

Ciba Specialty Chemicals PLC

**Directors' report and financial
statements**

3249009

31 December 2002



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

Principal activity

The principal activity of the company is the manufacture and sale of specialty chemicals.

Results and dividends

The loss before tax for the year ended 31 December 2002 was £5.1 million (2001: *profit* £15.0 million). An interim dividend of £50,618,000 was declared in the year, but, due to the adoption of FRS 19 leaving insufficient reserves, it was reversed prior to the financial statements being issued (2001: dividend paid £6,174,000).

Directors

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

BG Kerr (Chairman)

IEF Stewart

MD Wright

CA Forbes

According to the register kept under Section 325 of the Companies Act 1985, no director had any beneficial interest in the shares of the company, a subsidiary of the company, the company's holding company, or a subsidiary of the company's holding company, either at the beginning or end of the year. As permitted by statutory instrument, the register does not include any shareholdings of directors in the ultimate holding company and its overseas subsidiary companies.

Involvement of employees

The company's commitment to increasing empowerment of employees demands an effective exchange of information. The process of team briefing by line managers continues to be an important basis for ensuring good internal communications. This is supplemented by both segmental and company-wide publications.

Employment of disabled persons

It remains the company's policy that disabled people are given the same consideration as other applicants for all job vacancies for which they offer themselves as suitable candidates.

Every effort has been made to ensure that line managers fully understand that disabled people must have the same prospects and promotional opportunities that are available to other employees. The company makes appropriate modifications to procedures, equipment and job content where it is practicable and safe to do so. Employees who become disabled during the course of their employment with the company are helped with rehabilitation and retraining for alternative work if they are unable to continue their existing job.

Research and development

Ciba undertakes research and development on a worldwide basis. The company makes a contribution to the total research expenditure incurred by Ciba and is reimbursed for the costs of research of worldwide applications it undertakes in the UK.

Directors' report *(continued)*

Political and charitable donations

No contributions were made by the company during the year for political purposes. Donations amounting to £25,000 (2001: £21,091) were made for charitable purposes. In addition, £146,000 (2001: £164,540) was contributed during the year for scientific, educational, research and welfare purposes.

Creditor payments

The company's current policy concerning the payment of the majority of its trade creditors is as follows:

- (a) to settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- (b) to ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms of contracts; and
- (c) to pay in accordance with its contractual and other legal obligations.

The average creditor payment days as at the year end was 52 days as a result of extending terms with certain suppliers (2001: 45 days).

Auditors

On 31 July 2002 Arthur Andersen resigned as auditors of the company and the directors appointed Ernst & Young LLP to fill the casual vacancy. A resolution re-appointing Ernst & Young LLP as auditors for the ensuing year will be proposed at the Annual General Meeting.

By order of the board



I E F Stewart
Secretary

Charter Way
Macclesfield
Cheshire
SK10 2NX

14 March 2003

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 proper accounting records which 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 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Ciba Specialty Chemicals PLC

We have audited the company's financial statements for the year ended 31 December 2002 which comprise Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, Reconciliation of Shareholders' Funds and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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.

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 affairs of the company as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Manchester

18 March 2003

Profit and loss account
for the year ended 31 December 2002

	<i>Notes</i>	Year ended 31 December 2002 £000	As restated (see note 8) Year ended 31 December 2001 £000
Turnover	2	298,628	270,783
Cost of sales		(215,281)	(192,168)
Gross profit		<u>83,347</u>	<u>78,615</u>
Net operating expenses	3(a)	(82,523)	(59,450)
Operating profit	3(b)	824	19,165
Income from shares in group undertakings		618	-
Profit on sale of tangible fixed assets	4	246	-
Profit before finance charges		<u>1,688</u>	<u>19,165</u>
Net interest payable	5	(3,966)	(1,300)
Investment charges	6	(2,857)	(2,857)
(Loss)/profit on ordinary activities before taxation		<u>(5,135)</u>	<u>15,008</u>
Tax on (loss)/profit on ordinary activities	7	(5,757)	(5,827)
(Loss)/profit for the financial year attributable to members		<u>(10,892)</u>	<u>9,181</u>
Dividends	11	(50,618)	(6,174)
Retained (deficit)/profit for the financial year	20	<u>(61,510)</u>	<u>3,007</u>

All of the items above arose from continuing operations.

