9)**	**(0.9)**	–	12.1	12.1
Goodwill		**–**	**(9.8)**	**(9.8)**	–	(62.7)	(62.7)
Loss after goodwill	3	**–**	**(10.7)**	**(10.7)**	–	(50.6)	(50.6)
Profit before interest	1	**163.6**	**(54.0)**	**109.6**	138.7	(62.8)	75.9
Net interest	4	**(31.2)**	**–**	**(31.2)**	(4.7)	–	(4.7)
Profit on ordinary activities before taxation		**132.4**	**(54.0)**	**78.4**	134.0	(62.8)	71.2
Taxation on profit on ordinary activities	5	**(34.4)**	**5.8**	**(28.6)**	(34.8)	(8.2)	(43.0)
Profit for the financial year		**98.0**	**(48.2)**	**49.8**	99.2	(71.0)	28.2
Dividends	6			**(3.3)**			(51.6)
Transfer to/(from) reserves				**46.5**			(23.4)
Earnings per share (basic)	7	**50.5p**	**(24.8)p**	**25.7p**	51.1p	(36.6)p	14.5p
Earnings per share (diluted)	7	**50.2p**	**(24.7)p**	**25.5p**	51.0p	(36.5)p	14.5p

Consolidated Balance Sheet at 31 December 1999

	Notes	1999 £m	1998 £m
Assets employed			
Fixed assets			
Goodwill	8	**506.4**	541.7
Tangible assets	9	**491.9**	510.7
Investments	10	**14.6**	10.4
		1,012.9	1,062.8
Current assets			
Stocks	11	**108.7**	131.5
Debtors falling due within one year	12	**164.7**	199.6
Debtors falling due after more than one year	12	**28.4**	26.2
Cash in bank and in hand	13	**137.3**	175.5
		439.1	532.8
Creditors falling due within one year			
Short-term borrowings	14	**(107.8)**	(81.1)
Other creditors	15	**(214.3)**	(267.7)
		(322.1)	(348.8)
Net current assets		**117.0**	184.0
Total assets less current liabilities		**1,129.9**	1,246.8
Creditors falling due after more than one year			
Loans	16	**(507.7)**	(645.6)
Other creditors	18	**(22.8)**	(15.6)
Provisions for liabilities and charges	19	**(133.0)**	(134.2)
Net assets		**466.4**	451.4
Capital and reserves			
Called up share capital	20	**98.5**	97.5
Share premium account	21	**234.8**	250.5
Capital redemption reserve	21	**16.8**	–
Merger reserve	21	**124.8**	124.8
Other reserves	21	**3.5**	3.7
Profit and loss account	21	**(12.0)**	(25.1)
Equity shareholders' funds		**466.4**	451.4

The accounts on pages 32 to 63 were approved by the Board on 13 March 2000 and signed on its behalf by:
G Duncan Chairman
M A Kayser Finance Director

Consolidated Cash Flow Statement for the year ended 31 December 1999

	Notes	1999 £m	1998 £m
Net cash inflow from operating activities	22	**234.1**	148.6
Dividends from associated undertakings		**0.6**	0.2
Returns on investments and servicing of finance	23	**(29.7)**	0.8
Taxation		**(31.4)**	(41.1)
Capital expenditure and financial investment	24	**(82.5)**	(89.9)
Acquisitions and disposals	25	**24.7**	(649.9)
Equity dividends paid		**(33.5)**	(50.8)
Cash inflow/(outflow) before use of liquid resources and financing		**82.3**	(682.1)
Management of liquid resources	26	**(13.6)**	256.7
Financing			
(Redemption)/issue of shares		**(14.7)**	3.1
(Decrease)/increase in debt		**(130.9)**	469.8
Net cash (outflow)/inflow from financing	27	**(145.6)**	472.9
(Decrease)/increase in cash in year		**(76.9)**	47.5

Reconciliation of Net Cash Flow to movement in Net Debt for the year ended 31 December 1999

	Notes	1999 £m	1998 £m
(Decrease)/increase in cash in year		**(76.9)**	47.5
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing		**130.9**	(469.8)
Cash outflow/(inflow) from increase/(decrease) in liquid resources		**13.6**	(256.7)
Change in net funds/(debt) resulting from cash flows		**67.6**	(679.0)
Loans acquired with subsidiary undertakings		**–**	(0.3)
Currency translation differences		**5.4**	(1.4)
Movement in net funds/(debt) in year		**73.0**	(680.7)
Net (debt)/funds at start of year		**(551.2)**	129.5
Net debt at end of year	28	**(478.2)**	(551.2)

Consolidated Statement of Total Recognised Gains and Losses for the year ended 31 December 1999

	Notes	1999 £m	1998 £m
Profit for the financial year		**49.8**	28.2
Currency translation differences on foreign currency net investments	21	**(16.9)**	(6.2)
Total recognised gains and losses for the year		**32.9**	22.0

Reconciliation of movements in Consolidated Shareholders' Funds for the year ended 31 December 1999

	Notes	1999 £m	1998 £m
Profit for the financial year		**49.8**	28.2
Dividends paid and proposed	6	**(3.3)**	(51.6)
Transfer to/(from) reserves		**46.5**	(23.4)
Currency translation differences on foreign currency net investments	21	**(16.9)**	(6.2)
Share capital issued			
Ordinary shares	27	**2.1**	3.5
B shares	20	**17.6**	–
Capitalisation of share premium in respect of B shares	21	**(17.6)**	–
Redemption of B shares	20	**(16.8)**	–
Goodwill transferred to the profit and loss account in respect of disposal of subsidiary undertakings	21	**0.1**	62.7
Net movement in shareholders' funds		**15.0**	36.6
Shareholders' funds at start of year		**451.4**	414.8
Shareholders' funds at end of year		**466.4**	451.4

Company Balance Sheet at 31 December 1999

	Notes	1999 £m	1998 £m
Assets employed			
Fixed assets			
Investments	10	**1,140.2**	1,135.0
Current assets			
Debtors falling due within one year	12	**276.1**	342.8
Cash at bank and in hand	13	**88.6**	127.1
		364.7	469.9
Creditors falling due within one year			
Short-term borrowings	14	**(176.3)**	(74.9)
Other creditors	15	**(635.4)**	(721.4)
		(811.7)	(796.3)
Net current liabilities		**(447.0)**	(326.4)
Total assets less current liabilities		**693.2**	808.6
Creditors falling due after more than one year			
Loans	16	**(179.5)**	(285.0)
Net assets		**513.7**	523.6
Capital and reserves			
Called up share capital	20	**98.5**	97.5
Share premium account	21	**234.8**	250.5
Capital redemption reserve	21	**16.8**	–
Merger reserve	21	**124.8**	124.8
Profit and loss account	21	**38.8**	50.8
Equity shareholders' funds		**513.7**	523.6

The accounts on pages 32 to 63 were approved by the Board on 13 March 2000 and signed on its behalf by:
G Duncan Chairman
M A Kayser Finance Director

Accounting convention and basis of presentation
These accounts have been prepared on a going concern basis under the historical cost convention and in accordance with applicable UK Accounting Standards, which have been applied consistently. Where changes in presentations are made, comparative figures are adjusted accordingly. The Group has implemented the new accounting standard FRS 12 (Provisions, contingent liabilities and contingent assets). No prior year adjustments arose from the adoption of FRS 12. The Group has also given the disclosures required by FRS 13 (Derivatives and other financial instruments: Disclosures).

Basis of consolidation
The Group accounts include the accounts of the parent and its subsidiary and associated undertakings.

The results of businesses acquired or sold during the year are included in the Group accounts from or to their respective dates of acquisition or disposal. Where appropriate, the financial statements of overseas subsidiary and associated undertakings are adjusted to conform to the Group's accounting policies.

Investments
An associated undertaking is one in which the Group has a long-term interest, usually from 20% to 50%, and over which it exercises significant influence.

The Group's share of the profits less losses of associated undertakings is included in the consolidated profit and loss account on the equity basis and its interest in their net tangible assets is included in investments in the consolidated balance sheet.

The Company's investments in subsidiary undertakings are shown at cost less provision for any impairment in value.

Translation of foreign currencies
Assets and liabilities in foreign currencies are *translated into Sterling at closing rates of exchange.*

Results in foreign currencies are translated into sterling at the average rates of exchange during the year. The difference between results in foreign currencies translated at average rates and closing rates of exchange is taken to reserves.

Gains or losses arising on the translation of net assets of overseas companies, net of related foreign currency borrowings, are taken to reserves. Other currency translation differences are taken to the profit and loss account.

Turnover
Turnover is expressed at invoiced value, including carriage and insurance, but excluding sales tax.

Leased assets
Fixed assets leased to the Group under finance leases are capitalised. Rental payments under operating leases are charged against profits as incurred.

Depreciation
Fixed assets, less estimated residual values, are depreciated on a straight line basis over their estimated useful lives, which are reviewed periodically. The criteria for future lives are:

- plant, plant specific buildings and equipment
  maximum of fifteen years
- freehold buildings
  (excluding plant specific buildings)
  maximum of fifty years
- leasehold properties
  term of lease
- freehold land
  not depreciated

Research and development
Expenditure is charged against profits in the year in which it is incurred.

Goodwill
Goodwill represents the excess of cost, of subsidiary undertakings and investments in associated undertakings, over the fair value of the net separable assets at the date of acquisition and is translated at closing rates of exchange.

Purchased goodwill arising on consolidation in respect of acquisitions made since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over twenty years or its estimated useful life, if shorter.

Purchased goodwill arising on consolidation in respect of acquisitions made before 1 January 1998, when FRS 10 – Goodwill and intangible assets was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Stock valuation
Raw materials, work in progress and finished products are valued at the lower of cost and net realisable value. Cost includes materials, labour and appropriate works overheads.

Deferred taxation
Provision is made for deferred taxation on the liability method to the extent that it is considered probable that a liability will occur in the future.

Pensions and other post-retirement benefits
The Group operates pension schemes which cover the majority of employees. The expected cost of pensions for defined benefit schemes is charged against profit over the period benefiting from employees' service. Variations from the regular cost are charged against profit on a straight line basis over the average expected remaining service lives of employees in the schemes. Unfunded non-pension post-retirement benefits are accounted for in a similar manner. For a number of the German unfunded defined benefit schemes, the cost is in accordance with local practice. The cost of both pensions and post-retirement benefits is assessed by independent qualified actuaries.

