

BASF UK Limited (formerly Cognis UK Limited)
Directors' report and financial
statements

Registered number 02708129
31 December 2010

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Directors' report

The Directors present their report, together with the audited financial statements of the Company, for the year ended 31 December 2010

Business review

Principal activities

The principal activities of the Company are concerned with the manufacture and distribution of speciality chemical products and provisions of related services. These activities are directed towards industrial and commercial applications.

On 31 August 2011 the site at Hythe, Southampton was divested to Geo Specialty Chemicals Distribution Limited. From this date the nature of the company's business changed from being that of a manufacturer and distributor of speciality chemical product to that of acting as an agent for the procurement of speciality chemicals for the BASF Group. As a result of this change the previously acquired Goodwill and Know-how has been fully impaired during the current financial year.

Trading

The company made an operating loss of £524,000 after goodwill impairment of £11,819,000, compared to an operating profit of £1,030,000 in 2009.

Notwithstanding the impairment of intangible fixed assets of £11,819,000, the company posted a much improved performance in 2010. Sales across all product areas rose by 27.7% and the company also experienced considerable cost efficiencies as a result of the significant business restructuring and rationalisation programme undertaken in 2009.

Despite the significant business rebound, control on costs remained tight and the increase in distribution and admin costs in 2010 were a result of sales volume related costs (e.g. Sales agent commissions) and costs received from the parent company rather than fixed site based costs.

The company again benefited from lower interest rates and the resulting cash generated improved the net borrowing situation significantly. The loan from the parent which amounted to £19,006,000 at 31 December 2010 was replaced by a loan from the new parent BASF SE of £11,000,000 in February 2011. This reduction was enabled using the surplus cash generated by trading in 2010.

| | 2010 £000 | 2009 £000 |
|----------------------------------|-------------------|------------------|
| Geographical destination: | | |
| United Kingdom | 29,048 | 23,446 |
| Continental Europe | 46,055 | 34,735 |
| North America | 6,897 | 4,272 |
| Rest of World | 9,400 | 9,122 |
| | 91,400 | 71,575 |
| Gross Profit | 20,408 | 9,037 |
| Gross profit % | 22.3% | 12.6% |

Risks and uncertainties

Exchange Risk

As well as US dollar denominated sales the company has substantial debtors denominated in Euros. The Euro exposure is hedged mainly through Euro denominated purchases. To manage the dollar risk, the company arranges currency hedge instruments with Cognis Group to cover expected dollar receipts on a monthly basis. As at 31 December 2010 there were no outstanding foreign currency hedges.

Directors' report *(continued)*

Financial Risk

The company's debt is provided by the BASF group at commercial rates of interest

Liability Risk

The Group maintains usual commercial insurance policies for a business of this type

Corporate Social Responsibility

Employees

The Company continues to develop its employment policies. 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. The Company's policy is to give disabled people equal consideration and opportunity for employment subject to their capabilities. Employees who became disabled are assisted and encouraged to continue in their existing employment or, where appropriate, are redeployed in suitable alternative work.

The Company 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 and incentive benefits are made on a collective or individual basis as appropriate.

Environment

As a chemicals manufacturer the company takes its environmental responsibilities very seriously. Our commitment is to protect the environment, the health and safety of our employees, contractors, visitors, the communities in which we operate and the users of our products. We aim to meet or exceed all relevant legislative requirements.

It is our policy

- 1 To comply with relevant legislation and Codes of Practice for the environment, health and safety and product safety and to review and update standards to meet changes in legislation
- 2 To cooperate fully with relevant legislative bodies on the formulation of standards and means of compliance
- 3 To assess the environmental, health and safety effects of our activities, products and acquisitions and to take measures to prevent and control the risks

We aim to continually improve environmental performance by the use of processes, practices, materials or products that avoid, reduce or control pollution and this may include such techniques as recycling, treatment, process changes, control mechanisms, efficient use of resources and material substitution.