The accompanying notes form an integral part of the financial statements.

Statement of total recognised gains and losses
for the year ended 31 December 2002.

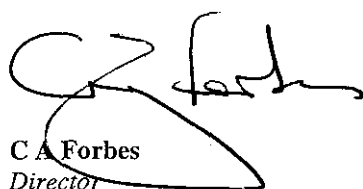
	Year ended 31 December 2002 £000	As restated (see note 8) Year ended 31 December 2001 £000
(Loss)/profit for the year	(10,892)	9,181
Reversal of dividend proposed not paid	50,618	-
	<hr/>	<hr/>
Total recognised gains and losses for the year	39,726	9,181
	<hr/>	<hr/>
Prior year adjustment	(34,627)	
	<hr/>	
Total recognised gains and losses recognised since last annual report and financial statements	5,099	
	<hr/>	

Balance sheet
as at 31 December 2002

	Notes	2002 £000	2002 £000	As restated (see note 8) 2001 £000	£000
Fixed assets					
Tangible assets	12(a)		136,685		148,819
Investments	12(b)		21		21
			<hr/>		<hr/>
			136,706		148,840
Current assets					
Stocks	13	42,930		39,989	
Debtors					
due within one year	14	182,509		139,534	
due after one year	14	392,216		742,345	
Cash at bank and in hand		55,527		14,974	
		<hr/>		<hr/>	
		673,182		936,842	
Creditors: amounts falling due within one year	15	(397,161)		(556,723)	
		<hr/>		<hr/>	
Net current assets			276,021		380,119
			<hr/>		<hr/>
Total assets less current liabilities			412,727		528,959
			<hr/>		<hr/>
Creditors: amounts falling due after more than one year	16	(242,984)		(360,066)	
Provisions for liabilities and charges	18	(48,042)		(36,300)	
		<hr/>		<hr/>	
Net assets			121,701		132,593
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	19	49,991		49,991	
Share premium account	20	60,032		60,032	
Profit and loss account	20	11,678		22,570	
		<hr/>		<hr/>	
Equity shareholders' funds	21	121,701		132,593	
		<hr/>		<hr/>	

The accompanying notes form an integral part of these financial statements.

These financial statements were approved by the board of directors on 14 March 2003 and were signed on its behalf by:


C A Forbes
Director

Notes to the financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements, with the exception of the policy for deferred taxation.

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

The company is exempt by virtue of Section 228 of the Companies Act 1985 from the requirement to prepare group financial statements.

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement as the company is a wholly owned subsidiary undertaking of a company incorporated in Switzerland, and a consolidated cash flow statement is included in that company's financial statements, which are publicly available.

Turnover

Turnover is defined as the amounts invoiced for goods supplied excluding value added tax or equivalent overseas sales taxes.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation of tangible fixed assets is provided on a straight line basis to write off the cost by equal annual instalments over their estimated lives, taking into account commercial and technical obsolescence as well as normal wear and tear. Depreciation on assets qualifying for government grants is calculated on their full cost. No depreciation is provided on land and assets in the course of construction.

The principal estimated lives are as follows:

Buildings	-	33 years
Plant and machinery	-	10-20 years
Fixtures and fittings	-	3-10 years

Government grants in respect of capital expenditure are credited to the profit and loss account over the estimated life of the fixed assets to which they relate. The grants shown in the balance sheet represent the total grants receivable to date less the amounts so far credited to the profit and loss account (see note 16 (a)).

Investments

Except as stated below, fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

In the company balance sheet, for investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Research and development

All research and development expenditure borne by the company, including all expenditure in respect of patents and trademarks, is written off as incurred.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Stocks

Stocks are valued at the lower of cost and net realisable value. The cost of products manufactured includes an appropriate allocation of overheads. Provision is made for obsolete and slow moving stocks.

Net realisable value is based on the estimated selling price less further costs expected to be incurred to completion and disposal.

Translation of foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Transactions in currency forward contracts are accounted for using the separated or spot to spot method of accounting. Assets and liabilities denominated in foreign currency are translated into sterling at the rate of exchange ruling at the year end. Exchange gains and losses are taken to trading profit.

Pension and post-retirement benefits

Defined benefit pension schemes are administered by appointed trustees.