1 Segmental analysis

	Turnover		Profit				Net assets (a)	
			Before goodwill & exceptional items	Before goodwill & exceptional items	After goodwill & exceptional items	After goodwill & exceptional items		
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
Business area								
Continuing operations								
Speciality Organics	**381.9**	260.4	**70.9**	41.9	**37.6**	32.9	**758.2**	822.0
Pigments & Additives	**188.9**	186.1	**37.2**	35.8	**30.9**	35.2	**116.8**	122.8
Compounds & Electronics	**214.8**	224.0	**32.0**	38.9	**31.5**	31.9	**124.7**	116.4
Formulated Products	**119.0**	98.0	**16.3**	12.0	**13.1**	16.4	**91.9**	99.5
	904.6	768.5	**156.4**	128.6	**113.1**	116.4	**1,091.6**	1,160.7
Discontinued operations	**25.6**	60.1	**4.2**	6.2	**(6.5)**	(44.4)	**(0.7)**	27.2
	930.2	828.6	**160.6**	134.8	**106.6**	72.0	**1,090.9**	1,187.9
Other operating income			**2.2**	3.0	**2.2**	3.0		
Associated undertakings			**0.8**	0.9	**0.8**	0.9	**1.3**	1.8
	930.2	828.6	**163.6**	138.7	**109.6**	75.9	**1,092.2**	1,189.7
Net interest			**(31.2)**	(4.7)	**(31.2)**	(4.7)		
Net non-operating liabilities							**(625.8)**	(738.3)
	930.2	828.6	**132.4**	134.0	**78.4**	71.2	**466.4**	451.4
Geographical origin								
Continuing operations								
UK	**277.9**	222.4	**54.9**	43.1	**33.7**	37.8	**465.1**	506.4
North America	**387.5**	353.3	**64.6**	54.4	**56.9**	53.6	**276.9**	253.9
Continental Europe	**206.9**	167.9	**32.6**	28.5	**18.7**	24.0	**331.9**	373.2
Rest of World	**32.3**	24.9	**4.3**	2.6	**3.8**	1.0	**17.7**	27.2
	904.6	768.5	**156.4**	128.6	**113.1**	116.4	**1,091.6**	1,160.7
Discontinued operations								
UK	**16.8**	30.2	**2.7**	2.7	**2.7**	2.7	**(1.0)**	21.1
North America	**1.1**	0.7	**–**	–	**–**	–	**–**	1.5
Continental Europe	**–**	26.0	**–**	3.0	**–**	3.0	**0.3**	0.3
Rest of World	**7.7**	3.2	**1.5**	0.5	**1.5**	0.5	**–**	4.3
Exceptional items (b)					**(10.7)**	(50.6)		
	930.2	828.6	**160.6**	134.8	**106.6**	72.0	**1,090.9**	1,187.9
Other operating income			**2.2**	3.0	**2.2**	3.0		
Associated undertakings			**0.8**	0.9	**0.8**	0.9	**1.3**	1.8
	930.2	828.6	**163.6**	138.7	**109.6**	75.9	**1,092.2**	1,189.7
Net interest			**(31.2)**	(4.7)	**(31.2)**	(4.7)		
Net non-operating liabilities							**(625.8)**	(738.3)
	930.2	828.6	**132.4**	134.0	**78.4**	71.2	**466.4**	451.4

1 Segmental analysis continued

	Turnover 1999 £m	Turnover 1998 £m
Geographical markets supplied		
UK	**149.3**	152.4
North America	**384.3**	343.5
Continental Europe	**294.1**	253.1
Rest of World	**102.5**	79.6
	930.2	828.6

(a) The net assets for each division are the operating assets which comprise fixed assets and net working capital. The unallocated net non-operating liabilities comprise net debt, debtors and creditors relating to taxes on profits, dividends and interest, provisions for liabilities and charges, pension scheme provisions and prepayments, other investments, accrued consideration and minority interests.

(b) The exceptional item relating to discontinued operations represents the net loss after goodwill on the disposal of the Minerals, Mining Chile and Inspec Four Ashes businesses in 1999 and the disposal of the Hygiene business in 1998.

2 Operating profit before exceptional items

	Continuing operations before goodwill 1999 £m	Continuing operations goodwill 1999 £m	Discontinued operations 1999 £m	Total 1999 £m	Continuing operations before goodwill 1998 £m	Continuing operations goodwill 1998 £m	Discontinued operations 1998 £m	Total 1998 £m
Turnover	**904.6**	**–**	**25.6**	**930.2**	768.5	–	60.1	828.6
Cost of sales	**(684.0)**	**–**	**(19.6)**	**(703.6)**	(603.7)	–	(46.9)	(650.6)
Gross profit	**220.6**	**–**	**6.0**	**226.6**	164.8	–	13.2	178.0
Distribution costs	**(28.5)**	**–**	**(0.3)**	**(28.8)**	(25.1)	–	(3.8)	(28.9)
Administrative expenses	**(35.7)**	**(28.0)**	**(1.5)**	**(65.2)**	(11.1)	(9.3)	(3.2)	(23.6)
Other operating income	**2.2**	**–**	**–**	**2.2**	3.0	–	–	3.0
Net operating costs	**(746.0)**	**(28.0)**	**(21.4)**	**(795.4)**	(636.9)	(9.3)	(53.9)	(700.1)
Group operating profit	**158.6**	**(28.0)**	**4.2**	**134.8**	131.6	(9.3)	6.2	128.5

Operating profit before exceptional items is stated after crediting/(charging)

	1999 £m	1998 £m
Other operating income: Pension credit (variation from regular cost – see note 35)	**2.2**	3.0
Amortisation of goodwill	**(28.0)**	(9.3)
Depreciation of tangible fixed assets	**(46.8)**	(38.4)
Operating lease rentals		
– plant and machinery	**(2.5)**	(4.4)
– other (mainly property)	**(5.0)**	(4.3)
Research and development expenditure	**(10.3)**	(9.9)
Amounts paid to KPMG Audit Plc and its associates		
– as auditor	**(0.7)**	(0.9)
– for non-audit services	**(0.2)**	(0.2)

In addition, fees of £0.4m (1998: £0.6m) have been paid to KPMG Audit Plc and its associates in respect of disposals and acquisitions. The disposal costs have been charged to exceptional items and the acquisition expenses are included in the cost of acquisition.
The audit fee for the Company was £0.2m (1998: £0.2m).

3 Exceptional items

	1999 £m	1998 £m
Operating restructuring costs	**(15.3)**	(2.9)
Loss on sale of discontinued operations (see below)	**(10.7)**	(50.6)
Exceptional items before tax	**(26.0)**	(53.5)

In 1998, the operating restructuring costs in respect of ongoing operations comprised a charge of £17.0m offset by a release of £13.3m from provisions and £0.8m from accruals, giving a net charge of £2.9m.

Loss on sale of discontinued operations (see note 29)

Net proceeds	**24.2**	33.4
Net assets	**(25.1)**	(21.3)
(Loss)/surplus before goodwill	**(0.9)**	12.1
Goodwill previously written off to reserves	**(0.1)**	(62.7)
Capitalised goodwill written off	**(9.7)**	–
Loss after goodwill	**(10.7)**	(50.6)

4 Interest

	1999 £m	1998 £m
Interest payable on bank and other borrowings		
Overdrafts and bank loans	**(37.2)**	(27.2)
Other borrowings	**(0.3)**	(0.2)
Finance leases	**(0.2)**	(0.1)
Interest payable	**(37.7)**	(27.5)
Interest receivable	**6.5**	22.8
Net interest	**(31.2)**	(4.7)

Net interest attributable to associated undertakings amounted to £nil (1998: £nil).

5 Taxation on profit on ordinary activities

	Before exceptional items 1999 £m	Exceptional items 1999 £m	Total 1999 £m	Before exceptional items 1998 £m	Exceptional items 1998 £m	Total 1998 £m
UK taxation						
Corporation tax	**13.3**	**(2.3)**	**11.0**	22.8	–	22.8
Deferred taxation	**(1.1)**	**(0.9)**	**(2.0)**	(5.5)	(0.6)	(6.1)
ACT written off	**–**	**–**	**–**	–	9.1	9.1
	12.2	**(3.2)**	**9.0**	17.3	8.5	25.8
Overseas taxation						
Corporation tax	**18.4**	**0.3**	**18.7**	12.2	–	12.2
Deferred taxation	**5.4**	**(2.9)**	**2.5**	4.6	(0.3)	4.3
Withholding tax	**0.6**	**–**	**0.6**	0.5	–	0.5
	24.4	**(2.6)**	**21.8**	17.3	(0.3)	17.0
Current year	**36.6**	**(5.8)**	**30.8**	34.6	8.2	42.8
Prior years' adjustments	**(2.5)**	**–**	**(2.5)**	(0.1)	–	(0.1)
Parent and subsidiary undertakings	**34.1**	**(5.8)**	**28.3**	34.5	8.2	42.7
Share of associated undertakings	**0.3**	**–**	**0.3**	0.3	–	0.3
	34.4	**(5.8)**	**28.6**	34.8	8.2	43.0

The UK corporation tax charge on profit before exceptional items is based on a rate of 30.25% (1998: 31%), stated after double taxation relief of £3.9m (1998: £16.7m).

6 Dividends

	1999 £m	1998 £m
Ordinary shares		
Interim dividend paid: 0p per share (1998: 9.25p)	**–**	18.0
Second interim dividend: 0p per share (1998: 17.25p)	**–**	33.6
Final dividend: 1.1453p per share (1998: 0p)	**3.0**	–
Total ordinary dividend: 1.1453p per share (1998: 26.5p)	**3.0**	51.6
B share dividend	**0.3**	–
Total dividend paid and proposed	**3.3**	51.6

On 15 December 1999 the B shares, issued on 23 August 1999 as a bonus issue, were redeemed at their nominal value of 1p each. The bonus issue was 9 B shares for every ordinary share held.

7 Earnings per share

	1999 £m	1998 £m
Profit for the financial year before exceptional items and amortisation of goodwill	**98.0**	99.2
Amortisation of goodwill	**(28.0)**	(9.3)
Profit for the financial year before exceptional items	**70.0**	89.9
Exceptional items after tax	**(20.2)**	(61.7)
Profit for the financial year	**49.8**	28.2

	No. m	No. m
Weighted average number of shares outstanding during the year	**195.2**	194.8
Weighted average number of shares held by the Group's Employee Share Ownership Plan	**(1.3)**	(0.8)
Basic weighted average number of shares	**193.9**	194.0
Dilutive effect of share options	**1.4**	0.7
Diluted weighted average number of shares	**195.3**	194.7

	Pence	Pence
Earnings per share before exceptional items		
Pre amortisation of goodwill	**50.5**	51.1
Post amortisation of goodwill	**36.1**	46.3
Diluted earnings per share before exceptional items	**35.8**	46.2

	Pence	Pence
Earnings per share		
Pre amortisation of goodwill	**40.1**	19.3
Basic earnings per share		
Post amortisation of goodwill	**25.7**	14.5
Diluted earnings per share	**25.5**	14.5

Earnings per share before exceptional items and amortisation of goodwill has been shown because the directors consider that this gives a useful indication of underlying performance.

8 Goodwill

	Group £m
Cost	
Balance at start of year	**551.0**
Additions	**20.9**
Disposals	**(10.3)**
Currency translation differences	**(19.3)**
Balance at end of year	**542.3**
Amortisation	
Balance at start of year	**(9.3)**
Charge in year	**(28.0)**
Disposals	**0.6**
Currency translation differences	**0.8**
Balance at end of year	**(35.9)**
Net book value 1999	**506.4**
Net book value 1998	541.7

Goodwill arising on acquisitions is capitalised and amortised through the profit and loss account over its estimated useful economic life. In each case, this has been assessed as 20 years with the exception of goodwill in respect of the joint venture with Victrex plc, which is amortised over 7 years.

9 Tangible assets

Group

	Land and buildings £m	Plant and equipment £m	Assets in course of construction £m	Total £m
Cost				
Balance at start of year	**164.2**	**629.5**	**72.3**	**866.0**
Acquisitions	**–**	**0.3**	**–**	**0.3**
Additions	**1.9**	**44.7**	**30.6**	**77.2**
Transfers	**1.3**	**27.7**	**(29.0)**	**–**
Businesses sold	**(9.3)**	**(28.4)**	**(1.7)**	**(39.4)**
Sold and scrapped	**(8.3)**	**(33.1)**	**(1.5)**	**(42.9)**
Currency translation differences	**(6.3)**	**(21.0)**	**(0.5)**	**(27.8)**
Balance at end of year	**143.5**	**619.7**	**70.2**	**833.4**
Depreciation				
Balance at start of year	**(37.5)**	**(317.8)**	**–**	**(355.3)**
Charge for year	**(3.8)**	**(43.0)**	**–**	**(46.8)**
Businesses sold	**1.9**	**19.4**	**–**	**21.3**
Sold and scrapped	**3.6**	**22.3**	**–**	**25.9**
Currency translation differences	**1.6**	**11.8**	**–**	**13.4**
Balance at end of year	**(34.2)**	**(307.3)**	**–**	**(341.5)**
Net book value 1999	**109.3**	**312.4**	**70.2**	**491.9**
Net book value 1998	126.7	311.7	72.3	510.7

	1999 £m	1998 £m
The net book value of land and buildings comprised		
Freehold land	**38.7**	48.2
Freehold buildings	**62.9**	70.7
Long leasehold	**5.5**	5.4
Short leasehold	**2.2**	2.4
	109.3	126.7

The net book value includes assets held under finance leases of £1.0m (1998: £1.2m), on which the depreciation charge for the year was £0.2m (1998: £0.2m).