Charitable and political contributions

The total amount of charitable contributions made in the UK by the Company during the period was £2,299 (2009 £1,704)

No political contributions were made in the period (2009 nil)

Research and development

The Company follows a policy of supporting a level of research activities commensurate with the current and future requirements of the business.

Dividends

The directors recommend the payment of a dividend for ordinary shares of £NIL (2009 £Nil) and for preference shares of £NIL (2009 £Nil).

Directors' report *(continued)*

Directors

The directors who held office during the year and up to the date of signature of this report were as follows

P Allen (Resigned 07 03 2011)
N Liptrot (resigned 31 08 2011)
V Schuermann (appointed 07 03 2011, resigned 31 08 2011)
TB Jensen (appointed 01 09 2011)
S Hatton (appointed 01 09 2011)
T Urwin (appointed 01 09 2011)

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

By order of the board



T Urwin
Director

Earl Road
Cheadle Hulme
Cheadle
Cheshire
SK8 6QG

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

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

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



Independent auditor's report to the members of BASF UK Limited

We have audited the financial statements of BASF UK Limited for the year ended 31 December 2010 set out on pages 7 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report to the members of BASF UK Limited *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

W Smith

**W Smith
Senior Statutory Auditor**

For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Dukes Keep
Marsh Lane
Southampton
SO14 3EX

2012 December 2011

Profit and loss account
for the year ended 31 December 2010

| | <i>Notes</i> | 2010 £000 | 2009 £000 |
|---|--------------|----------------------|----------------------|
| Turnover | 2 | 91,400 | 71,575 |
| Cost of sales | | (70,992) | (62,538) |
| Gross profit | | 20,408 | 9,037 |
| Distribution costs | | (4,961) | (4,609) |
| Impairment of intangible assets | 8 | (11,819) | - |
| Administrative expenses | | (4,152) | (3,398) |
| Operating (Loss)/profit | | (524) | 1,030 |
| Other interest receivable and similar income | 4 | 19 | 43 |
| Other finance income | 5 | 745 | 68 |
| Interest payable and similar charges | 4 | (599) | (1,022) |
| (Loss)/profit on ordinary activities before taxation | 3 | (359) | 119 |
| Tax on loss on ordinary activities | 7 | (3,340) | (191) |
| (Loss) for the financial year | | (3,699) | (72) |

There is no material difference between the loss on ordinary activities before taxation and the profit for the periods as stated above and their historical cost equivalents

A statement of movement on Reserves is set out in Note 17

Statement of total recognised gains and losses
for the year ended 31 December 2010

| | 2010 £000 | 2009 £000 |
|---|----------------------|----------------------|
| (Loss) for the financial year | (3,699) | (72) |
| Actuarial gain/(loss) recognised in the pension scheme | 3,702 | (2,557) |
| Deferred tax arising on gain/losses in the pension scheme at 27% (2009 28%) | (1,000) | 716 |
| Effect of decrease of tax rate | 69 | - |
| Total recognised losses relating to the financial year | (928) | (1,913) |

Balance sheet
At 31 December 2010

| | <i>Note</i> | 2010 | 2009 |
|--|-------------|-----------------|-----------------|
| | | £000 | £000 |
| Fixed assets | | | |
| Intangible assets | 8 | - | 13,293 |
| Tangible assets | 9 | 12,679 | 14,173 |
| | | <u>12,679</u> | <u>27,466</u> |
| Current assets | | | |
| Stocks | 10 | 8,591 | 7,579 |
| Debtors | 11 | 26,134 | 17,266 |
| Cash at bank and in hand | | 1,776 | 943 |
| | | <u>36,501</u> | <u>25,788</u> |
| Creditors amounts falling due within one year | 12 | <u>(33,219)</u> | <u>(32,225)</u> |
| Net current assets/(liabilities) | | <u>3,282</u> | <u>(6,437)</u> |
| Total assets less current liabilities | | <u>15,961</u> | <u>21,029</u> |
| Provisions for liabilities and charges | 14 | <u>(1,814)</u> | <u>(2,020)</u> |
| Net assets excluding pension liabilities | | <u>14,147</u> | <u>19,009</u> |
| Pension asset/(liability) | 15 | 649 | (3,285) |
| Net assets | | <u>14,796</u> | <u>15,724</u> |
| Capital and reserves | | | |
| Called up share capital | 16 | 190 | 190 |
| Share premium account | 17 | 28,810 | 28,810 |
| Profit and loss account excluding pension liability | 17 | (14,853) | (9,991) |
| Pension surplus/(liability) | 17 | 649 | (3,285) |
| | | <u>(14,204)</u> | <u>(13,276)</u> |
| Shareholders' funds | | <u>14,796</u> | <u>15,724</u> |