The pension cost charged to the profit and loss account is calculated on a basis designed to ensure that the cost is a substantially level percentage of the pensionable payroll for the foreseeable future. This may not therefore coincide with the contributions actually made to the pension funds, with any differences shown as provisions or prepayments.

The assets and liabilities of the schemes are valued periodically by independent actuaries at intervals of not more than three years. Any surplus arising from a valuation is amortised over the average working lives of existing employees.

The expected cost of providing post-retirement medical insurance is recognised over the period of service of the employees as calculated by independent actuaries, being reviewed at intervals of not more than three years.

Leases

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, at a future date at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Financial instruments

The company holds and uses financial instruments to finance its operations and to manage its interest rate, liquidity and currency risks. The company primarily finances its operations using retained profits, borrowings, cash and liquid resources, trade debtors and creditors, accruals and prepayments. These financial instruments all arise in the normal course of the company's operating activities.

As directed by the board the company does not engage in speculative activities using derivative financial instruments. Company cash reserves are held centrally to take advantage of the most rewarding short-term investments opportunities. Forward foreign currency contracts or options are used in the management of currency risk.

The main risks arising from the company's financial instruments are interest rate risk, liquidity risk and exchange rate risk. The board reviews and agrees the policies for managing each of these risks in accordance with the worldwide group's financial policies. These policies have remained unchanged since 1999.

Interest rate risk

The company's policy is to regularly review the terms of its available short-term borrowing facilities and to individually assess and manage each long-term borrowing commitment accordingly.

Liquidity risk

Cash resources are largely generated through operations. Short-term flexibility is achieved by overdraft facilities, money market facilities and intercompany loans.

Currency risk

Exposure to currency risk primarily arises from incurring transactional foreign currency costs. The company's policy is to cover all significant foreign currency commitments by using forward foreign currency contracts or options.

2 Turnover

Turnover originates wholly within the UK and is analysed by destination as follows:

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
United Kingdom	125,462	100,510
Americas	32,444	28,146
Europe	118,564	125,344
Asia, Australia and Africa	22,158	16,783
	<hr/>	<hr/>
	298,628	270,783
	<hr/>	<hr/>

Further segmental information has been excluded as the directors believe disclosure would be seriously prejudicial to the company.

Notes to the financial statements *(continued)*

3 (a) Net operating expenses

	Year ended 31 December 2002 £000	As restated (see note 8) Year ended 31 December 2001 £000
Staff costs (see note 9)	28,673	29,061
Depreciation and amounts written off tangible fixed assets	15,910	10,719
Other external costs	37,940	19,670
	<hr/> 82,523 <hr/>	<hr/> 59,450 <hr/>

(b) Operating profit on ordinary activities

Operating profit on ordinary activities is stated after charging/(crediting) the following:

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Auditors' remuneration:		
audit	49	75
other services	-	55
Operating leases:		
plant and machinery	192	186
other assets	642	728
Directors' emoluments (see note 10)	684	574
Amounts transferred from government grants (see note 16 (a))	(571)	(334)
Amortisation of pension surplus (see note 9)	(14,564)	(14,414)
Research and development expenditure (see note (c) below)	2,955	4,714
Exchange gains and losses on foreign currency borrowings	8,104	2,529
Provisions charge in the year		
- environmental costs	4,799	-
- other	1,530	180
	<hr/>	<hr/>

(c) Central research

Ciba Specialty Chemicals PLC makes a contribution to the central research and overhead expenditure of the ultimate holding company of an amount agreed annually by independent professional accountants. The cost of research of worldwide applications undertaken in the UK is reimbursed annually by the ultimate holding company.

The provision for the contribution and the reimbursement of research and overhead costs for the year included in these financial statements has been estimated and is subject to adjustment on receipt from the independent accountants of their statement of the actual amounts payable and receivable. The total amount adjusted for during the year to 31 December 2002 relating to prior years was £1,025,000 (2001: £4,699,000).

Notes to the financial statements (continued)

4 Exceptional items reported after operating profit

The profit on sale of tangible fixed assets of £246,000 (2001: £nil) relates to the disposal of assets to third parties. There is no effect on the amounts charged to the profit and loss account for taxation, due to the availability of losses to set off against the resulting capital gain.