10 Investments

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Associated undertakings	**1.3**	1.8	**–**	–
Subsidiary undertakings	**–**	–	**1,127.3**	1,126.7
Other investments	**13.3**	8.6	**12.9**	8.3
	14.6	10.4	**1,140.2**	1,135.0
Balance at start of year	**10.4**	1.7	**1,135.0**	504.7
Investments in subsidiary undertakings	**–**	–	**0.6**	1,127.2
Disposal of subsidiary undertakings	**–**	–	**–**	(505.3)
Increase in other investments	**4.6**	8.5	**4.6**	8.4
Loan to associate written off	**(0.3)**	–	**–**	–
Profit retained	**–**	0.2	**–**	–
Currency translation differences	**(0.1)**	–	**–**	–
Balance at end of year	**14.6**	10.4	**1,140.2**	1,135.0

The Group had no share in the contingent liabilities or capital commitments of associated undertakings.

The net book value of listed investments at 31 December 1999 was £12.6m (1998: £8.4m). This amount relates principally to the purchase of own shares through the Group's Employee Share Ownership Plan and the purchase of index-linked gilts. The market value of the investments does not differ significantly from the book value. The maximum number of shares held through the Group's Employee Share Ownership Plan during the year was 1,292,356 ordinary shares. These shares have a nominal value of 50p each.

Details of subsidiary and associated undertakings are listed on page 64.

11 Stocks

	Group 1999 £m	Group 1998 £m
Raw materials and consumables	**38.5**	43.0
Work in progress	**6.7**	11.7
Finished goods and goods for resale	**63.5**	76.8
	108.7	131.5

12 Debtors

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Falling due within one year				
Trade debtors	**143.4**	142.6	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**268.2**	342.8
Other debtors	**15.6**	18.2	**7.9**	–
Prepayments and accrued income	**5.7**	5.7	**–**	–
ACT recoverable	**–**	33.1	**–**	–
	164.7	199.6	**276.1**	342.8
Falling due after more than one year				
Pension scheme prepayments (see note 35)	**26.8**	25.1	**–**	–
Other debtors	**1.6**	1.1	**–**	–
	28.4	26.2	**–**	–
	193.1	225.8	**276.1**	342.8

13 Cash at bank and in hand

	Group		Company	
	1999 **£m**	1998 £m	**1999** **£m**	1998 £m
Cash	**29.0**	79.4	**16.4**	51.4
Short-term deposits	**108.3**	96.1	**72.2**	75.7
	137.3	175.5	**88.6**	127.1

Short-term deposits include £72.2m (1998: £74.9m), which is pledged with Barclays and The Toronto-Dominion Bank, who have guaranteed floating rate unsecured loan notes ('loan notes') of the same amount relating to the acquisition of Inspec. Further details of these loan notes are disclosed in notes 14, 16 and 20.

14 Short-term borrowings

	Group		Company	
	1999 **£m**	1998 £m	**1999** **£m**	1998 £m
Loans falling due within one year	**72.5**	75.1	**72.2**	74.9
Finance lease obligations	**0.2**	0.2	**–**	–
Bank overdrafts	**35.1**	5.8	**104.1**	–
	107.8	81.1	**176.3**	74.9

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 Speciality Organics Limited). Loan notes totalling £74,861,468 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 and may be redeemed or repaid on 2 January 2000, or quarterly thereafter. The total value of loan notes outstanding on 31 December 1999 was £72,179,986. The Company may redeem all remaining loan notes on or after 2 July 2002, 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.

The Group operates various cash management systems in the major territories in which it operates including a cross-currency pooling system with Bank Mendes Gans n.v. whereby debit balances in the accounts of one subsidiary may be offset against credit balances in the accounts of other participating subsidiaries.

15 Creditors falling due within one year

	Group		Company	
	1999 **£m**	1998 £m	**1999** **£m**	1998 £m
Trade creditors	**90.8**	85.7	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**629.7**	674.5
Taxation	**32.0**	68.7	**–**	12.0
Social security	**2.5**	2.5	**–**	–
Other creditors	**33.5**	23.1	**2.4**	–
Dividend payable	**3.3**	33.6	**3.3**	33.6
Accruals and deferred income	**52.2**	54.1	**–**	1.3
	214.3	267.7	**635.4**	721.4

16 Loans

		Repayment Date	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Unsecured loans						
Guaranteed senior notes						
Fixed interest rate						
US Dollars	(7.93% notes)	2001	**21.6**	21.1	-	–
	(8.22% notes)	2004	**30.2**	29.5	-	–
	(8.22% notes)	2002–2006	**19.1**	18.7	-	–
	(6.49% notes)	2008	**46.3**	45.2	-	–
	(6.66% notes)	2013	**30.9**	30.1	-	–
			148.1	144.6	-	–
Floating rate unsecured loan notes						
Sterling	(5.07%)	2008	**72.2**	74.9	**72.2**	74.9
Bank and other loans						
Variable interest rate						
Sterling	(5.64% to 6.42%)	2002–2003	**179.5**	285.0	**179.5**	285.0
US Dollars	(5.89% to 6.39%)	2002–2003	**91.4**	83.1	-	–
Euro	(3.32% to 3.93%)	2002–2003	**80.0**	–	-	–
Deutsche Marks		n/a	-	57.1	-	–
French Francs		n/a	-	29.1	-	–
Italian Lira	(11.75%)	2000	**0.1**	25.7	-	–
Canadian Dollars	(5.14% to 5.89%)	2002–2003	**18.5**	19.2	-	–
Total unsecured			**589.8**	718.7	**251.7**	359.9
Total secured			**0.9**	1.1	-	–
Total loans excluding financial derivatives			**590.7**	719.8	**251.7**	359.9
Financial derivatives			**(11.1)**	–	-	–
Total loans			**579.6**	719.8	**251.7**	359.9
Less loans falling due within one year (see note 14)			**(72.5)**	(75.1)	**(72.2)**	(74.9)
Loans falling due after more than one year			**507.1**	644.7	**179.5**	285.0
Finance lease obligations			**0.6**	0.9	-	–
			507.7	645.6	**179.5**	285.0
Repayments fall due as follows						
Between one and two years			**22.0**	0.4	-	–
Between two and five years			**400.8**	529.0	**179.5**	285.0
After five years			**84.9**	116.2	-	–
Total falling due after more than one year			**507.7**	645.6	**179.5**	285.0

Loans of £0.9m (1998: £1.1m) are secured on the assets held under finance leases.

The interest on the 7.93% guaranteed senior notes for USD 35m due 2001, the 8.22% guaranteed senior notes for USD 49m due 2004, the 8.22% guaranteed senior notes due between 2002 and 2006 and USD 50m of the guaranteed senior notes for USD 75m due 2008, has been swapped into floating rate obligations. An analysis of the effect of financial derivatives on the Group's liabilities is set out in note 17 on page 47.

The following analysis reflects the effect of financial derivatives (currency swaps) on the Group's borrowings at 31 December 1999.

	Before financial derivatives £m	After financial derivatives £m
Sterling	251.6	151.6
US Dollars	240.2	240.2
Euro	80.8	80.8
Deutsche Marks	–	88.9
Canadian Dollars	18.5	18.5
Other	0.4	0.4
	591.5	**580.4**
Fixed rate loans	149.1	149.1
Floating rate loans	442.4	431.3
	591.5	**580.4**

17 Financial risk management

The Group's approach to financial risk is described in the Financial Review on pages 21 and 22.

Interest rate risk

The interest rate profile of the Group's financial assets and liabilities at 31 December 1999, after taking into account the effect of interest rate and currency swaps, is set out in the tables below. In accordance with the exemption allowed in FRS 13, short-term debtors and creditors have been excluded from the analysis.

Financial assets	At floating interest rates £m	Interest free £m	Total £m
Sterling	38.9	1.7	**40.6**
US Dollars	16.0	2.3	**18.3**
Euro (including constituent currencies)	79.4	1.0	**80.4**
Other currencies	3.7	0.9	**4.6**
	138.0	5.9	**143.9**

	1999 £m
The financial assets of the Group comprised	
Cash and deposits	137.3
Debtors falling due after more than one year (excluding pensions prepayment)	**1.6**
Liquid investments	**4.3**
Other short term investments (excluding investment in own shares)	**0.7**
	143.9

Floating rate financial assets comprise bank deposits and investments in money market funds bearing interest at commercial interest rates. Cash and deposits include £72.2m which is pledged with Barclays and the Toronto Dominion Bank, who have guaranteed floating rate unsecured loan notes of the same amount relating to the acquisition of Inspec Group plc. These loan notes are disclosed in notes 14 and 20.

Financial liabilities				Fixed rate financial liabilities	
	At fixed interest rates £m	At floating interest rates £m	Total £m	Weighted average interest rate %	Weighted average period for which rates are fixed
Sterling	115.0	53.3	**168.3**	5.6%	1.5 yrs
US Dollars	98.9	144.7	**243.6**	6.2%	6.4 yrs
Euro (including constituent currencies)	77.6	128.3	**205.9**	3.9%	2.6 yrs
Canadian Dollars	8.5	10.0	**18.5**	5.4%	1.6 yrs
Other currencies	0.3	1.7	**2.0**	n/a	n/a
	300.3	338.0	**638.3**		

The financial liabilities of the Group comprised	
Short term borrowings	**107.8**
Loans	**507.1**
Finance leases	**0.6**
Other creditors due after more than one year	**22.8**
	638.3

Floating rate financial liabilities comprise bank borrowings and loan notes bearing interest at rates fixed in advance for periods up to 12 months. At 31 December 1999 the average interest rate applicable to the Group's unsecured bank and other loans and floating rate unsecured loan notes was 5.50%.

The figures shown above take into account various interest rate and currency swaps used to manage the interest rate and currency profile of financial liabilities. Further protection from interest rate movements is provided by interest rate caps on DEM 10m and FRF 20m.

It is Group policy that the proportion of fixed rate borrowings to net borrowings be maintained at the following levels for each major currency:

1 year forward	40–80%
2 years forward	25–50%
3 years forward	20–40%
4 years forward	20–30%
5 years forward	10–30%

The actual ratio of fixed rate borrowings to net borrowings is reported to the Board monthly.

17 Financial risk management continued

Currency exposures

As explained in the Financial Review on pages 21 and 22, the Group's policy is to hedge all exposures to gains and losses on the translation of foreign currency net assets using foreign currency borrowings and currency swaps.

The Group now hedges, on a rolling 12 month basis, the translation of 20% of its forecast future profits denominated in Euro, US Dollars and Canadian Dollars using a proprietary bank system that replicates the use of currency options.

The Group's policy is to hedge between 75% and 100% of transaction exposures forecast to arise in the next three months, between 50% and 75% of flows forecast to arise four to six months hence, between 25% and 50% of flows forecast to arise in seven to nine months and up to 25% of flows forecast to arise in ten to twelve months time.