These financial statements were approved by the board of directors on 16/12/11 and were signed on its behalf by



T Urwin
Director

16 December 2011

Reconciliation of movements in shareholder's funds

For the year ended 31 December 2010

| | 2010 £000 | 2009 £000 |
|---|---------------|----------------|
| (Loss) for the financial period | (3,699) | (72) |
| Other recognised gains and losses | 2,771 | (1,841) |
| Net reduction in shareholder's funds | (928) | (1,913) |
| Opening shareholder's funds | 15,724 | 17,637 |
| Closing shareholder's funds | 14,796 | 15,724 |

Notes

(forming part of 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 preparation

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

As the company is a wholly owned subsidiary of BASF Societas Europaea, the company has taken advantage of the exemption contained in FRS8, and has, therefore, not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties) The consolidated financial statements of BASF Societas Europaea, within which this company is included, can be obtained from the address given in note 20

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards The accounts have been prepared on a going concern basis and the directors believe this to be appropriate for the following reasons

The company's business activities, together with the factors likely to affect its future development and position are set out in the trading section of the Directors' Report on page 1

The company is expected to continue to generate positive cash flows on its own account for the foreseeable future The company participates in the group's centralised treasury arrangements so shares banking arrangements with its ultimate parent and fellow subsidiaries

The majority of the company's liabilities are amounts owed to group undertakings The directors, having assessed the responses of the directors of the company's ultimate parent BASF Societas Europaea to their enquiries have no reason to believe that a material uncertainty exists that may cast a significant doubt about the ability of the BASF group to continue as a going concern or its ability to continue with the current banking arrangements

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of BASF Societas Europaea, the company's directors have a reasonable expectation that the company will be able to continue in operation existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

Turnover

Turnover is expressed at invoiced value, including carriage and insurance, including any rebates to customers, if due, and value added tax Turnover is recognised upon despatch

Depreciation

The original cost, less estimated residual values, of tangible fixed assets is depreciated on a straight-line basis over their estimated useful economic lives The criteria for economic lives are

- | | |
|---|---------------------------|
| • Plant, plant specific buildings and equipment | - maximum of twenty years |
| • Freehold buildings (excluding plant specific buildings) | - maximum of fifty years |
| • Leasehold properties | - terms of lease |
| • Freehold land | - not depreciated |

No depreciation is provided on assets in the course of construction

Notes *(continued)*

1 Principal accounting policies *(continued)*

Intangible fixed assets and amortisation

Know-how acquired by the Company is recorded at cost and amortised to nil by equal annual instalments over its useful economic life which is assumed to be 20 years

Goodwill purchased separately from a business is capitalised at cost. Goodwill acquired as part of an acquisition is capitalised at fair value where this can be measured reliably. Goodwill is amortised to nil by equal annual instalments over its estimated useful life, which is deemed to be 20 years

On 31 December 2005 the company acquired all of the trading assets of Cognis UK Limited. The resulting goodwill of £14,779,000 was capitalised and is being written off over 20 years in line with the current accounting policy for intangible assets

Following the acquisition of the Cognis group by BASF SE the European Commission required the divestment of BASF UK Limited's site at Hythe, Southampton. As a result of this divestiture the nature of the business will fundamentally change going forward and previously acquired goodwill and Know-how has been fully impaired

Research and development

Expenditure is charged to the profit and loss account in the year in which it is incurred

