

DEGUSSA UK HOLDINGS LIMITED
(formerly Laporte plc)

Directors' Report and Financial Statements

for the year ended 31 December 2001

Registered Number: 2695034



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Degussa UK Holdings Limited (formerly Laporte plc)

Directors' report and financial statements

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Degussa UK Holdings Limited (formerly Laporte plc)

Directors' report

The Directors present their annual report, together with the audited financial statements of the Company, for the year ended 31 December 2001.

Principal activities

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

Business review

Degussa SKW Co. acquired Laporte plc on 13 March 2001. Following this offer, Laporte plc de-listed from the London Stock Exchange and changed its name to Degussa UK Holdings Ltd on 2 July 2001. The company no longer produces consolidated accounts of the Laporte Group. The directors' have prepared the accounts on a going concern basis as they maintain that there are sufficient distributable reserves in the Company's subsidiaries to offset the net current liabilities of the Company.

	2001 £'000	2000 £'000
(Loss) / profit before taxation	(146,097)	45,596
Taxation	(8,035)	1,306
(Loss) / profit for the year	(154,132)	46,902
Dividend	-	(847)
Transfers to reserves	(154,132)	46,055

Dividends

No interim ordinary dividend was paid (2000: £nil). The dividend for the year ended 31 December 2000 represents a B share dividend. The directors recommend that no final dividend be paid in respect of the year (2000: £nil).

Charitable and political contributions

No political or charitable contributions were made in the year (2000: £nil).

Auditors

On 21 February 2002, the Company passed an elective resolution pursuant to Section 386 of the Companies Act 1985 to dispense with the obligation to appoint auditors annually. KPMG Audit Plc will continue to act as auditors of the Company.

Degussa UK Holdings Limited (formerly Laporte plc)

Directors' report continued

Directors and directors' interests

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

D C M Andrews	Director (appointed 29.06.01)
Dr U-H Felcht	Director (appointed 29.03.01)
P R C Rodger	Director (appointed 29.06.01)
Dr J Rüter	Director (appointed 29.03.01)
A J Savage	Director (appointed 29.06.01)
A G L Alexander	Director (resigned 29.03.01)
W J Alexander	Director (resigned 29.03.01)
G Duncan	Director (resigned 29.03.01)
R A Gardner	Director (resigned 29.03.01)
A M Thomson	Director (resigned 29.03.01)
Dr M Spindler	Director (appointed 29.03.01, resigned 29.06.01)
M A Kayser	Director (resigned 30.06.01)
J W Leng	Director (resigned 30.06.01)
N H Smith	Company Secretary (resigned 11.09.01)
J L Hamilton	Company Secretary (appointed 11.09.01)

Details of the interests of the directors in the share capital of the Company during the year are shown in note 4 to the accounts. Drs Felcht and Rüter are directors of the Degussa AG group board. They did not have any interests in the Company during the period.

By order of the Board



J L Hamilton
Secretary

13 December 2002

Nations House
103 Wigmore Street
London
W1U 1QS

Degussa UK Holdings Limited (formerly Laporte plc)

Statement of directors' responsibilities

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

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

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

Degussa UK Holdings Limited (formerly Laporte plc)

Independent Auditor's report to the members of Degussa UK Holdings Limited

We have audited the financial statements on pages 5 to 20.

Respective responsibilities of directors and auditors

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and of its loss 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

6 January 2003

Degussa UK Holdings Limited (formerly Laporte plc)

Profit and Loss Account

for the year ended 31 December 2001

	Note	2001 £'000	2000 £'000
Administrative expenses	2	(9,186)	(14,353)
Other operating income	2	13,125	14,152
Operating profit / (loss) before exceptional items		3,939	(201)
Exceptional items	3	(105,260)	-
Operating loss		(101,321)	(201)
Recharge of disposal costs / (disposal costs)	5	5,756	(8,092)
Income from shares in group undertakings	6	-	70,000
Interest receivable and similar income	7	48,437	14,966
Amounts written off investments	9	(50,000)	-
Interest payable and similar charges	7	(48,969)	(31,077)
(Loss) / profit on ordinary activities before taxation		(146,097)	45,596
Tax on (loss) / profit on ordinary activities	8	(8,035)	1,306
(Loss) / profit on ordinary activities after taxation		(154,132)	46,902
Dividends		-	(847)
Retained (loss) / profit for the year	16	(154,132)	46,055

There is no material difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis. All activities are of a continuing nature. There are no recognised gains and losses other than in the profit and loss account.