Maturity of financial liabilities	1999 £m
In one year or less or on demand	**107.8**
Between one and two years	**34.9**
Between two and five years	**407.3**
After five years	**88.3**
	638.3

Undrawn committed borrowing facilities	1999 £m
Expiring in one year or less	–
Expiring in more than one year but less than two years	–
Expiring in more than two years	**241.8**
	241.8

Fair value of financial instruments	Book value £m	Fair value £m
Financing instruments		
Cash and deposits	**137.3**	**137.3**
Liquid investments	**4.3**	**4.5**
Debtors falling due after more than one year	**1.6**	**1.6**
Loans and obligations under finance leases falling due within one year	**(72.7)**	**(72.7)**
Loans and obligations under finance leases falling due after more than one year	**(518.8)**	**(518.8)**
Other creditors falling due after more than one year	**(22.8)**	**(22.8)**
Derivative instruments		
Interest rate swaps	**–**	**1.7**
Interest rate caps	**–**	**0.1**
Currency swaps	**–**	**11.1**
Forward foreign exchange contracts	**–**	**0.3**

The fair value of liquid investments is based on market value. The fair value of currency swaps and forward foreign exchange contracts represents the unrealised gain or loss on revaluation of the contracts to year end exchange rates. The fair value of interest rate swaps and caps is the estimated amount which the Group would expect to pay or receive were it to terminate the swap and cap arrangements at the balance sheet date; this is based on quotations from counterparties.

The Group does not trade in financial derivatives.

Market price risk

The main impact of movements in exchange rates on the Group's results arises on translation of overseas subsidiaries' profits into Sterling. The Group's largest exposure is to the US Dollar. A five cent (3%) movement in the average exchange rate for the US Dollar would have a £500,000 impact on Group's profit before tax, although 20% of this risk is currently hedged (see above).

Assuming no change to the level of borrowings and hedging in place at year end, it is estimated that a 1% increase in all the currencies in which the Group has borrowings would reduce profit before tax by approximately £1.6m.

18 Creditors falling due after more than one year

	Group 1999 £m	Group 1998 £m
Taxation	**5.1**	5.1
Other creditors	**17.7**	10.5
	22.8	15.6

19 Provisions for liabilities and charges

Group

	Deferred tax (see below) £m	Pensions £m	Restructuring £m	Environmental and other £m	Total £m
Balance at start of year	**44.4**	**29.0**	**16.5**	**44.3**	**134.2**
Profit and loss account					
Before exceptional items	**3.1**	**2.8**	**(0.4)**	**0.8**	**6.3**
Exceptional items – Charge	**–**	**–**	**16.6**	**4.1**	**20.7**
– Release	**(3.8)**	**–**	**–**	**(3.1)**	**(6.9)**
Acquisition of subsidiary undertakings					
Fair value adjustments	**–**	**0.4**	**0.3**	**5.6**	**6.3**
Disposal of subsidiary undertakings	**–**	**–**	**–**	**(0.4)**	**(0.4)**
Utilised in year	**–**	**(1.3)**	**(13.6)**	**(4.8)**	**(19.7)**
Currency translation differences	**(2.6)**	**(3.1)**	**(0.9)**	**(0.9)**	**(7.5)**
Balance at end of year	**41.1**	**27.8**	**18.5**	**45.6**	**133.0**

	1999 £m	1998 £m
Deferred tax is represented by		
Excess of book values of fixed assets over those for taxation purposes	**29.7**	35.9
Other timing differences	**11.4**	8.5
	41.1	44.4

Deferred tax

Deferred taxation is provided in full with the exception of any further tax which would be payable on the remittance of the retained profits of overseas companies where there is currently no intention to remit to the UK. Current tax is provided, if appropriate, when it is known that profits will be remitted to the UK. Deferred taxation has not been quantified on roll-over relief claims on the basis that they are not expected to arise in the foreseeable future.

Restructuring provisions

1999

In 1999, the Group undertook a series of restructuring programmes across its businesses, incurring a charge of £15.3m in respect of continuing operations. The major projects included the integration of the Inspec acquisition and the reorganisation associated with the creation of a global organisation in the Pigments business.

At the end of 1999, £10.0m of these provisions remained to be spent, including £9.0m of redundancy costs. These provisions are expected to be spent mainly by the end of 2001.

1998

In 1998, the Group undertook a series of actions across its businesses to improve performance. The actions included redundancy programmes and, in the case of the Electronics Division, downsizing operations to align capacity to market demand. This included plant closures.

At the end of 1999, £1.0m of provisions remained unspent. These provisions are expected to be spent mainly by the end of 2000.

Other restructuring programmes prior to 1998

The remaining balance on the restructuring provision relates primarily to onerous lease obligations, which arose as a result of the fundamental restructuring programme undertaken in 1995. These provisions are expected to be spent gradually over the unexpired term of the leases up to the end of 2009.

Environmental and other provisions

Other provisions relate primarily to current and prior year disposals including the divestment of Adhesives & Sealants and Absorbents in Europe and North America in 1996 and 1997; the European Hygiene businesses in 1998 and various non-core businesses between 1996 and 1999. The provisions represent the amounts required to settle claims received to date and any potential future claims against the warranties and indemnities provided in the various sale and purchase agreements. Provisions in respect of claims received will either be utilised or released when the claim has been resolved. Provisions in respect of potential future claims will be released at the expiry of the warranty periods unless such a claim is received.

20 Share capital of the Company

	Authorised		Allotted, called up and fully paid	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Equity share capital				
Ordinary shares (50p each)	**130.0**	130.0	**97.7**	97.5
B shares (1p each)	**75.0**	–	**0.8**	–
			98.5	97.5

Allotment of shares

During the year 0.4m ordinary shares were issued in respect of the exercise of options.

During the year £17.6m of share premium was capitalised and issued as B shares. £16.8m of these shares were later redeemed.

The following rights are attached to the B shares:

(i) Holders of B shares shall be entitled, in priority to holders of ordinary shares, to a non-cumulative preferential dividend. The rate per annum of the preferential dividend payable per share shall be 75% of the London inter-bank offered rate for six months deposits in pounds Sterling. The preferential dividend shall be payable half-yearly in arrears on 15 June and 15 December in each year.

(ii) On a return of capital on a winding-up (excluding a redemption offer made by the Company) holders of B shares shall be entitled, in priority to any payment to the holders of any other class of shares, to the repayment of the nominal capital paid up or credited as paid up on the B shares held by them together with a sum equal to any unpaid preferential dividend.

(iii) Holders of B shares shall not be entitled to receive notice of any general meeting of the Company or to attend, speak or vote at any such general meeting unless the business of the meeting includes the consideration of a resolution for the winding-up of the Company in which case the holders of the B shares shall have the right to attend the general meeting and shall be entitled to speak and vote only on such resolution.

(iv) The Company may at any time declare a Redemption Period during which holders of B shares can elect to have their B shares redeemed at their 1p nominal value and on the terms and conditions announced by the Company at that time. On or after 10 June 2004, the Company shall have the option of redeeming any B shares still in issue at their 1p nominal value.

(v) If at any time the aggregate nominal value of the B shares in issue is less than £10 million, the Company shall be entitled, on the giving of not less than 10 days nor more than 42 days notice in writing to the holders of the B shares, to convert all but not some of the outstanding B shares into ordinary shares on a date specified by the Company on the basis of P multiplied by the number of B shares for every ordinary share where P represents the average (to three decimal places) of the middle market quotations in pence for an ordinary share as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the date of conversion.

Debentures issued by the parent company

	Authorised		Issued	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Floating rate unsecured loan notes 2008 (see note 14 and 16)				
Nominal amounts of £1	**149.8**	149.8	**72.2**	74.9

20 Share capital of the Company continued

	Total No. m
Options	
Balance at start of year	**4.0**
Options granted	**1.6**
Options exercised	**(0.4)**
Options lapsed or waived	**(0.4)**
Balance at end of year	**4.8**

Share options under the Laporte schemes are exercisable between 1998 and 2005 at prices between 386p and 814p.

Additionally, options over 0.7m Laporte plc shares were granted under the Inspec Group plc schemes to replace existing options over Inspec Group plc shares and which are exercisable in the period 1999 to 2007 at subscription prices of 256p to 553p.

The weighted average subscription price of all options outstanding at the end of the year was 460p (1998: 503p).

At 31 December 1999 there were 10.1m (1998: 10.6m) shares available for the granting of options.

Included in the Laporte scheme options are 0.2m (1998: 0.2m) options over shares in Laporte Amalgamation plc, the previous ultimate holding company, which is now a subsidiary of Laporte plc. Following exercise of the options, Laporte Amalgamation plc shares are received and exchanged for Laporte plc shares under a deed of offer. Laporte plc shares received on exchange are increased by one share for every 186 shares as a result of the 1993 Open Offer.

Awards under The Laporte Restricted Share Plan	No. m
Balance at start of year	**0.3**
Granted	**0.4**
Balance at end of year	**0.7**

The various employee share incentive and option schemes are described in note 37. Details of options granted to directors are shown in the Directors' Report on pages 28 and 29 and in note 36.

The expected cost of obligations under the various award schemes is spread over the periods to which they relate.

21 Reserves

	Share premium £m	Capital redemption £m	Merger £m	Other £m	Profit and loss £m	Total £m
Group						
Balance at start of year	**250.5**	**–**	**124.8**	**3.7**	**(25.1)**	**353.9**
Transfer from profit and loss account	**–**	**–**	**–**	**–**	**46.5**	**46.5**
Transfer of goodwill on disposal	**–**	**–**	**–**	**–**	**0.1**	**0.1**
Premium on shares issued	**1.9**	**–**	**–**	**–**	**–**	**1.9**
Currency translation differences	**–**	**–**	**–**	**(0.2)**	**(16.7)**	**(16.9)**
Issue of B shares	**(17.6)**	**–**	**–**	**–**	**–**	**(17.6)**
Redemption of B shares	**–**	**16.8**	**–**	**–**	**(16.8)**	**–**
Balance at end of year	**234.8**	**16.8**	**124.8**	**3.5**	**(12.0)**	**367.9**

Other reserves include associated undertakings' reserves of £1.1m (1998: £1.3m). The movement in the year on associated undertakings' *reserves is a loss on currency translation of £0.2m.*

Goodwill is included in the profit and loss reserve as follows:

	Total £m
Balance at start of year	**(312.2)**
Transfer of goodwill on disposal	**0.1**
Currency translation difference	**1.6**
Balance at end of year	**(310.5)**

21 Reserves continued

	Share premium £m	Capital redemption £m	Merger £m	Profit and loss £m	Total £m
Company					
Balance at start of year	***250.5***	–	***124.8***	***50.8***	***426.1***
Profit retained	–	–	–	**4.8**	**4.8**
Premium on shares issued	**1.9**	–	–	–	**1.9**
Issue of B shares	**(17.6)**	–	–	–	**(17.6)**
Redemption of B shares	–	**16.8**	–	**(16.8)**	–
Balance at end of year	**234.8**	**16.8**	**124.8**	**38.8**	**415.2**

The profit for the financial year of the Company was £8.1m (1998: £47.4m). After dividends paid and proposed of £3.3m, the retained profit is £4.8m (1998: £4.2m retained loss). No separate profit and loss account is provided for the Company, as permitted by Section 230 of the Companies Act 1985.