Leases

Rental payments under operating leases are charged against profit as incurred

Stocks

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

Taxation

The charge for taxation is based on the profit for the period

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

Government grants

Capital-based government grants receivable are credited to the profit and loss account in equal instalments over the lives of the related assets

Retirement benefits

The Company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses

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

Notes (continued)

2 Turnover

| | 2010 £000 | 2009 £000 |
|---------------------------------|---------------|---------------|
| Geographical destination | | |
| United Kingdom | 29,048 | 23,446 |
| Continental Europe | 46,055 | 34,735 |
| North America | 6,897 | 4,272 |
| Rest of World | 9,400 | 9,122 |
| | <u>91,400</u> | <u>71,575</u> |

3 Loss on ordinary activities before taxation

| | 2010 £000 | 2009 £000 |
|--|--------------|--------------|
| <i>Loss on ordinary activities before taxation is stated after charging:</i> | | |
| Depreciation of tangible fixed assets - owned | 2,785 | 3,245 |
| - leased | 60 | 49 |
| Amortisation of intangible fixed assets | 1,474 | 1,474 |
| Impairment of intangible fixed assets | 11,819 | - |
| Operating lease rentals - plant and machinery | 96 | 84 |
| - land and buildings | 446 | 445 |
| Restructuring costs | - | 1,313 |
| Research and development expenditure | 901 | 830 |
| | <u></u> | <u></u> |
| <i>Auditors' remuneration</i> | | |
| Audit | 72 | 72 |
| | <u>72</u> | <u>72</u> |

4 Interest

| | 2010 £000 | 2009 £000 |
|---|--------------|--------------|
| Interest receivable | | |
| Amounts from group undertakings | 19 | 43 |
| | <u>19</u> | <u>43</u> |
| Interest payable and similar charges | | |
| On bank loans and overdrafts | 42 | 36 |
| Amounts to group undertakings | 555 | 981 |
| Finance lease interest | 2 | 5 |
| | <u>599</u> | <u>1,022</u> |

Notes (continued)

5 Other finance income

| | 2010 £000 | 2009 £000 |
|--|--------------|--------------|
| Expected return on pension scheme assets | 2,513 | 2,061 |
| Interest on pension scheme liabilities | (2,218) | (1,993) |
| Earn out income received ex Cognis GmbH | 450 | - |
| | <u>745</u> | <u>68</u> |

6 Directors and employees

| | 2010 £000 | 2009 £000 |
|---|--------------|--------------|
| Wages and salaries (inc redundancy relating to restructuring) | 6,410 | 7,139 |
| Social security costs | 541 | 533 |
| Other pension costs (note 15) | 909 | 768 |
| | <u>7,860</u> | <u>8,440</u> |

Average numbers employed

| | No | No |
|----------------|------------|------------|
| Operations | 96 | 102 |
| Administration | 26 | 28 |
| Other | 31 | 32 |
| | <u>153</u> | <u>162</u> |

Remuneration of directors

| | 2010 £000 | 2009 £000 |
|---------------------------|--------------|--------------|
| Directors' emoluments | 107 | 103 |
| Performance-based bonuses | 25 | 13 |
| | <u>132</u> | <u>116</u> |

The aggregate of emoluments and performance-based bonuses of the highest paid director was £132,305 (2009 £115,696).

Retirement benefits are accruing under defined benefit pension schemes for NIL directors at 31 December 2010 (2009 Nil)

Notes (continued)

7 Taxation

| <i>Analysis of charge/(credit) in period</i> | 2010 | 2009 |
|---|--------------|--------------|
| | £000 | £000 |
| Current tax | | |
| UK Corporation tax on profits of the period | 2,913 | - |
| Adjustments in respect of previous periods | - | (178) |
| Total current tax | 2,913 | (178) |
| Deferred tax | | |
| Adjustments in respect of previous periods | 114 | - |
| Pension | 472 | 90 |
| Origination and reversal of timing differences (note 14) | (159) | 279 |
| Effect of decrease of tax rate | - | - |
| Total deferred tax | 427 | 369 |
| Tax charge/(credit) on profit on ordinary activities | 3,340 | 191 |

Factors affecting the tax charge for the current period

On 22 June 2010 the Chancellor announced that the main rate of UK corporation tax will reduce from 28% to 27% with effect from 1 April 2011. This tax change became substantively enacted in July 2010 and therefore the effect of the rate reduction on the deferred tax balances as at 31 December 2010 has been included in the figures above.