Degussa UK Holdings Limited (formerly Laporte plc)

Balance Sheet

at 31 December 2001

	Note	2001 £'000	2000 £'000
Assets employed			
Fixed Assets			
Investments	9	1,082,761	1,140,716
Current Assets			
Debtors falling due within one year	11	559,777	336,266
Debtors falling due after one year	11	15,627	-
Total debtors		<u>575,404</u>	<u>336,266</u>
Cash at bank and in hand	14	<u>34,720</u>	<u>606,605</u>
		<u>610,124</u>	<u>942,871</u>
Creditors falling due within one year	12	<u>(1,240,642)</u>	<u>(1,570,924)</u>
Net current liabilities		<u>(630,518)</u>	<u>(628,053)</u>
Total assets less current liabilities		<u>452,243</u>	<u>512,663</u>
Provisions for liabilities and charges	13	<u>(86,525)</u>	<u>-</u>
Net assets		<u><u>365,718</u></u>	<u><u>512,663</u></u>
Capital and reserves			
Called up share capital	15	98,423	99,929
Share premium account	16	195,007	186,314
Capital redemption reserve	16	64,182	64,182
Merger reserve	16	124,800	124,800
Profit and loss account	16	(116,694)	37,438
Equity shareholders' funds		<u><u>365,718</u></u>	<u><u>512,663</u></u>

The accounts on pages 5 to 20 were approved by the Board on 13 December 2002 and signed on its behalf by:

DCM Andrews
Managing Director

Degussa UK Holdings Limited (formerly Laporte plc)

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2001

	2001 £'000	2000 £'000
(Loss) / profit for the financial year	(154,132)	46,902
Dividends	-	(847)
New ordinary share capital subscribed	9,414	377
B shares converted to ordinary shares	(2,227)	-
New B share capital subscribed	-	48,841
Capitalisation of share premium in respect of B shares	-	(48,841)
Redemption of B shares	-	(47,428)
Net reduction to shareholders' funds	<u>(146,945)</u>	<u>(996)</u>
Shareholders' funds at start of year	512,663	513,659
Shareholders' funds at end of year	<u><u>365,718</u></u>	<u><u>512,663</u></u>

Degussa UK Holdings Limited (formerly Laporte plc)

Notes to the financial statements

1. Principal accounting policies

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

Basis of accounting

The Company's financial statements have been prepared under the historical cost convention in accordance with applicable UK Accounting Standards.

The Company is exempt by virtue of S228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its Group.

Under Financial Reporting Standard 1 (revised 1996), the Company is exempt from the requirement to prepare a cashflow statement on the grounds that a parent company includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of E.ON AG (a company registered and incorporated in Germany), the Company has taken advantage of the exemption in FRS 8 and has not disclosed transactions or balances with entities which form part of the Group. The consolidated financial statements of E.ON AG, within which this company is included, can be obtained from E.ON-Platz 1, 40479 Düsseldorf.

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

Fixed assets investments

Shares in group undertakings are stated at cost less any permanent diminution in value.

Pensions

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 scheme. This together with the interest on the prepayment is included in the variation from the regular cost.

Gilts

Gilts are revalued to market value from cost only when there is a material difference.

Foreign currencies

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

Deferred taxation

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

Degussa UK Holdings Limited (formerly Laporte plc)

Notes to the financial statements (continued)

2. Operating loss

	2001 £'000	2000 £'000
Operating loss is stated after charging/(crediting):		
Audit fees	50	81
Administration services provided by subsidiary companies	8,798	14,010
Management fees for services provided to other group companies	(8,900)	(14,152)
Variation from cost on pension scheme (see note 17)	(4,225)	-
	<u><u></u></u>	<u><u></u></u>

Degussa UK Holdings Ltd incurs the audit costs of certain other Group companies.

3. Exceptional items

	2001 £'000	2000 £'000
Provisions (see note 13)	(82,396)	-
Takeover administration fees	(8,968)	-
Quest costs on vesting of SAYE options	(1,999)	-
Directors' remuneration	(11,897)	-
	<u><u>(105,260)</u></u>	<u><u>-</u></u>

Provisions mainly comprise liabilities that are expected to arise in respect of warranties and indemnities that have been charged in the consolidated Laporte plc accounts in prior years but not in the Company's individual accounts. Degussa UK Holdings Ltd (formerly Laporte plc) is no longer required to produce consolidated accounts, therefore the provisions have been charged in the Company's profit and loss account this year.

Takeover administration fees relate to broking, financing and other administrative fees associated with the acquisition by Degussa SKW Co. on 13 March 2001.