22 Reconciliation of Group operating profit to operating cash flows

Group

	Continuing 1999 £m	Discontinued 1999 £m	Total 1999 £m	Continuing 1998 £m	Discontinued 1998 £m	Total 1998 £m
Group operating profit	**115.3**	**4.2**	**119.5**	119.4	6.2	125.6
Depreciation charge	**45.0**	**1.8**	**46.8**	36.3	2.1	38.4
Amortisation of goodwill	**28.0**	–	**28.0**	9.3	–	9.3
Profit on sale of tangible fixed assets	**(0.5)**	–	**(0.5)**	(0.1)	–	(0.1)
Increase/(decrease) in operating provisions	**3.3**	**(1.9)**	**1.4**	(3.5)	(3.0)	(6.5)
Decrease/(increase) in stocks	**11.7**	**1.8**	**13.5**	(3.8)	0.9	(2.9)
(Increase)/decrease in debtors	**(8.2)**	**1.4**	**(6.8)**	3.7	2.9	6.6
Increase/(decrease) in creditors	**35.5**	**(3.3)**	**32.2**	(13.9)	(7.9)	(21.8)
Net cash inflow from operating activities	**230.1**	**4.0**	**234.1**	147.4	1.2	148.6

23 Returns on investments and servicing of finance

Group

	1999 £m	1998 £m
Interest received	**6.5**	25.3
Interest paid	**(36.0)**	(24.4)
Interest element of finance lease rental payments	**(0.2)**	(0.1)
Net cash (outflow)/inflow	**(29.7)**	0.8

24 Capital expenditure and financial investment

Group

	1999 £m	1998 £m
Purchase of tangible fixed assets	**(80.6)**	(84.0)
Sale of tangible fixed assets	**2.7**	2.5
Purchase of own shares held in trust	–	(8.4)
Purchase of investments	**(4.6)**	–
Net cash outflow	**(82.5)**	(89.9)

25 Acquisitions and disposals

Group

	1999 £m	1998 £m
Disposal of subsidiary undertakings (see note 29)	**26.9**	19.7
Net cash sold with subsidiary undertakings (see note 29)	**(0.5)**	(3.7)
Acquisition of subsidiary undertakings (see note 30)	**(1.7)**	(627.4)
Net debt acquired with subsidiary undertakings (see note 30)	–	(38.5)
Net cash inflow/(outflow)	**24.7**	(649.9)

26 Management of liquid resources

	Group 1999 £m	Group 1998 £m
Net cash (outflow)/inflow (to)/from short-term deposits	**(13.6)**	256.7

27 Financing

	Group 1999 £m	Group 1998 £m
Share capital issued		
Ordinary shares	**2.1**	3.5
B shares	**17.6**	–
	19.7	3.5
Shares issued for non cash consideration	**(17.6)**	(0.4)
Redemption of B shares	**(16.8)**	–
Net cash (outflow)/inflow from the issue and redemption of shares	**(14.7)**	3.1
(Decrease)/increase in loans due within one year	**(3.6)**	38.7
(Decrease)/increase in loans due after more than one year	**(127.0)**	431.4
Capital element of finance lease rental payments	**(0.3)**	(0.3)
(Decrease)/increase in debt	**(130.9)**	469.8
Net cash (outflow)/inflow from financing	**(145.6)**	472.9

28 Analysis of net debt

Group

	Cash £m	Overdrafts £m	Loans due within one year £m	Loans due after one year £m	Finance leases £m	Short-term deposits £m	Total £m
Balance at start of year	**79.4**	**(5.8)**	**(75.1)**	**(644.7)**	**(1.1)**	**96.1**	**(551.2)**
Cash flow	**(45.4)**	**(31.5)**	**3.6**	**127.0**	**0.3**	**13.6**	**67.6**
Currency translation differences	**(5.0)**	**2.2**	**(1.0)**	**10.6**	**–**	**(1.4)**	**5.4**
Balance at end of year	**29.0**	**(35.1)**	**(72.5)**	**(507.1)**	**(0.8)**	**108.3**	**(478.2)**

29 Disposal of subsidiary undertakings

	Group £m
Tangible fixed assets	**18.1**
Stocks	**6.7**
Debtors	**1.7**
Cash	**0.5**
Creditors	**(1.5)**
Provisions	**(0.4)**
Net assets sold	**25.1**
Goodwill previously written off to reserves and amortised capitalised goodwill written off	**9.8**
Loss after goodwill (see note 3)	**(10.7)**
Net proceeds received from current year disposals	**24.2**
Accrual for transaction and closure costs	**2.7**
Net cash received in year	**26.9**

30 Acquisitions

The Company acquired Inspec Group plc (now Laporte Speciality Organics Limited) on 1 September 1998. Given the size and complexity of the acquisition, the fair values established in 1998 were provisional and gave rise to goodwill of £548.4m. The fair values have since been finalised and are presented below.

	Provisional value 1998 £m	Adjustments £m	Amended value 1999 £m
Tangible fixed assets	116.1	**(7.5)**	**108.6**
Investments	27.8	**–**	**27.8**
Stock	40.3	**(0.1)**	**40.2**
Debtors	38.8	**–**	**38.8**
Cash	20.5	**–**	**20.5**
Creditors: amounts falling due within one year	(45.3)	**–**	**(45.3)**
Provisions	(37.5)	**(5.8)**	**(43.3)**
Creditors: amounts falling due after more than one year	(86.9)	**–**	**(86.9)**
Fair value of net assets acquired	73.8	**(13.4)**	**60.4**
Goodwill acquired			**561.8**
Consideration for subsidiary undertakings and operations acquired			**622.2**
Net borrowings included in subsidiary undertakings acquired			**38.5**
Cash consideration			**660.7**

Fair value adjustments

The material fair value adjustments relate to:

a Revaluations – tangible fixed assets
Fair values have been based on current market prices where these are available. Otherwise fair values are derived from current replacement costs taking account of the remaining life of each asset.

b Revaluations – provisions
Provisions for liabilities and charges, principally in respect of environmental costs.

Other acquisitions

During the year the Group also acquired the net assets of Viaton with a value of £0.6m and goodwill of £1.1m. The fair value of the assets acquired is not materially different from the book value for this acquisition.

31 Contingent liabilities

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Guarantees and performance bonds	**9.7**	9.5	–	–
Guarantees of loans of subsidiary undertakings	–	–	**370.9**	389.5

32 Commitments

	Group	
	1999 £m	1998 £m
Capital expenditure contracted but not provided	**4.1**	9.6

Operating leases

	Group			
	Properties		Other leases	
	1999 £m	1998 £m	1999 £m	1998 £m
Amounts payable during the following year under leases expiring				
Within one year	**0.7**	0.8	**0.5**	1.1
Between two and five years	**1.3**	1.5	**1.7**	2.0
After five years	**1.3**	1.6	**1.0**	0.2
	3.3	3.9	**3.2**	3.3

33 Employee costs and numbers

	Group	
	1999 £m	1998 £m
Costs (including directors)		
Wages and salaries	**143.5**	130.9
Social security costs	**18.7**	18.9
Pension costs (see note 35)	**8.7**	7.5
	170.9	157.3

Average numbers employed

	No.	No.
UK	**1,783**	1,688
North America	**1,819**	1,779
Continental Europe	**1,482**	1,462
Rest of World	**277**	175
	5,361	5,104

34 Related party transactions

The Group had no related party transactions which might reasonably be expected to influence decisions made by users of these financial statements.

35 Pension commitments

The Group operates a number of pension schemes around the world. The main defined benefit schemes are those in the UK and Germany. The main defined contribution scheme is in the USA. These principal schemes are described in more detail below.

UK schemes

There are four main UK pension schemes operated by the Group. For each scheme, the assets of the scheme are held separately from those of the Company.

The Laporte Group Pension Trust ('Trust') is divided into a number of sections (collectively called the 'Laporte Scheme'), one of which is defined benefit, one of which is a hybrid arrangement and the remainder are defined contribution. The Trust was valued by independent actuaries as at 31 March 1998. Following the result of the valuation, employer's contributions to the Trust have been increased from 10% to 12.9% of pay for the defined benefit section with effect from 1 April 1999.

The Evode Group Staff Pension Fund ('Evode scheme') which is a defined benefit plan, was valued by independent actuaries as at 5 April 1998. The suspension of employer's contributions to the Evode scheme has been continued.

The Inspec scheme (operated by Laporte Speciality Organics Limited (formerly Inspec Group plc)) and the IFC scheme (operated by Inspec Fine Chemicals Limited) are both defined benefit schemes. The most recent actuarial assessments of the financial position of these schemes were made on 31 March 1997 by an independent actuary.

The valuations used the projected unit method and were carried out based on two different sets of actuarial assumptions, a 'best estimate' set for accounting purposes (as required by SSAP 24) and a more conservative set for funding purposes. The range of principal actuarial assumptions used in the recent valuations, in respect of the above-mentioned schemes, are shown below. They are expressed in real terms, that is relative to the assumed rate of price inflation which ranged from 3–4% per annum.

Long-term real average annual rate

	Funding basis %	SSAP 24 basis %
Returns on investments		
– *Before retirement*	4.25–4.75	4.75
– After retirement	2.25–3.75	3.25–4.75
General increase in pensionable remuneration	1.5–2.0	1.5
Increase in current and future pensions in payment	0.0–0.5	0.0–0.5
Increase in dividends	0.25–1.5	0.75

Position shown by the valuations

	Laporte scheme	Evode scheme	Inspec scheme	IFC scheme
Market value of assets	£213m	£63m	£14m	£47m
Funding level – funding basis	103%	130%	108%	116%
Funding level – SSAP 24 basis	105%	125%	134%	137%

The funding level is determined by comparing the value of the assets with the value of the accrued liabilities, allowing for expected increases in members' earnings.

The SSAP 24 costs for the hybrid section and the defined contribution sections of the Trust are the employer's contributions paid, including the cost of providing risk benefits and administration. In addition to the four UK schemes referred to above, there are a number of much smaller defined benefit and defined contribution schemes in the UK. For these schemes, the SSAP 24 cost is equal to the contributions payable.

Overseas schemes

USA

The main scheme in the USA is the Retirement Plus Programme. This is a defined contribution scheme and the pension cost is equal to the contributions paid. In addition, there are a number of minor defined benefit schemes.

Germany

The arrangements in respect of Peroxid-Chemie GmbH and Brockhues AG are unfunded and defined benefit in nature. The pension cost is based on fiscal valuations and is in accordance with local practice. Technochemie GmbH operates a defined benefit scheme, which was the subject of an actuarial review in 1999. The scheme is accounted for in accordance with SSAP 24.

35 Pension commitments continued

Holland

Laporte Performance Chemicals BV (formerly Inspec Fine Chemicals BV) operates a defined benefit scheme, which was the subject of an actuarial review in 1999. The scheme is accounted for in accordance with SSAP 24.

Unfunded arrangements

The Group has a small number of unfunded arrangements for certain employees. These arrangements have been accounted for in accordance with SSAP 24 and the relevant amounts are included in pension costs and in the balance sheet provision.

Associated undertakings

The pension costs incurred in the associated undertakings are determined in accordance with the local practice and, if appropriate, actuarial advice. It has not been possible to ensure compliance with SSAP 24 due to the difficulties and costs involved in obtaining the information, but it is considered that the difference arising from any non-compliance would not be material.

Profit and loss account charge

	1999 £m	1998 £m
Regular cost	**6.3**	6.1
Variation from regular cost	**(2.2)**	(3.0)
Defined benefit schemes	**4.1**	3.1
Defined contribution schemes	**4.6**	4.4
	8.7	7.5

For accounting purposes, the excess of the actuarial surplus over the pension prepayment is spread as a level amount each year over the average remaining service life of the employees in the schemes. This is included in the variation from the regular cost in the above table.