On 23 March 2011 the Chancellor announced a further reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011. This has not been reflected in the figures above as it was not substantively enacted at the balance sheet date.

The tax assessed for the period is higher (2009 lower) than the standard rate of corporation tax for the period of 27% (2009 28%). The differences are explained below.

| | 2010 | 2009 |
|---|--------------|--------------|
| | £000 | £000 |
| (Loss)/profit on ordinary activities before tax | (359) | 119 |
| (Loss)/profit on ordinary activities multiplied by standard rate of corporate tax | (97) | 33 |
| Effects of | | |
| Expenses not deductible for corporation tax purposes | 3,437 | 256 |
| Depreciation in excess of capital allowances | 310 | 519 |
| Other timing differences | (4) | 4 |
| Adjustments to tax charge in respect of prior years | - | (178) |
| Utilisation of tax losses | (733) | (812) |
| Current tax charge/(credit) for the period (see above) | 2,913 | (178) |

Notes (continued)

8 Intangible assets

| | Know-how £000 | Goodwill £000 | Total £000 |
|--------------------------------|------------------|------------------|---------------|
| At beginning and end of period | 15,079 | 14,779 | 29,858 |
| <i>Amortisation</i> | | | |
| At beginning of period | 13,609 | 2,956 | 16,565 |
| Charged in period | 735 | 739 | 1,474 |
| Impairments | (735) | (11,084) | (11,819) |
| At end of period | - | - | - |
| <i>Net book value</i> | | | |
| At 31 December 2010 | - | - | - |
| At 31 December 2009 | 1,470 | 11,823 | 13,293 |

Following the acquisition of the Cognis group by BASF SE the European Commission required the divestment of BASF UK Limited's site at Hythe, Southampton. As a result of this divestiture the nature of the business will fundamentally change going forward and previously acquired goodwill and Know-how has been fully impaired.

Notes (continued)

9 Tangible assets

| | Land and buildings | Plant and machinery | Fixtures, fittings, tools and equipment | Software | Assets in the course of construction | Total |
|------------------------|-----------------------|------------------------|---|----------|--|--------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost | | | | | | |
| At beginning of period | 7,254 | 58,171 | 2,709 | 1,495 | 414 | 70,043 |
| Additions | 54 | 686 | 76 | - | 535 | 1,351 |
| Reclassifications | - | 952 | - | (3) | (949) | - |
| At end of period | 7,308 | 59,809 | 2,785 | 1,492 | - | 71,394 |
| Depreciation | | | | | | |
| At beginning of period | 4,893 | 47,108 | 2,424 | 1,445 | - | 55,870 |
| Charge for period | 227 | 2,427 | 172 | 19 | - | 2,845 |
| At end of period | 5,120 | 49,535 | 2,596 | 1,464 | - | 58,715 |
| Net book value | | | | | | |
| At 31 December 2010 | 2,188 | 10,274 | 189 | 28 | - | 12,679 |
| At 31 December 2009 | 2,361 | 11,063 | 285 | 50 | 414 | 14,173 |

Land and buildings all relate to long leasehold property

Included in the total net book value of fixtures, fittings, tools and equipment is £20,000 (2009 £22,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £60,000 (2009 £49,000)

10 Stocks

| | 2010 £000 | 2009 £000 |
|-------------------------------------|--------------|--------------|
| Raw materials and consumables | 2,196 | 2,052 |
| Work in progress | 2,901 | 2,202 |
| Finished goods and goods for resale | 3,494 | 3,325 |
| | 8,591 | 7,579 |