Quest costs represent the cost to the company in respect of share options exercised by employees of the Laporte Group who were members of the Save As You Earn (SAYE) scheme.

Directors' remuneration represents £6.7m in respect of vesting costs of the directors' share options and £5.2m in respect of directors' compensation for loss of office. Both these amounts include employer's national insurance costs incurred as appropriate.

Degussa UK Holdings Limited (formerly Laporte plc)

Notes to the financial statements (continued)

4. Directors and Employees

	2001 £'000	2000 £'000
Directors and employees		
Wages and salaries	7,029	2,822
Social security costs	1,366	284
Pension costs	4,737	716
	<u>13,132</u>	<u>3,822</u>

	2001 No.	2000 No.
Average numbers employed	<u>4</u>	<u>5</u>

All the employees of the company were also directors of the company.

	2001 £'000	2000 £'000
Directors' remuneration		
Emoluments	815	2,382
Company contributions to pension schemes	320	716
Amounts received on the cancellation or vesting of share options	5,966	-
Compensation for loss of office		
- Amounts contributed in to pension schemes	4,417	-
- Other	248	440
Total directors' remuneration	<u>11,766</u>	<u>3,538</u>
Company social security costs	1,366	284
Total directors' costs	<u>13,132</u>	<u>3,822</u>

Amounts received by directors gains on the vesting of share options includes £0.8m in respect of payments made to former directors. The Company also continued payment of pensions under unapproved unfunded pension arrangements to former directors and their widows £95,064 (2000: £80,313)

	2001 £'000	2000 £'000
Highest paid director		
Emoluments	542	736
Company contributions to pension schemes	264	529
Amounts received on the cancellation or vesting of share options	3,438	-
Compensation for loss of office		
- Amounts contributed in to pension schemes	4,047	-
- Other	65	-
	<u>8,356</u>	<u>1,265</u>

None of the directors that left during the year had any accrued pension benefit on 30 June 2001 when they left the Company as all the Company's obligations with respect to their directors' pension benefits were paid in to unapproved benefit schemes. As at 31 December 2000, the total accrued pension was £254,364 per annum of which £187,976 related to the highest paid director. As at the balance sheet date, the Company has no employees and no director receives any remuneration from the Company.

Degussa UK Holdings Limited (formerly Laporte plc)

Notes to the financial statements (continued)

Note 4 (continued): Directors and employees

Directors' share awards

	Exercise price	Balance at 1.1.01	Vested during the year	Lapsed during the year	Balance at 31.12.01
Executive and savings related schemes					
<i>JW Leng</i>					
Executive	814p	171,990	-	(171,990)	-
SAYE	389p	2,434	(2,434)	-	-
<i>MA Kayser</i>					
SAYE	594p	2,904	(2,904)	-	-
Bonus and long term incentive plans					
<i>JW Leng</i>					
1996 bonus shares		10,000	(10,000)	-	-
1996 incentive shares		5,000	(5,000)	-	-
1997 bonus shares		14,788	(14,788)	-	-
1997 incentive shares		14,788	(14,788)	-	-
Deferred bonus		39,939	(39,939)	-	-
1998 LTIP award		31,870	(31,870)	-	-
1999 LTIP award		40,983	(40,983)	-	-
2000 LTIP award		51,782	(51,782)	-	-
1999 Matching share plan		13,315	(13,315)	-	-
2000 Matching share plan		20,712	(20,712)	-	-
Conditional share award		235,000	(235,000)	-	-
<i>MA Kayser</i>					
1997 bonus shares		7,182	(7,182)	-	-
1997 incentive shares		7,182	(7,182)	-	-
Deferred bonus		19,399	(19,399)	-	-
1998 LTIP award		15,480	(15,480)	-	-
1999 LTIP award		20,491	(20,491)	-	-
2000 LTIP award		25,891	(25,891)	-	-
1999 Matching share plan		6,657	(6,657)	-	-
2000 Matching share plan		10,356	(10,356)	-	-
Conditional share award		124,000	(124,000)	-	-

Following the acquisition by Degussa SKW Co. on 13 March 2001, the share options held by Messrs Leng and Kayser were either cancelled, exercised or lapsed. In return for cancelling the share options, the directors received a cash amount equal to the value of the Laporte shares to which they were entitled, being £6.97 a share plus accrued dividends.

Cash bonuses of £249,996.30 and £124,995.10 were paid to Messrs Leng and Kayser respectively by Degussa UK Holdings Ltd (formerly Laporte plc) in respect the exercise of their Long Term Incentive Plan share award made on 23 April 1999 in accordance with the plan rules.