5 Net interest payable

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Interest payable		
On loans wholly repayable within five years:		
Group companies	(16,887)	(31,402)
Bank interest and similar charges	(8,052)	(7,612)
	<u>(24,939)</u>	<u>(39,014)</u>
On loans wholly repayable after five years:		
Bank interest and similar charges	(15,789)	(15,789)
	<u>(40,728)</u>	<u>(54,803)</u>
Interest receivable		
Bank interest receivable and similar income	1,395	51
Group companies	35,367	53,452
	<u>(3,966)</u>	<u>(1,300)</u>

6 Investment charges

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Amortisation of capitalised portion of loss on termination	2,857	2,857

Notes to the financial statements *(continued)*

7 Tax on (loss)/profit on ordinary activities

	Year ended 31 December 2002	As restated (see note 8) Year ended 31 December 2001
Deferred tax		
Adjustments in respect of prior periods	3,644	-
Origination and reversal of timing differences	2,113	5,827
	<hr/>	<hr/>
Total deferred tax	5,757	5,827
	<hr/>	<hr/>
Total tax on profit on ordinary activities	5,757	5,827
	<hr/>	<hr/>

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	Year ended 31 December 2002	As restated (see note 8) Year ended 31 December 2001
(Loss)/profit on ordinary activities before tax	(5,135)	15,008
	<hr/>	<hr/>
Tax on (loss)/profit on ordinary activities at standard UK corporation tax rate of 30% (2001 – 30%)	(1,541)	4,502
Effects of:		
Expenses not deductible for tax purposes	324	346
Capital allowances in excess of depreciation	(432)	(2,954)
Short term timing differences	(3,212)	(2,873)
Group relief surrendered	6,982	979
Income not taxable	(603)	-
Deferred interest paid in the year	(1,518)	-
	<hr/>	<hr/>
Current tax charge for period	-	-
	<hr/>	<hr/>

Notes to the financial statements (continued)

8 Prior year adjustment

The Directors have adopted FRS 19 "Accounting for Deferred Taxation", during the year. This has resulted in an increase in the deferred tax liability recognised, arising due to timing differences, of £34,627,000 at 1 January 2002. Profit after tax has reduced by £5,757,000 for the year ended 31 December 2002 (2001 – a decrease of £5,827,000 in profit after taxation).

As a result, comparative figures for the year ended 31 December 2001 have been adjusted as follows:

	Profit for the year after dividends	As restated net assets 31 December 2001
	£000	£000
As previously reported	8,834	167,220
Impact of implementation of FRS19	(5,827)	(34,627)
As restated	3,007	132,593

In addition, the prior year profit and loss account was re-analysed for consistency and £2,231,000 was reclassified as other external costs from cost of sales. The profit for the year was unaffected.

9 Employees

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

	Year ended 31 December 2002 Number	Year ended 31 December 2001 Number
Production	860	940
Administration	415	423
	1,275	1,363

- (b) Cost of employees, including executive directors:

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Wages and salaries	39,697	40,376
Social security costs	3,033	2,157
Amortisation of pension surplus	(14,564)	(14,414)
	28,166	28,119
Education, training and welfare	507	942
	28,673	29,061

Notes to the financial statements (continued)

9 Employees (continued)

At 31 December 2002 the following amounts were outstanding from non-director officers:

	£000	Number
Loans	793	11

(c) Pension scheme

The company operates a defined benefit scheme funded by contributions from members and from the company. The total pension cost for the company is assessed in accordance with the advice of an independent actuary using the projected unit method.

The assets of the pension scheme are held in a separate trustee administered fund for which the most recent actuarial valuation was carried out at 1 January 2000.

The company has continued to account for pensions in accordance with SSAP 24 and the disclosures given below are those required by that standard. FRS 17 Retirement Benefits was issued in November 2000 and accounting under FRS 17 is mandatory for the company from the year ended 31 December 2003. Prior to this, phased transitional disclosures are required and the first year disclosures are also set out below.

SSAP 24 Accounting for pension costs

The principal assumptions can be summarised as follows:

- (i) To allow for inflation the long term yield, which may be expected to be earned on new investments over a considerable period in the future, will exceed the general rate of salary increases by 3 per cent per annum and the rate of pension increase by 4.5 per cent per annum.
- (ii) Retirements in good health will occur at normal retirement age and appropriate allowance for mortality, withdrawal, ill-health and early retirement has been made.