11 Debtors

| | 2010 £000 | 2009 £000 |
|--|---------------|---------------|
| Trade debtors | 13,859 | 12,121 |
| Amounts due from parent and fellow subsidiary undertakings | 11,858 | 4,551 |
| Other debtors | 176 | 263 |
| Prepayments and accrued income | 241 | 331 |
| | 26,134 | 17,266 |

Notes (continued)

12 Creditors: due within one year

| | 2010 £000 | 2009 £000 |
|---|---------------|---------------|
| Obligations under finance leases (see note 13) | 22 | 30 |
| Trade creditors | 5,244 | 4,499 |
| Amounts due to group undertakings | 24,462 | 26,249 |
| Taxation and social security (incl corporation tax) | 183 | 156 |
| Corporation tax | 1,787 | - |
| Accruals and deferred income | 1,521 | 1,291 |
| | <u>33,219</u> | <u>32,225</u> |

The finance leases are secured on the assets concerned

The amount due to fellow subsidiary undertakings includes £22,494,000 (2009 £25,288,000) relating to financing. Included in this amount is a loan from Cognis GmbH of £19,006,000 (2009 £21,800,000). This loan was repaid on 14 February 2011 and replaced with a new loan from BASF Societas Europaea for £11,000,000. Interest on this loan is charged at 1.29% pa.

On 22 June 2010 the Chancellor announced that the main rate of UK corporation tax will reduce from 28% to 27% with effect from 1 April 2011. This tax change became substantively enacted in July 2010 and therefore the effect of the rate reduction on the deferred tax balances as at 31 December 2010 has been included in the figures above. On 23 March 2011 the Chancellor announced a further reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011. This has not been reflected in the figures above as it was not substantively enacted at the balance sheet date. The Chancellor also proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 23% by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above.

13 Creditors: amounts falling due after more than one year

| | 2010 £000 | 2009 £000 |
|--|--------------|--------------|
| Obligations under finance leases and hire purchase contracts | - | - |
| The maturity of obligations under finance leases and hire purchase contracts is as follows | | |
| | 2010 £000 | 2009 £000 |
| Within one year | 23 | 31 |
| In the second to fifth years | - | - |
| Over five years | - | - |
| | <u>23</u> | <u>31</u> |
| Less future finance charges | (1) | (1) |
| | <u>22</u> | <u>30</u> |

Notes (continued)

14 Provisions for liabilities and charges

| | Restructuring Provision £000 | Deferred Taxation £000 | Total £000 |
|--|------------------------------------|------------------------------|---------------|
| At beginning of year | 559 | 1,461 | 2,020 |
| Increase in provision | - | - | - |
| Utilisation of provision | (47) | - | (47) |
| Charge to the profit and loss for the year | - | (115) | (115) |
| Effect of decrease of tax rate | - | (44) | (44) |
| At end of year | 512 | 1,302 | 1,814 |

The elements of deferred taxation are as follows

| | 2010 £000 | 2009 £000 |
|---|--------------|--------------|
| Difference between accumulated depreciation and amortisation and capital allowances | 1,468 | 2,144 |
| Tax losses | (114) | (615) |
| Other timing differences | (52) | (68) |
| | 1,302 | 1,461 |

The restructuring provision relates to the onerous lease in relation to the closure of the Barry site with 34 years remaining

Notes (continued)

15 Pension Scheme

The Company operates a pension scheme providing benefits based on final pensionable pay. The latest full actuarial valuation was carried out at 31 March 2009 was updated for FRS 17 purposes to 31 December 2010 by a qualified independent actuary.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

| | 2010 £000 | 2009 £000 |
|---|--------------|--------------|
| Present value of defined benefit obligations | (40,165) | (39,290) |
| Fair value of plan assets | 41,054 | 34,728 |
| Surplus/(Deficit) | 889 | (4,562) |
| Related deferred tax (liability)/asset at 27% (2009: 28%) | (240) | 1,277 |
| Net surplus/(liability) | 649 | (3,285) |