Degussa UK Holdings Limited (formerly Laporte plc)

Notes to the financial statements (continued)

Note 4 (continued): Directors and employees

Directors' interests in shares

	B shares of 1p each	B shares of 1p each	Ordinary 50p shares	Ordinary 50p shares
	Balance at 1.01.01	Balance at 31.12.01	Balance at 1.01.01	Balance at 31.12.01
JW Leng	-	-	12,826	-
MA Kayser	-	-	9,405	-
G Duncan	-	-	5,687	-
WJ Alexander	-	-	1,000	-
RA Gardner	56,925	-	10,325	-
AM Thomson	-	-	3,000	-

On 2 February 2001 the company converted the outstanding B shares of 1p each in to new ordinary shares at the rate of one new ordinary share for every 689.3 B shares held. As a consequence Mr Gardner received 82 ordinary shares upon conversion of his outstanding B shares.

On 12 April 2001 Degussa SKW Co. acquired all the shares owned by the directors as part of the acquisition of Laporte plc.

5. Disposal costs

	2001 £'000	2000 £'000
Recharge of disposal costs / (disposal costs)	<u>5,756</u>	<u>(8,092)</u>

The £5.8m income for the year ended 31 December 2001 represents recharges to subsidiary undertakings to adjust the profit or loss of shares or assets sold to KL Holdings Inc. which had been expensed by the company in the period ending 31 December 2000.

Disposal costs in the year ended 31 December 2000 comprise £5.8m of net price adjustments and £2.3m of costs incurred in relation to the disposal of businesses to KL Holdings Inc. in November 2000 as described in the consolidated Laporte plc accounts ended 31 December 2000.

6. Income from shares in group undertakings

	2001 £'000	2000 £'000
Dividend income	<u>-</u>	<u>70,000</u>

Degussa UK Holdings Limited (formerly Laporte plc)

Notes to the financial statements (continued)

7. Interest and other income and charges

	2001 £'000	2000 £'000
Other interest receivable and similar income		
Amounts owed by group undertakings	14,296	23
Bank interest receivable	34,141	9,508
Net exchange gains	-	5,435
	<u>48,437</u>	<u>14,966</u>
Interest payable and similar charges		
Amounts owed to group undertakings	(17,748)	(14,378)
Bank interest payable	(20,046)	(12,998)
Loan notes interest payable	(3,001)	(3,701)
Currency swap termination charges	(900)	-
Net exchange losses	(7,274)	-
	<u>(48,969)</u>	<u>(31,077)</u>

8. Tax on (loss) / profit on ordinary activities

	2001 £'000	2000 £'000
UK Corporation tax credit at 30% (2000: 30%)	6,341	1,306
Adjustments relating to prior years	(600)	-
Irrecoverable ACT	(9,647)	-
Deferred taxation charge for year (see note 13)	(4,688)	-
Exceptional deferred taxation charge	559	-
	<u>(8,035)</u>	<u>1,306</u>

Irrecoverable ACT represents a write down of ACT recoverable charged in the consolidated Laporte plc accounts in prior years but not in the Company's individual accounts. Degussa UK Holdings Ltd (formerly Laporte plc) is no longer required to produce consolidated accounts, therefore the provisions have been charged in the Company's profit and loss account this year.

The exceptional deferred tax charge relates to the warranties and indemnities provisions charge as described in notes 3 and 13.

There is currently no unprovided deferred taxation (2000: £nil).

Degussa UK Holdings Limited (formerly Laporte plc)

Notes to the financial statements (continued)

9. Investments

	Shares in group undertakings and participating interests £'000	Gilts £'000	Own shares £'000	Total £'000
<i>Cost</i>				
At 1 January 2001	1,127,255	4,888	8,573	1,140,716
Additions	618	-	-	618
Permanent diminution in value	(50,000)	-	-	(50,000)
Disposals	-	-	(8,573)	(8,573)
At 31 December 2001	1,077,873	4,888	-	1,082,761

The value of the Company's investment in Laporte Speciality Organics Limited has been written down by £50m to the recoverable amount as at 31 December 2001.

The index-linked gilts act as security against unapproved unfunded pension obligations that are provided for in subsidiary undertakings.

Own shares represented Laporte plc shares held by the Laporte Employee Benefit Trusts to be used to satisfy awards under share schemes. The trust accepted the takeover offer from Degussa SKW Co. on behalf of the employees entitled to share awards.