The market value of the scheme's assets at the valuation date was £332 million and the actuarial value of the assets was sufficient to cover 175% of the benefits that accrued to members, after allowing for expected future increases in earnings, and for the improvements made to the scheme.

The surplus arose as a result of a strong historic investment performance by the pension fund. As a result of the valuation a net adjustment in accordance with SSAP 24 of £14.6 million (2001: £14.4 million) was credited to the profit and loss account.

An amount of £85.9 million (2001: £71.4 million) is included in prepayments, which represents the accumulated prepaid contributions prior to valuation together with the credit arising from the pension surplus.

FRS 17 Retirement Benefits

The valuation used for FRS 17 disclosures is based on the most recent actuarial valuation at 1 January 2000 and updated by the scheme actuaries, William M. Mercer Limited, to take account of the requirements of FRS 17 in order to assess the assets and liabilities of the scheme at 31 December 2002. Scheme assets are stated at their market value at 31 December 2002.

Notes to the financial statements *(continued)*

9 Employees *(continued)*

The major financial assumptions used to calculate scheme liabilities under FRS 17 are:

	2002 Projected unit	As restated 2001 Projected unit
Valuation method		
Inflation rate	2.30%	2.50%
Rate of increase in salaries	3.30%	3.50%
Rate of increase for pension in payment and deferred pension	2.30%	2.50%
Rate used to discount scheme liabilities	5.65%	6.00%

The market value of the assets held by the pension scheme and the expected rate of return for each class of the asset held were:

	Long-term rate of return expected at 31 December 2002	Value as at 31 December 2002	Long-term rate of return expected at 31 December 2001	Value as at 31 December as restated 2001
		£000		£000
Equities	7.50%	160,307	7.7%	212,719
Bonds	5.10%	54,582	4.7%	52,775
		<hr/>		<hr/>
Total market value of the assets		214,889		265,494
Present value of the scheme liabilities		(202,741)		(193,674)
		<hr/>		<hr/>
Recoverable surplus in the scheme		12,148		71,820
Related deferred tax liability		(3,644)		(21,546)
		<hr/>		<hr/>
Net pension asset		8,504		50,274
		<hr/>		<hr/>

Following the actuarial valuation as at 1 January 2000 it was agreed that the company would not pay contributions to the scheme before 1 January 2010, subject to the actuarial review in the interim. Consequently no contributions were paid during 2001.

Notes to the financial statements (continued)

9 Employees (continued)

Analysis of the amount that would have been charged to operating profit under FRS17

	2002 £000
Current service cost	4,990

Analysis of the amount that would have been credited to net finance income under FRS17

	2002 £000
Expected return on pension scheme assets	18,627
Interest on pension scheme liabilities	(11,573)
	7,054

Analysis of the actuarial gains that would have been recognised in the statement of total recognised gains and losses.

	2002 £000
Actual return less expected return on pension scheme assets	(62,676)
Experience gains and losses arising on the scheme liabilities	6,696
Changes in assumptions underlying the present value of the scheme liabilities	(5,756)
	(61,736)

Movement in scheme surplus during the year

	2002 £000
Surplus in scheme at start of year	71,820
Current service cost	(4,990)
Net return on assets	7,054
Actuarial loss	(61,736)
Surplus in scheme at end of year	12,148

Notes to the financial statements *(continued)*

9 Employees *(continued)*

History of experience gains and losses

	2002	
Difference between the expected and actual return on scheme assets:		
Amount (£'000)		(62,676)
Percentage of scheme assets		-29.17%
Experience gains and losses on scheme liabilities:		
Amount (£'000)		6,696
Percentage of the present value of scheme liabilities		-3.30%
Changes in assumptions underlying the present value of the scheme liabilities:		
Amount (£'000)		(5,756)
Percentage of the present value of scheme liabilities		2.84%
Total actuarial gains recognised in the statement of total recognised gains and losses:		
Amount (£'000)		(61,736)
Percentage of the present value of scheme liabilities		30.45%
	As restated (see note 8)	
	2002	2001
	£000	£000
Profit and loss reserve excluding pension asset	(73,455)	(49,160)
Amount relating to defined benefit pension scheme asset, net of related deferred tax	8,504	47,764
	<hr/>	<hr/>
Profit and loss reserve including pension asset	(64,951)	(1,396)
	<hr/>	<hr/>

(d) Post-retirement medical insurance

The company provides contributions towards medical insurance costs of certain employees beyond their retirement date. These arrangements are unfunded but provided for and the latest full actuarial valuation was carried out at 31 December 2000 by independent actuaries. The next actuarial valuation is due on 31 December 2004, the results of this valuation have not yet been received.