Movements in present value of defined benefit obligation

| | 2010 £000 | 2009 £000 |
|------------------------------|--------------|--------------|
| At 1 January 2010 | 39,290 | 30,887 |
| Current service cost | 909 | 768 |
| Interest cost | 2,218 | 1,993 |
| Contributions by members | 117 | 135 |
| Benefits paid | (747) | (1,380) |
| Administrative expenses paid | (406) | (438) |
| Actuarial (gains)/losses | (1,216) | 7,325 |
| At 31 December 2010 | 40,165 | 39,290 |

Notes (continued)

15 Pension schemes (continued)

Movements in fair value of plan assets

| | 2010 £000 | 2009 £000 |
|--------------------------------|--------------|--------------|
| At 1 January 2010 | 34,728 | 28,562 |
| Expected return on plan assets | 2,513 | 2,061 |
| Actuarial gains | 2,486 | 4,768 |
| Contributions by employer | 2,363 | 1,020 |
| Contributions by members | 117 | 135 |
| Benefits paid | (747) | (1,380) |
| Administrative expenses paid | (406) | (438) |
| | <hr/> | <hr/> |
| At 31 December 2010 | 41,054 | 34,728 |
| | <hr/> | <hr/> |

Expense recognised in the profit and loss account

| | 2010 £000 | 2009 £000 |
|--|--------------|--------------|
| Current service cost | 909 | 768 |
| Interest on defined benefit pension plan obligation | 2,218 | 1,993 |
| Expected return on defined benefit pension plan assets | (2,513) | (2,061) |
| | <hr/> | <hr/> |
| Total | (614) | (700) |
| | <hr/> | <hr/> |

Notes (continued)

15 Pension schemes (continued)

The expense is recognised in the following line items in the profit and loss account

| | 2010 £000 | 2009 £000 |
|-------------------------|--------------|--------------|
| Administrative expenses | (909) | (768) |
| Other finance income | 295 | 68 |
| Total | <u>(614)</u> | <u>(700)</u> |

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is £3,702,000 (2009 £2,557,000)

Cumulative actuarial gains/losses reported in the statement of total recognised gains and losses for accounting periods ending on or after 22 June 2002 and subsequently included by prior year adjustment under paragraph 96 of FRS 17, are £112,000 (2009 £3,814,000)

The fair value of the plan assets and the return on those assets were as follows

| | 2010 Fair value £000 | 2009 Fair value £000 |
|------------------------------|----------------------------|----------------------------|
| Equities | 29,313 | 24,587 |
| Corporate bonds | 11,741 | 10,141 |
| | <u>41,054</u> | <u>34,728</u> |
| Actual return on plan assets | <u>4,999</u> | <u>6,829</u> |

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio

Notes (continued)

15 Pension schemes (continued)

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows

| | 2010 % | 2009 % |
|---|-----------|-----------|
| Discount rate | 5.60% | 5.70% |
| Expected rate of return on plan assets | 7.10% | 7.10% |
| Expected return on plan assets at beginning of period | 7.10% | 7.30% |
| Rate of increase in pensions in payment and deferred pensions | 3.30% | 3.60% |
| Future salary increases | 4.40% | 4.60% |
| Price inflation | 3.40% | 3.60% |

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows

- Current pensioner aged 65: 21.9 years (male), 24.8 years (female)
- Future retiree upon reaching 65: 22.8 years (male), 25.6 years (female)

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

History of plans

The history of the plans for the current and prior periods is as follows

Balance sheet

| | 2010 £000 | 2009 £000 | 2008 £000 | 2007 £000 | 2006 £000 |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Present value of scheme liabilities | (40,165) | (39,290) | (30,887) | (36,199) | (36,581) |
| Fair value of scheme assets | 41,054 | 34,728 | 28,562 | 35,762 | 32,434 |
| Surplus/(Deficit) | 889 | (4,562) | (2,325) | (437) | (4,147) |

Experience adjustments

| | 2010 £000/% | 2009 £000/% | 2008 £000/% | 2007 £000/% | 2006 £000/% |
|--|----------------|----------------|----------------|----------------|----------------|
| Experience adjustments on scheme liabilities as a percentage of scheme liabilities | (3.0%) | 27.0% | (24.3%) | 6.5% | (2.4%) |
| Experience adjustments on scheme assets as a percentage of scheme assets | - | (8.0%) | 0.9% | 1.0% | (2.5%) |

The Company expects to contribute approximately £1,940,000 to its defined benefit plans in the next financial year.