Balance sheet amounts

The pension scheme prepayment of £26.8m (1998: £25.1m) is included in current assets as a debtor falling due after more than one year. A provision of £27.8m (1998: £29.0m) is included in provisions for liabilities and charges, being the excess of accumulated pension costs over the amounts funded. This provision relates primarily to the unfunded German schemes. Also included is a provision for post-retirement health benefits of £0.2m (1998: £1.0m).

36 Directors' remuneration

Detailed information on directors' salaries, benefits, interests in shares and pensions is disclosed in tables I and II below. The aggregate emoluments of all directors, including pension costs, was £2,019,000 (1998: £2,037,000). The highest paid director during the year was Mr J W Leng.

Table I Executive directors
Remuneration excluding pensions

	Basic salary 1999 £'000	Basic salary 1998 £'000	**Bonus 1999 £'000**	Bonus 1998 £'000	**Benefits and other payments(c) 1999 £'000**	Benefits and other payments(c) 1998 £'000	**Total 1999 £'000**	Total 1998 £'000
J W Leng	**430**	400	**179**	158	**350**	202	**959**	760
P H Fearn	**232**	211	**97**	83	**15**	15	**344**	309
M A Kayser	**215**	200	**90**	79	**15**	13	**320**	292
M J Kenny (a)	**241**	214	**100**	84	**55**	71	**396**	369
R Parrott (b)	**–**	211	**–**	83	**–**	13	**–**	307

Notes

a Amounts for Mr Kenny have been translated from US Dollars at the rate of US $1.62 = £1 (1998: US $1.66 = £1).

b Mr Parrott retired on 31 December 1998.

c Benefits and other payments include cars, fuel and medical insurance, and in the case of Mr Leng, a salary supplement in respect of his pension entitlement.

Interests in shares

The following executive directors have been granted options to subscribe for shares under the Company's executive and savings-related schemes:

	Balance at 1.1.99	Exercise price	Date from which exercisable	Expiry date	**Balance at 31.12.99**
J W Leng					
Executive (a)	171,990	814p	6.10.98	5.10.05	**171,990**
SAYE	1,641	594p	1.1.00	30.6.00	**1,641**
P H Fearn					
SAYE	2,904	594p	1.1.02	30.6.02	**2,904**
M A Kayser					
SAYE	2,904	594p	1.1.02	30.6.02	**2,904**

Notes

a Executive share options have been granted under the Laporte Executive Share Option Scheme 1992.

b No options were granted during the year. No options were exercised or lapsed during the year.

c The closing market price of the shares at 31 December 1999 was 540p and the range during 1999 was between 433.5p and 778p.

36 Directors' remuneration continued

The following executive directors have been awarded shares under the Company's bonus and long-term incentive plans:

	Balance at 1.1.99	Shares awarded	Shares waived	Shares taken up Number	Shares taken up Market value	Balance at 31.12.99	Earliest vesting date
J W Leng							
Annual bonus plan							
1996 bonus shares	10,000					**10,000**	9.7.97
1996 incentive shares	5,000					**5,000**	9.7.98
1997 bonus shares	14,788					**14,788**	27.3.98
1997 incentive shares	14,788					**14,788**	28.3.01
Deferred bonus	39,939					**39,939**	31.12.99
Long-term incentive plan							
1998 award	31,870					**31,870**	28.3.01
1999 award	–	40,983				**40,983**	24.4,02
Matching share plan	–	13,315				**13,315**	24.4.02
P H Fearn							
Annual bonus plan							
1997 bonus shares	7,797					**7,797**	27.3.98
1997 incentive shares	7,797					**7,797**	28.3.01
Deferred bonus	21,058					**21,058**	31.12.99
Long-term incentive plan							
1998 award	16,804					**16,804**	28.3.01
1999 award	–	21,618				**21,618**	24.4.02
Matching share plan	–	7,023				**7,023**	24.4.02
M A Kayser							
Annual bonus plan							
1997 bonus shares	7,182					**7,182**	27.3.98
1997 incentive shares	7,182					**7,182**	28.3.01
Deferred bonus	19,399					**19,399**	31.12.99
Long-term incentive plan							
1998 award	15,480					**15,480**	28.3.01
1999 award	–	20,491				**20,491**	24.4.02
Matching share plan	–	6,657				**6,657**	24.4.02
M J Kenny							
Annual bonus plan							
1996 bonus shares	5,573					**5,573**	9.7.97
1996 incentive shares	2,786					**2,786**	9.7.98
1997 bonus shares	7,859					**7,859**	27.3.98
1997 incentive shares	7,859					**7,859**	28.3.01
Deferred bonus	21,767					**21,767**	31.12.99
Long-term incentive plan							
1998 award	17,089					**17,089**	28.3.01
1999 award	–	21,956				**21,956**	24.4.02
Matching share plan	–	7,318				**7,318**	24.4.02

Notes

a The 1996 and 1997 annual bonus plans provide for an initial award of bonus shares plus an entitlement to receive additional incentive shares which vest at a later date, provided that the relevant bonus shares have not been taken up.

b Shares awarded under the deferred bonus scheme were given in respect of the successful achievement of the Group's restructuring and vested on 1 January 2000.

c Shares awarded under the long-term incentive plan during 1998 and 1999 will vest subject to satisfaction of the performance criteria set out on page 28.

d Awards are made in the form of market price options or nil paid options, as appropriate.

e On 10 January 2000, Mr Kenny exercised 21,767 shares awarded under the 1997 Laporte Deferred Bonus Scheme for a total subscription cost of £1. The middle market closing price of a Laporte plc ordinary share on the date of exercise was £5.40.

36 Directors' remuneration continued

Interests in shares – actual shareholdings

	B shares of 1p each (a)		Ordinary 50p shares	
	Balance at 31.12.99	Balance at 31.12.98	**Balance at 31.12.99**	Balance at 31.12.98
J W Leng	**–**	–	**12,826**	12,826
P H Fearn	**–**	–	**1,000**	3,000
M A Kayser	**225**	–	**9,405**	9,392
M J Kenny (b)	**–**	–	**6,300**	6,300

Notes

a On 23 August 1999, the Company issued B shares of 1p each to ordinary shareholders by way of bonus issue on the basis of nine B shares for every ordinary share held. The Company offered to redeem these B shares on 15 December 1999 at par value of 1p per B share. The following B shares were allotted to the executive directors:

J W Leng	115,434	P H Fearn	9,000
M A Kayser	84,528	M J Kenny	56,700

b On 10 January 2000, Mr Kenny exercised 21,767 options over ordinary shares awarded under the 1997 Laporte Deferred Bonus Scheme and sold 5,712 ordinary shares at £5.32.

c On 17 February 2000, the Company issued B shares of 1p each to ordinary shareholders by way of bonus issue on the basis of sixteen B shares for every ordinary share held. The following B shares were allotted to the executive directors:

J W Leng	205,216	P H Fearn	16,000
M A Kayser	150,480	M J Kenny	357,680

d There have been no other changes in the directors' interests in shares between 31 December 1999 and the date of this report.

Pensions

	Age (d)	Accrued pension at 31.12.99 £ per annum	Accrued pension at 31.12.98 £ per annum	Increase during year, net of inflation £ per annum	Transfer value of increase £
J W Leng	54	137,959	96,898	37,960	638,745
P H Fearn	46	26,915	17,255	9,108	119,143
M A Kayser	44	21,102	13,874	6,784	79,785
M J Kenny (c)	54	–	–	–	–

Notes

a *With the exception of Mr Kenny, all executive directors are members of the Laporte Group Pension Trust which is a UK approved* pension scheme. In addition, Messrs Leng, Fearn and Kayser participate in UK unapproved arrangements in connection with their salary above the statutory earnings cap and are provided with death in service life cover of four times basic salary.

b Messrs Leng, Fearn and Kayser are entitled to final salary benefits of a pension at age 60 of two-thirds basic salary, inclusive of pension benefits provided by any previous employers. In the case of Mr Leng, his pensionable remuneration includes the taxable value of his company car and fuel benefits.

c Mr Kenny participates in the Laporte Inc Retirement Plus Program which is available to all US resident employees. The Retirement Plus Program comprises two 'qualified plans': a money purchase pension plan with annual contributions by Laporte Inc and a 401(K) profit sharing plan under which Laporte Inc matches 50% of the contributions paid by the member (subject to certain limits). In addition, Mr Kenny has the option of participating in a non-qualified Senior Executive Supplemental Savings Plan which permits the executive to defer a percentage of base salary matched with a contribution by Laporte Inc. Laporte Inc funds a separate life insurance policy for Mr Kenny's death in service benefit of four times total remuneration. The total contributions paid by Laporte Inc for these benefits in 1999 were £27,450 (1998: £24,000).

d Ages as at 31 December 1999.

In the year the Group continued payment of pensions under unapproved arrangements to one former executive director, one former non-executive director and to the widows of two other former non-executive directors, with a total value of £74,596 (1998: £74,961).

36 Directors' remuneration continued

Table II Non-executive directors
Remuneration

	Fees 1999 £'000	Fees 1998 £'000	Benefits and other payments 1999 £'000	Benefits and other payments 1998 £'000	Total 1999 £'000	Total 1998 £'000
G Duncan	140 (a)	140	–	–	140	140
A G L Alexander	1 (b)	–	–	–	1	–
W J Alexander	1 (b)	–	–	–	1	–
R A Gardner	27	27	–	–	27	27
J Hollowood (Dr)	– (c)	7	–	–	–	7
R R Knowland	16 (d)	31	2	–	18	31
A H Simon	14 (d)	27	–	2	14	29
A M Thomson	. 33 (e)	31	–	–	33	31

Notes

a Mr Duncan's fees of £140,000 per annum were inclusive of the non-executive director's fee of £48,000 per annum. Mr Duncan is entitled to an unfunded pension from the date of his retirement and during his lifetime at a rate of £17,500 per annum, subject to increases in line with increases awarded to pensioners under the Laporte Group Pension Trust from time to time.

b Mr A G L Alexander and Mr W J Alexander were appointed on 20 December 1999.

c Dr Hollowood was appointed on 11 September 1998 and resigned on 8 March 1999.

d Mr Knowland and Mr Simon resigned on 11 June 1999.

e An additional fee of £5,000 per annum is paid to those non-executive directors who are chairmen of the Audit and Remuneration Committees respectively.

f Amounts under benefits and other payments were for medical insurance.

Interests in shares – actual shareholdings

	B shares at 1p each (b)		Ordinary 50p shares	
	Balance at 31.12.99	Balance at 31.12.98	**Balance at 31.12.99**	Balance at 31.12.98
G Duncan	–	–	**5,687**	5,687
A G L Alexander	–	– (a)	–	–
W J Alexander	–	– (a)	–	–
R A Gardner	**36,000**	–	**10,325**	10,325
A M Thomson	–	–	**3,000**	3,000

Notes

a As at the date of appointment on 20 December 1999.

b On 23 August 1999, the Company issued B shares of 1p each to ordinary shareholders by way of bonus issue on the basis of nine B shares for every ordinary share held. Shareholders could elect to redeem these B shares on 15 December 1999 at par value. The following B shares were allotted to the non-executive directors:

G Duncan	51,183	R A Gardner	92,925
A M Thomson	27,000		

c On 17 February 2000, the Company issued B shares of 1p each to ordinary shareholders by way of bonus issue on the basis of sixteen B shares for every ordinary share held. The following B shares were allotted to the non-executive directors:

G Duncan	90,992	R A Gardner	165,200
A M Thomson	48,000		

37 Employee share schemes

The Group's employee share schemes are described below:

a The Laporte Restricted Share Plan

The plan, also known as the Long Term Incentive Plan, approved by shareholders at the Annual General Meeting in 1996, is designed to align the efforts of key executives with the Group's objective of creating shareholder value in the longer term. Broadly, executives are awarded an interest in shares which is conditional upon the Group's performance over a three year period and are selected on the basis that they are in a position to influence significantly the performance of the Group. The shares which are the subject of awards will normally vest at the end of a three year cycle if the performance criteria have been achieved. These criteria may be varied from time to time by the Remuneration Committee according to the current status of the Group.