The principal assumptions can be summarised as follows:

- (i) The rate of medical expenses inflation has been assumed as 10% p.a. for the next four years falling linearly over the next five years to 4% and being 4% p.a. thereafter.
- (ii) The discount rate used is 5.25%.
- (iii) Other assumptions are consistent with those made in evaluating the pension cost.

During the prior period the provision was reviewed to take account of costs and savings relating to buyout arrangements and changes to benefits but no changes were required.

Notes to the financial statements (*continued*)

10 Directors

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
(a) Emoluments of directors		
Payments to executive directors	684	574
(b) Pensions of directors		
The number of directors who were members of defined benefit pension schemes	4	4
(c) Highest paid director		

The above amounts for emoluments include the following in respect of the highest paid director:

Emoluments	255	228
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The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 December 2002 was £91,753 (2001: £87,881). There was no lump sum entitlement at 31 December 2002 (2001: £nil).

- (d) Directors' loans made mainly in connection with house purchases or improvements have been granted to some directors on the same terms as loans available to senior staff.

The amounts outstanding are shown below:

	At 31 December 2001 £000	Maximum during the year £000	At 31 December 2002 £000
B.G. Kerr	110,000	110,000	110,000
M.D. Wright	45,000	45,000	45,000

11 Dividends

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Dividends proposed (5.06p per share) (2001: paid 0.62p per share)	50,618	6,174

An interim dividend of £50,618,000 was declared in the year, but, due to the adoption of FRS 19 leaving insufficient reserves, it was reversed prior to the financial statements being issued.

Notes to the financial statements (*continued*)

12 Fixed assets

(a) Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Fixtures & fittings £000	Assets in the course of construction £000	Total £000
Cost					
At 1 January 2001	61,912	176,241	14,315	9,907	262,375
Additions	-	8	-	5,027	5,035
Disposals	(142)	(1,729)	(403)	(445)	(2,719)
Reclassifications or transfers	2,140	4,600	65	(6,805)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	63,910	179,120	13,977	7,684	264,691
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At 1 January 2001	18,760	84,363	10,433	-	113,556
Charge for the year	1,837	8,937	510	-	11,284
Impairment losses	84	3,907	-	635	4,626
Disposals	(12)	(1,149)	(299)	-	(1,460)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	20,669	96,058	10,644	635	128,006
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 31 December 2002	43,241	83,062	3,333	7,049	136,685
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	43,152	91,878	3,882	9,907	148,819
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Freehold land with a value of £2.4 million at 31 December 2002 (2001 : £2.5 million) has not been depreciated.

Capital commitments

Contracts for capital expenditure for which provision has not been made in the financial statements amounted to £348,000 (2001: £nil).

(b) Investments

Name	Country of incorporation	Principal activity	Nominal value £000	Holding	%
Subsidiary undertaking					
Ciba Specialty Chemicals (Financial Services) Limited	England and Wales	Financial services company (non-trading company)	-	Ordinary shares	100%
Other investments					
Manchester Science Park Ltd	England and Wales	Property investment company	15 6	Ordinary 'C' shares Preference shares	25% 1.2%
			<hr/>		
			21		
			<hr/>		

Notes to the financial statements (continued)

13 Stocks

	2002 £000	2001 £000
Raw materials and consumables	11,940	9,972
Work in progress	11,863	8,421
Finished goods	19,127	21,596
	<u>42,930</u>	<u>39,989</u>

There is no material difference between the balance sheet value of stocks and their replacement cost.