10. Subsidiaries

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

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

Degussa UK Holdings Limited (formerly Laporte plc)

Notes to the financial statements (continued)

11. Debtors

	2001 £'000	2000 £'000
Falling due within one year		
Amounts owed by other group entities	557,763	333,762
Other debtors	2,014	2,504
	<u>559,777</u>	<u>336,266</u>
Falling due after one year		
Pension prepayment (see note 17)	<u>15,627</u>	<u>-</u>

12. Creditors falling due within one year

	2001 £'000	2000 £'000
Short Term Borrowings and Bank Overdrafts	96,211	391,559
Unsecured loan notes	68,511	70,263
Amounts owed to group undertakings	1,073,783	1,107,320
Other creditors	1,521	1,782
Accruals and deferred income	616	-
	<u>1,240,642</u>	<u>1,570,924</u>

On 11 September 1998, the Company created floating rate unsecured loan notes 2008 up to a maximum nominal amount of £149,821,749, to be issued in connection with the acquisition of the ordinary share capital of Inspec Group plc (now Laporte Specialty Organics Limited). Loan notes totalling £74,861,466 were issued between 15 September 1998 and 17 November 1998 to certain Inspec Group plc shareholders in consideration of their acceptance of the recommended offer for Inspec. The loan notes bear interest at 1% per annum below LIBOR. The total value of the loan notes outstanding on 31 December 2001 was £68,511,069. 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.

Degussa UK Holdings Limited (formerly Laporte plc)

Notes to the financial statements (continued)

13. Provisions for liabilities and charges

	Warranties, indemnities and other £'000	Deferred taxation £'000	Total £'000
At beginning of year	-	-	-
Charge for the year	-	(4,688)	(4,688)
Exceptional charge for the year	(82,396)	559	(81,837)
At end of year	<u>(82,396)</u>	<u>(4,129)</u>	<u>(86,525)</u>

Warranties, indemnities and other provisions

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

Deferred taxation

Included within deferred taxation is a provision of £4.7m for deferred taxation in respect of movements on the pension prepayment (see note 17). This is expected to move, in future years, in line with movements on the pension prepayment. The exceptional deferred taxation charge relates to the exceptional warranties, indemnities and other provisions described above.

There are no unprovided deferred taxation amounts (2000: nil).

14. Cash at bank and in hand

	2001 £'000	2000 £'000
Cash	-	536,342
Short-term deposits	<u>34,720</u>	<u>70,263</u>
	<u>34,720</u>	<u>606,605</u>

Short-term deposits comprise £34.7m (2000: £35.1m) which is pledged with Toronto-Dominion Bank and £nil (2000: £35.1m) which was pledged with Barclays Bank, who have guaranteed floating rate unsecured loan notes of the same amount relating to the acquisition of Inspec Group plc.

Degussa UK Holdings Limited (formerly Laporte plc)

Notes to the financial statements (continued)

15. Called up share capital

	Ordinary shares of 50p each		B Shares of 1p each	
	£'000	No. '000	£'000	No. '000
<i>Authorised</i>				
At start and end of year	130,000	260,000	150,000	15,000,000
<i>Issued and fully paid</i>				
Balance at start of year	97,702	195,404	2,227	222,700
B shares converted to ordinary shares	162	323	(2,227)	(222,700)
New share capital subscribed	559	1,118	-	-
Balance at end of year	98,423	196,845	-	-

On 2 February 2001, all remaining B shares were converted to ordinary shares at 1 share for every 689.3 B shares held.

16. Reserves

	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Profit and loss £'000	Total £'000
Balance at start of year	186,314	64,182	124,800	37,438	412,734
Conversion of B Shares	2,065	-	-	-	2,065
New shares subscribed	6,628	-	-	-	6,628
Retained loss for the financial year	-	-	-	(154,132)	(154,132)
Balance at end of year	195,007	64,182	124,800	(116,694)	267,295

On 2 February 2001, all remaining B shares were converted to ordinary shares at 1 share for every 689.3 B shares held. The share premium movement represents the difference between the book value of the B shares converted and the nominal value of the ordinary share capital issued.

New shares were subscribed during the year following the vesting of options in employee share schemes.

Degussa UK Holdings Limited (formerly Laporte plc)

Notes to the financial statements (continued)

17. Pensions commitments

The Laporte Group Pension Trust is divided into a number of sections, defined benefit, hybrid arrangements and a defined contribution scheme.