Notes (continued)

16 Called up share capital

| | 2010 £000 | 2009 £000 |
|--------------------------------------|--------------|--------------|
| Authorised | | |
| 40,000 ordinary shares of £1 each | 40 | 40 |
| 150,000 preference shares of £1 each | 150 | 150 |
| | <u>190</u> | <u>190</u> |
| Issued and fully paid | | |
| 40,000 ordinary shares of £1 each | 40 | 40 |
| 150,000 preference shares of £1 each | 150 | 150 |
| | <u>190</u> | <u>190</u> |

On 18 December 2003, 60,000 ordinary shares were converted into 60,000 preference shares and, on the same date, 90,000 preference shares were issued for a total consideration of £27,000,000

Preference shares are entitled to a dividend based upon twelve-month LIBOR plus 1 875%, multiplied by 300

Dividends are only cumulative on winding up and therefore considered to be discretionary

On winding up, the preference shares would rank before ordinary shares except in relation to any surplus assets where they have equal ranking

Each issued ordinary share has eleven votes at any general meeting of the Company subject to the proviso that if any further ordinary shares are issued, the votes per share are reduced to ensure that the holders of the preference shares hold at least 25% of the voting rights

Each issued preference share has one vote at any general meeting of the Company

17 Profit and loss reserve

| | Share Premium Account £000 | Profit and Loss account £000 |
|--|----------------------------------|------------------------------------|
| Balance at 1 January 2010 | 28,810 | (13,276) |
| Loss for the year | - | (3,699) |
| Actuarial gain recognised in the pension scheme | - | 2,771 |
| Balance at 31 December 2010 | <u>28,810</u> | <u>(14,204)</u> |
| | 2010 £000 | 2009 £000 |
| Profit and loss reserve excluding pension liability | (14,853) | (9,991) |
| Pension surplus/(liability) | 649 | (3,285) |
| Profit and loss reserve including pension liability | <u>(14,204)</u> | <u>(13,276)</u> |

Notes (continued)

18 Commitments and contingencies

| | 2010 | | 2009 | |
|--|------------|------------|--------------|-----------|
| Capital expenditure | £000 | | £000 | |
| Contracted but not provided | 107 | | 20 | |
| | | | | |
| Payable during the following year under operating leases expiring: | | | | |
| | Properties | | Other leases | |
| | 2010 | 2009 | 2010 | 2009 |
| | £000 | £000 | £000 | £000 |
| Within one year | - | - | 13 | 8 |
| Between one and five years | - | - | 87 | 83 |
| After five years | 446 | 429 | - | - |
| | <u>446</u> | <u>429</u> | <u>100</u> | <u>91</u> |

19 Post balance sheet events

On 31 August 2011 the site at Hythe, Southampton was divested to Geo Specialty Chemicals Distribution Limited. From this date the nature of the company's business changed from being that of a manufacturer and distributor of speciality chemical product to that of acting as an agent for the procurement of speciality chemicals for the BASF Group.

20 Ultimate parent company

The immediate parent company is Cognis Holdings UK Limited a company incorporated in England and the ultimate parent company is BASF Societas Europaea ("BASF SE"), (formerly BASF Aktiengesellschaft) a company incorporated in Germany. BASF SE is the largest and smallest group for which consolidated financial statements are prepared.

In the opinion of the directors, the Company is controlled by BASF Societas Europaea.

Copies of BASF SE's consolidated financial statements may be obtained from BASF Societas Europaea, D67056 – Ludwigshafen, Germany.