The current performance measure is total shareholder return (the percentage growth in the Company's share price and the value of its reinvested net dividend payments and other distributions) over the three year cycle when compared to that of the companies comprising the comparator group. The comparator group is described in the section on Directors' Remuneration on page 28. The plan contains provision for dealing with the effect of take-overs and mergers of companies in the comparator group. Other provisions determine the number of shares, if any, which may be released in the event of an executive's cessation of employment before the three year period has expired.

b The 1997 Laporte Deferred Bonus Scheme

The awards under this plan have been made to the executive directors and other key executives who were fundamental to the successful achievement of the Group's restructuring. Awards of shares made under this plan vested on 1 January 2000.

c The Laporte plc Annual Bonus Scheme

Share awards under this plan consist of a bonus share option and an incentive share option. As an incentive to defer the receipt of the bonus shares for up to seven years from the date of grant, the executive is entitled to receive additional shares, the right to which lapses if the relevant bonus shares are taken up before a specified date. For the 1996 bonus, executives were able to take their award in cash or shares or a combination of both. Those who elected to receive their bonus as shares were entitled to receive additional incentive shares which vested in five equal annual instalments, commencing on the first anniversary of the award. In 1997, half of the awards could be taken in the form of shares, deferral of which for at least three years will attract the right to receive additional incentive shares. No awards of shares were made under this scheme during the year.

d The 1998 Laporte plc Matching Share Plan

This plan is designed to link part of the remuneration package of executive directors and other key executives to the longer term performance of Laporte shares, aligning their interest with the Group's objective of creating shareholder value in the longer term. Executives are awarded an interest in shares equal in value to any annual cash bonus they may receive with a maximum award to an executive of 25% of their base salary. The shares which are subject of awards will normally vest at the end of three years from the date of the award subject to continuous employment with the Group until that date.

e The Laporte Profit Sharing Scheme *1992*

Operation of the scheme in any year is at the discretion of the directors and is by way of a trust. All UK resident employees (including executive directors) working 16 hours or more per week are eligible to participate. The Company did not make a grant under this scheme during the year and has no current plans to do so in the future.

The trustee is provided with funds to acquire ordinary shares which are then appropriated to eligible employees who wish to participate in the scheme. The amount of funds available, and the amount available for each eligible employee, are determined by the directors. The maximum amount which may be made available in any financial year by the Company and its subsidiary undertakings for acquiring ordinary shares (for this scheme and The Laporte Jersey Profit Sharing Scheme 1992) may not exceed 5% of the audited consolidated profits (before tax and extraordinary items and before taking account of any sums set aside for the purposes of such schemes). Ordinary shares appropriated to eligible employees are held by the trustee for a minimum period of two years during which time they may not be dealt with except in the case of death, attainment of age 65 or cessation of service by reason of redundancy, ill health or disability. For the one year following this period the trustee retains the shares unless a participant wishes to sell or otherwise dispose of them. The individual participants are the beneficial owners of the shares appropriated to them and are entitled to receive all dividends and other distributions.

37 **Employee share schemes** continued

f The Laporte Jersey Profit Sharing Scheme 1992

This scheme, primarily for overseas employees, is similar in nature to the scheme described in (e). Employees (including executive directors) who are eligible to participate in The Laporte Profit Sharing Scheme 1992 are not eligible for this scheme. The Company did not make a grant under this scheme during the year and has no current plans to do so in the future.

Ordinary shares are acquired by the trustee and retained for the following two years. At the end of this period, subject to the exercise of the trustee's discretion, the shares are vested in the participant concerned who may direct the trustee to sell or transfer them into the participant's name. Any dividends received during this period may be retained by the trustee as income of the trust or at the trustee's discretion, distributed amongst the participants.

g The Laporte Savings-Related Share Option Scheme 1992

All UK resident employees (including executive directors) working for the Company or any UK subsidiary undertaking are invited to apply for options. Options are non-transferable. No payment is required for the grant of an option. No options may be granted more than ten years after 3 August 1992. The exercise price may not be less than 80% of the market value of a share at the time of an invitation to apply for an option.

As a condition of the grant of the option, the total exercise price must not exceed the monthly contributions and bonus repayable under the Save-As-You-Earn (SAYE) contract. The aggregate maximum monthly contribution payable by an employee under all SAYE contracts linked to the scheme may not presently exceed £250 per month.

In normal circumstances an option may only be exercised within six months of the date the bonus under the related SAYE contract is payable. Earlier exercise is permitted in certain circumstances.

h The Laporte Executive Share Option Scheme 1992 (supersedes the Laporte Share Option Scheme 1984)

The Remuneration Committee determines whether the scheme will be operated in any year and, if so, the selection of participants and the levels of participation in the scheme. However, no grant was made under the scheme during the year and the Remuneration Committee has no current plans to make any grants under this scheme in the future. The authority for granting options under the 1984 scheme expired in September 1994 and it was superseded by the 1992 scheme, under which the final date for granting options will be October 2002. The exercise price may not be less than the market value of a share at the time of grant.

There are limits on the number of shares over which an employee may be granted an option. Options will normally be exercisable in whole or in part not earlier than three years and not later than ten years after grant. No performance criteria have to be met as a pre-condition to the exercise of options by a participant. Earlier exercise is permitted in certain circumstances.

i Inspec Group Share Option Schemes

Following the Company's recommended cash offer for Inspec Group plc in 1998, option holders under certain Inspec Group schemes were given the opportunity to exchange their options over Inspec Group shares for replacement options over Laporte plc shares, as an alternative to accepting the cash offer. The schemes concerned were: the Inspec Group plc Employee Share Scheme; the Inspec Group plc Approved Executive Share Option Scheme; the Inspec Group plc Approved Savings Related Share Option Scheme; and the Inspec Group plc 1996 Share Option Scheme. Those option holders who elected to accept the exchange offer continue to be bound by the conditions attaching to the original grant of options, save that the exercise of the replacement options will not be subject to any performance criteria. The Company has granted replacement options over a total of 687,263 Laporte shares, exercisable at prices ranging from 256p to 553p and on various dates between 1999 and 2007. Musley Limited, as the trustee of the Inspec Group plc Employee Share Scheme, has also acquired and granted replacement options over 75,025 Laporte shares, exercisable at a price of not less than 345p no later than 31 December 2000.

Principal Subsidiary and Associated Undertakings

The principal subsidiary and associated undertakings of the Group at 31 December 1999 are listed under their countries of incorporation, which are also the countries of activity unless stated otherwise. The UK companies are incorporated and registered in England and Wales. The share capital of all the principal subsidiary and associated undertakings comprises ordinary shares, which are wholly owned by the Group, unless shown otherwise. The principal associated undertakings are marked with an asterisk and the Group's equity interest is shown in brackets. A full list of subsidiary and associated undertakings will be filed with the Registrar of Companies.

Speciality Organics

Fine Chemicals

UK
Laporte Industries Ltd
(trading as Fine Organics)
Inspec Fine Chemicals Ltd

Germany
Technochemie GmbH & Co. KG

Italy
Laporte Organics Francis SpA

Canada
Raylo Chemicals Inc

France
Inspec Chimie Fine SA

USA
Jayhawk Fine Chemicals Corporation
Laporte Speciality Organics Inc

Performance Chemicals

UK
Laporte Performance Chemicals UK Ltd

Holland
Laporte Performance Chemicals BV

Spain
Laporte Performance Chemicals SA

South Korea
Inspec Namheung Chemicals Ltd (70%)

Catalysts & Initiators

Germany
Peroxid-Chemie GmbH & Co KG

France
Société Chalonnaise de Peroxydes Organiques SA

Spain
Peroxidos Organicos SA (Perorsa)*
(50%)

USA
Aztec Peroxides Inc.

Brazil
Laporte Chemicals Comercio E Participacoes Ltda
Inspec Brazil Ltda

Australia
Laporte Australia Pty Ltd

South Africa
Peroxide Chemicals (Pty) Ltd*
(40%)

Pigments & Additives

Pigments

Germany
Chemische Werke Brockhues AG
(97.9%)

Italy
Laporte Italia SpA, Silo division

UK
Laporte Pigments (UK) Ltd

USA
Laporte Pigments Inc
(trading as Davis Colors, Mapico and Mineral Pigments)

China
Fuyang Golden Autumn Chemicals Company Ltd*
(30%)

Additives

UK
Laporte Industries Ltd
(trading as Laporte Absorbents, Organoclays Europe and Laporte Fluorides)

USA
Southern Clay Products Inc

Compounds & Electronics

Performance Polymer Compounds

USA
AlphaGary Corporation

Canada
AW Compounders Ltd

UK
AlphaGary Ltd

Italy
Laporte Italia SpA
Gomet division

Electronic chemicals and materials

UK
Compugraphics International Ltd
Micro-Image Technology Ltd
(trading as Laporte Electronics)

France
Laporte Electronics France SA

Singapore
Laporte Electronics (Singapore) Pte Ltd

USA
Electrochemicals Inc
Compugraphics U.S.A. Inc
Cyantek Corporation
Exsil Inc

Taiwan
Laporte (Taiwan) Ltd

Formulated Products

Timber Treatment

USA
Chemical Specialties Inc

UK
Laporte Industries Ltd
(trading as Laporte Wood Preservation)

Sweden
Laporte Kemwood AB

Water Technologies & Polyimides

USA
Laporte Water Technologies Inc.
(trading as Applied Biochemists, *Marine Biochemists*, *Blue Devil*, Aqua One, GLB Pool & Spa, Leisure Time and Robarb)
Inspec Foams Inc

Austria
Inspec Fibres GmbH

Shareholder Analysis as at 31 December 1999

	Shareholders Number	Shareholders %	Shares held Number	Shares held %
Ordinary shares of 50p each				
Individual – Up to 500 shares	**6,460**	**43.35**	**1,233,106**	**0.63**
– 501-2,500 shares	**4,090**	**27.45**	**4,521,472**	**2.31**
– 2,501 - 25,000 shares	**729**	**4.89**	**3,540,370**	**1.81**
– Over 25,000 shares	**11**	**0.08**	**634,588**	**0.33**
	11,290	**75.77**	**9,929,536**	**5.08**
Nominee companies	**3,139**	**21.07**	**166,197,342**	**85.09**
Assurance and insurance companies	**51**	**0.34**	**8,672,819**	**4.44**
Investment trusts and funds	**94**	**0.63**	**1,054,284**	**0.54**
Pension funds and pension trustees	**15**	**0.10**	**3,318,623**	**1.70**
Other corporate holdings	**312**	**2.09**	**6,158,339**	**3.15**
	14,901	**100.00**	**195,330,943**	**100.00**

Major interests in shares as at 13 March 2000

	Number	%
Ordinary shares of 50p each		
Prudential Portfolio Managers Limited	**13,873,905**	**7.10**
The Capital Group Companies	**9,938,440**	**5.09**
Axa Sun Life Investment Management	**9,812,121**	**5.02**
Scottish Equitable plc	**6,332,737**	**3.24**
Franklin Resources Inc	**6,237,800**	**3.19**
Norwich Union Investment Management	**6,088,446**	**3.12**

The major interests above state the number of shares last notified to the Company by the shareholder named; the number in the percentage column has been calculated using shares in issue on 13 March 2000.