The Trust's schemes are funded and funds are held in a separately administered fund. The Trust provides pension arrangements on behalf of many employers within the Degussa group including Degussa UK Holdings Ltd.

Defined contribution scheme:

Contributions for the defined contribution scheme remain between 3% and 20.25% depending on the member's age. None of the employees of Degussa UK Holdings Ltd were members of the defined contribution scheme and as such there was no charge to the profit and loss account during the year in respect of this scheme.

Defined benefit schemes and hybrid arrangements:

Contributions to the Trust vary depending on whether the member is part of the defined benefit or hybrid arrangements. Until 31 March 2001, when independent actuaries last valued the Trust, contributions by the employers varied between 4% and 12.9%. Following the results of the valuation, with effect from 1 April 2001, employer's contributions to the Trust have been decreased to 0% of pay for the members with defined benefits arrangements and between 0% and 5% for members with hybrid arrangements.

In prior years, the pension prepayment on the balance sheet had been shown in the accounts of Laporte Industries Limited, a fellow group company. The prepayment was transferred at the beginning of the year for cash consideration to Degussa UK Holdings Ltd, the legal sponsor of the pension scheme, from Laporte Industries Limited. For accounting purposes, as at the balance sheet date, the pension prepayment was £15.6m (2000: £nil). The movement can be analysed as follows:

	Pension prepayment £'000	Related deferred tax £'000
Balance at start of year	-	-
Acquired during the year	11,402	(3,420)
Variation from regular cost	4,225	(1,268)
Balance at end of year	<u>15,627</u>	<u>4,688</u>

The charge for the year in respect of providing pensions under defined benefit and hybrid arrangements for the employees of Degussa UK Holdings Ltd was nil as the employees were remunerated through the unapproved retirement benefit schemes. The excess of the actuarial surplus over the pension prepayment as spread over the average remaining service life of the members of the scheme, along with the interest on the prepayment, is included within the operating loss for the year as shown in note 2.

Funded unapproved retirement benefit schemes

The two employees of the company received pension benefits through individual funded unapproved retirement benefit schemes. The charge for the year in respect of these schemes is shown in note 4.

Degussa UK Holdings Limited (formerly Laporte plc)

Notes to the financial statements (continued)

Note 17 Pensions commitments (continued)

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 respect of the Trust is shown below. They are expressed in real terms; that is relative to the assumed price inflation of 2.5% per annum

	Funding basis %	SSAP 24 basis %
Long term real average annual rate:		
Return on investments – before retirement	2.75	3.50
Return on investments – after retirement	2.75	3.50
General increase in pensionable remuneration	1.5	1.5
Increase in current and future pensions prepayments	0.0	0.0

Position shown by the valuation:

Market values of assets	£288.6m
Funding level – funding basis	110%
Funding level – SSAP 24 basis	124%

During the year, the new accounting standard FRS 17 Retirement Benefits was introduced. The Company has not yet fully adopted FRS 17 but transitional arrangements require certain disclosures. A qualified independent actuary carried out an assessment as at 31 December 2001 based on the previous formal valuation as at 31 March 2001.

The major assumptions used in the valuation of the defined benefit scheme were:

	FRS 17 basis % per annum
Inflation	2.25
Salary increase	3.75
Pension increases	2.25
Discount rate	6.00

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Degussa UK Holdings Limited (formerly Laporte plc)

Notes to the financial statements (continued)

Note 17 Pensions commitments (continued)

The assets in the scheme as at the 31 December 2001 were:

	FRS 17 basis £'000
Equities	83,650
Bonds	158,225
Other	16,565
Total market value of assets	258,440
Present value of scheme liabilities	(216,910)
Surplus in the scheme	41,530
Irrecoverable surplus	(11,530)
Recoverable surplus in the scheme	30,000
Deferred tax liability	(9,000)
Net pension asset	21,000

Employees of a number of UK companies within the Degussa Group are members of this scheme therefore this pension asset is not entirely attributable to Degussa UK Holdings Limited.

18. Ultimate holding company

The Company's immediate holding company is Degussa SKW Co., a company registered and incorporated in England and Wales. The Company's ultimate holding company is E.ON AG, a company registered and incorporated in Germany. The consolidated financial statements of E.ON AG can be obtained from E.ON-Platz 1, 40479 Düsseldorf.

The Company is also consolidated in the accounts of Degussa AG, a company registered and incorporated in Germany. The consolidated financial statements of Degussa AG can be obtained from Bennigsenplatz 1, 40474 Düsseldorf.

19. Contingent liabilities

There are no contingent liabilities at the year end.