Registrar
IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Laporte plc will be held at The Langham Hilton Hotel, Portland Place, London W1N 4JA at 12 noon on Friday 2 June 2000.

Resolution 1
To receive the audited accounts for the year ended 31 December 1999 together with the reports of the directors and auditors thereon.

Resolution 2
To declare a final dividend of 1.1453p per ordinary share.

Resolution 3
To re-elect Mr M A Kayser as a director.

Resolution 4
To re-elect Mr M J Kenny as a director.

Resolution 5
To re-elect Mr R A Gardner as a director.

Resolution 6
To re-elect Mr A M Thomson as a director.

Resolution 7
To elect Mr A G L Alexander as a director.

Resolution 8
To elect Mr W J Alexander as a director.

Resolution 9
To re-appoint KPMG Audit Plc as the Company's auditors.

Resolution 10
To authorise the directors to determine the auditors' remuneration.

To consider and, if thought fit, pass the following Resolutions, of which Resolutions 11 and 12 will be proposed as Special Resolutions and Resolution 13 will be proposed as an Ordinary Resolution.

Resolution 11
That
(a) the Board of Directors of the Company be and is hereby empowered in accordance with section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94 of the said Act) for cash pursuant to the general authority conferred upon it under section 80 of the said Act which is in force at the time of the passing of this Resolution as if section 89(1) of the said Act did not apply to any such allotment provided that this power shall be limited:

(i) to the allotment of equity securities in connection with a rights issue, open offer or other pre-emptive offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of ordinary shareholders on a fixed record date are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject to such exclusions or other arrangements as the Board of Directors of the Company may deem necessary or expedient in order to deal with fractional entitlements, legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange, or any other matter whatsoever; and

(ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £4,883,358

and shall expire at the conclusion of the next Annual General Meeting of the Company, except that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board of Directors of the Company may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired; and

(b) the foregoing power shall supersede the powers conferred by the special resolution passed at the Annual General Meeting of the Company held on 11 June 1999 (which shall be terminated upon the passing of this Resolution but without prejudice to any action taken thereunder prior to such termination).

Resolution 12
That
the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of its ordinary shares upon and subject to the following conditions:

(i) the maximum number of ordinary shares which may be purchased is 19,533,413;

(ii) the price at which an ordinary share may be purchased shall not exceed 105% of the average of the middle market quotations for the ordinary shares, as derived from the London Stock Exchange Daily Official List for the five business days preceding the day on which the share is contracted to be purchased and shall not be less than the nominal value of that share, in both cases exclusive of expenses; and

(iii) the authority to purchase conferred by the resolution shall, unless renewed prior to such time, expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 1 December 2001, but so that the Company may before such expiry enter into a contract of purchase under which such purchase may be completed or executed wholly or partly after the expiry of this authority.

Resolution 13

That

(i) the authorised share capital of the Company shall be and is hereby increased from £205,000,000 to £280,000,000 by the creation of 7,500,000,000 B Shares of 1.0p each having attached to them the rights and restrictions as set out in the Company's Articles of Association and, in addition to any existing authority of the Board of Directors of the Company, to allot relevant securities (as defined for the purposes of section 80 of the Companies Act 1985), the Board of Directors of the Company be and is hereby authorised pursuant to section 80 of the Companies Act 1985 to allot B Shares up to an aggregate nominal amount of £101,168,383.37 and the authority hereby conferred shall expire on 10 June 2004, save that the Company shall be entitled before such expiry to make an offer or agreement which would or might require B Shares to be allotted after such expiry and the Board of Directors of the Company shall be entitled to allot B Shares in pursuance of such an offer or agreement as if the authority conferred hereby had not expired; and

(ii) the Board of Directors of the Company be and is hereby authorised on one or more occasions to capitalise sums from the Company's share premium account and/or its merger reserve (up to a maximum of £101,168,383.37 in aggregate), to appropriate sums on one or more occasions not exceeding the amount capitalised to the holders of ordinary shares on the register of members as at the close of business on a date or on dates determined by the Board of Directors of the Company (each a 'Record Date') and to apply such sums on their respective behalf in paying up in full on one or more occasions up to a maximum of 10,116,838,337 B Shares in aggregate and to allot such B Shares to such holders on such basis for every ordinary share held on the relevant Record Date as the Board of Directors of the Company may on each occasion determine, provided that fractions of B Shares shall not be allotted and each ordinary shareholder's entitlement shall be rounded down to the nearest whole number of B Shares.

By order of the Board
N H Smith
Company Secretary
4 May 2000

Notes

1 A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies (who need not be members of the Company) to attend and, on a poll, vote in his place. A Form of Proxy is enclosed.

2 To be valid, a Form of Proxy, duly signed, together with the power of attorney or other authority (if any) under which it is signed must be lodged with IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 12 noon on 31 May 2000.

3 Completion and return of a Form of Proxy will not affect the right of such member to attend and vote at the meeting.

4 Only holders of ordinary shares on the register at 6.30 pm on 31 May 2000 shall be entitled to attend and vote at the meeting. Shareholders shall be entitled to vote in respect of the number of ordinary shares registered in their names at the above time and any subsequent changes shall be disregarded in determining rights to attend and vote.

5 The register of interests of directors in the share capital or debentures of the Company and copies of all service contracts of directors with the Company are available for inspection during business hours at the registered office of the Company on any business detained will also be available for inspection at the place of the Annual General Meeting from 11.45 am on the day of the meeting until its conclusion.

6 The chairmen of the remuneration, audit and nomination committees will be available during the meeting to answer questions from shareholders.

7 A full explanation of the Resolutions to be proposed at the Annual General Meeting is contained in the document sent to shareholders dated 4 May 2000 and entitled 'Explanation of the resolutions to be proposed at the 2000 Annual General Meeting'.

Five Year Summary

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Turnover	**930.2**	828.6	830.3	1,063.4	1,067.8
Results (before exceptional items)					
Profit before interest and amortisation of goodwill	**163.6**	138.7	127.6	136.5	126.2
Amortisation of goodwill	**(28.0)**	(9.3)	–	–	–
Net interest	**(31.2)**	(4.7)	4.6	(9.5)	(13.0)
Profit before taxation	**104.4**	124.7	132.2	127.0	113.2
Taxation	**(34.4)**	(34.8)	(36.2)	(36.3)	(33.4)
Profit after taxation	**70.0**	89.9	96.0	90.7	79.8
Exceptional items					
Before taxation	**(26.0)**	(53.5)	(55.8)	(48.3)	(88.7)
Taxation	**5.8**	(8.2)	(4.1)	(1.6)	17.2
After taxation	**(20.2)**	(61.7)	(59.9)	(49.9)	(71.5)
Earnings per share before exceptional items					
Pre amortisation of goodwill	**50.5p**	51.1p	49.5p	46.9p	41.5p
Basic earnings per share					
Post amortisation of goodwill	**36.1p**	*46.3p*	*49.5p*	*46.9p*	*41.5p*
Earnings per share after exceptional items	**25.7p**	14.5p	18.6p	21.1p	4.3p
Diluted earnings per share	**25.5p**	14.5p	18.6p	21.0p	4.3p
Dividends per share	**1.1453p**	26.5p	25.75p	24.25p	23.0p
	£m	£m	£m	£m	£m
Net (debt)/funds	**(478.2)**	(551.2)	129.5	12.8	(179.8)
Shareholders' funds	**466.4**	451.4	414.8	368.5	290.6
Gearing	**102.5%**	122.1%	n/a	n/a	61.9%
	£m	£m	£m	£m	£m
Capital expenditure	**80.6**	84.0	65.7	66.4	72.2
Depreciation	**46.8**	38.4	33.1	37.9	34.6
Ordinary shares in issue					
Year end	**195.3m**	194.9m	194.4m	193.8m	193.1m
Weighted average*	**193.9m**	194.0m	194.1m	193.5m	192.4m
Numbers employed					
Year end	**5,223**	5,479	4,823	5,516	7,420
Average	**5,361**	5,104	5,258	6,979	7,631

*Excluding shares held by Group's Employee Share Ownership Plan.

Principal Offices

Corporate Offices

Head Office
Laporte plc
Nations House
103 Wigmore Street
London
United Kingdom W1H 9AB
Tel: (44) 20 7399 2400
Fax: (44) 20 7399 2401
www.laporteplc.com

Regional Office
Laporte Inc
22 Chambers Street
Princeton, New Jersey
USA 08542
Tel: (1) 609 430 1199
Fax: (1) 609 430 1524
www.laporteplc.com

Operations

Fine Chemicals
Fine Organics
Seal Sands, Middlesborough
Cleveland
United Kingdom TS2 1UB
Tel: (44) 1642 546 666
Fax: (44) 1642 546 046
www.laporteplc.com

Performance Chemicals
Laporte Performance
Chemicals UK
Charlestone Road
Hardley, Hythe
Southampton
United Kingdom SO45 3ZG
Tel: (44) 23 80 894 666
Fax: (44) 23 80 243 113
www.laporteplc.com

Catalysts & Initiators
Peroxid-Chemie GmbH & Co KG
Dr. Gustav-Adolph Str 3
82049 Pullach, Germany
Tel: (49) 89 74422 0
Fax: (49) 89 74422 203
www.laporteplc.com

Pigments
Laporte Pigments
7101 Muirkirk Road
Beltsville, MD 20705 USA
Tel: (1) 301 210 3400
Fax: (1) 301 419 3075
www.daviscolors.com

Additives Europe
Laporte Absorbents Europe
PO Box 2, Moorfield Road
Widnes, Cheshire
United Kingdom WA8 0JU
Tel: (44) 151 495 2222
Fax: (44) 151 420 4088
www.laporteplc.com

Additives North America
Southern Clay Products Inc
1212 Church Street
Gonzalez, Texas
USA 78629
Tel: (1) 830 672 2891
Fax: (1) 830 672 1908
www.scprod.com

Performance Polymer Compounds
Laporte Worldwide
Compounding Group
170 Pioneer Drive, PO Box 808
Leominster, Massachusetts
USA 01453
Tel: (1) 978 537 8071
Fax: (1) 978 840 0015
www.alphagary.com

Electronics – Photomasks
Compugraphics International Ltd
Newark Road North
Eastfield Industrial Estate
Glenrothes, Fife
United Kingdom KY7 4NT
Tel: (44) 1592 772 557
Fax: (44) 1592 775 359
www.cgi.co.uk

Electronics – Chemicals
Laporte Electronics
Amber Business Centre
Riddings, Alfreton, Derbyshire
United Kingdom DE55 4DA
Tel: (44) 1773 844 200
Fax: (44) 1773 844 244
www.laporteplc.com

Electronics – Wafer Reclaim
Exsil Inc
2575 Melville Road
Prescott, Arizona
USA 86305
Tel: (1) 520 771 8900
Fax: (1) 520 771 8901
www.laporteplc.com

Timber Treatment Chemicals
Chemical Specialties Inc
One Woodlawn Green, Suite 250
200 E Woodlawn Road
Charlotte, North Carolina
USA 28217
Tel: (1) 704 522 0825
Fax: (1) 704 527 8232
www.chemspec.com

Water Technologies USA
Laporte Water Technologies
& Biochem
1400 Bluegrass Lakes Parkway
Alpharetta, Georgia
USA 30201
Tel: (1) 770 521 5999
Fax: (1) 770 521 4890
www.poolspacare.com

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Internet address: www.laporteplc.com

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