14 Debtors

	2002 £000	2001 £000
<i>Amounts falling due within one year</i>		
Trade debtors	25,596	20,165
Amounts owed by group undertakings	152,664	114,381
Other debtors	3,193	1,854
Prepayments and accrued income	1,056	3,134
	<u>182,509</u>	<u>139,534</u>
<i>Amounts falling due after more than one year</i>		
Amounts owed by group undertakings	305,481	670,083
Pension prepayment (see note 9 (c))	85,932	71,370
Other debtors	803	892
	<u>392,216</u>	<u>742,345</u>

15 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Unsecured long term debt (see note 16(b))	112,651	-
Trade creditors	21,116	12,866
Amounts owed to group undertakings	241,568	521,956
Other taxation and social security	4,963	2,455
Other creditors	2,542	1,925
Accruals and deferred income	14,321	17,521
	<u>397,161</u>	<u>556,723</u>

Notes to the financial statements *(continued)*

16 Creditors: amounts falling due after more than one year

	2002 £000	2001 £000
Accruals and deferred income (see (a) below)	4,380	4,951
Unsecured long term debt (see (b) below)	238,604	355,115
	<u>242,984</u>	<u>360,066</u>

(a) Accruals and deferred income comprise government grants as follows:

	2002 £000	2001 £000
At 1 January 2002	4,951	5,285
Amounts credited to profit and loss account (see note 3 (b))	(571)	(334)
At 31 December 2002	<u>4,380</u>	<u>4,951</u>

(b) Unsecured long term debt is repayable as follows:

	2002 £000	2001 £000
In less than one year (see note 15)	112,651	-
In more than one year but not more than two years	-	116,930
In more than two year but not more than five years	-	-
In more than five years	238,604	238,185
	<u>351,255</u>	<u>355,115</u>

Of the long term loan, £238.6 million (2001: £238.2 million) is payable on 24 April 2013 and interest is charged at 6.5%. The remainder, £112.7 million, is repayable on 27 May 2003 and interest is charged at 6.125%.

Notes to the financial statements *(continued)*

17 Financial instruments

An outline of the company's policies and approach in respect to its treasury management, including the management of interest rate, liquidity and currency risk, is provided in the accounting policies note (see note 1).

The company has taken advantage of the exemptions given under FRS 13, Derivatives and Other Financial Instruments, in excluding short-term debtors and creditors from the following analysis.

Financial assets

Other than cash at bank and short-term debtors and intercompany loans the company has no other financial assets.

Financial liabilities

The company's financial liabilities at the year end were held in sterling and US dollars.

As at 31 December 2002, the company's borrowings were on floating and fixed rates. The interest rate profile of these financial liabilities was:

	2002 £000	Weighted average interest rate %	2001 £000	Weighted average interest rate %
Fixed rate financial liabilities	346,670	6.38	355,115	6.38
Floating rate financial liabilities – group loans	257,590	4.11	505,794	4.42
	<u>604,260</u>		<u>860,909</u>	

Currency exposures

Net foreign currency monetary liabilities shown below take into account the effect of any currency swaps, forward contracts and other derivatives entered into to manage these currency exposures.

As at 31 December 2002, the company held open various currency swaps and forward contracts that the company had taken out to hedge expected future foreign currency transactions.

	2002 £000	2001 £000
Net foreign currency monetary liabilities:		
US Dollars	<u>95,588</u>	<u>103,114</u>

Notes to the financial statements (continued)

17 Financial instruments (continued)

Maturity of financial liabilities

At the end of the year 39.5% of the company's borrowings were due to mature in more than five years (2001 - 27.7%). The maturity profile of the company's financial liabilities in more detail as at 31 December 2002 is as follows:

	2002 £000	2001 £000
In one year or less, or on demand	365,656	505,794
In more than one year but not more than two years	-	116,930
In more than two years but not more than five years	-	-
In more than five years	238,604	238,185
	<u>604,260</u>	<u>860,909</u>

Borrowing facilities

The undrawn facilities available at 31 December 2002 in respect of which all conditions precedent had been met, were as follows:

	2002 £000	2001 £000
Overdraft facility	10,000	10,000
Bank loan facilities	30,000	115,000
	<u>40,000</u>	<u>125,000</u>

Fair values of financial liabilities

A comparison by category of the book values and fair values of the financial liabilities of the company as at 31 December 2002 is shown below:

	2002 Book value £000	2002 Fair value £000	2001 Book value £000	2001 Fair value £000
Group loans to finance the company's operations	257,590	257,590	505,794	505,794
Long-term borrowings	346,670	352,157	355,115	362,224
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes to the financial statements *(continued)*

17 Financial instruments *(continued)*

All fair values have been determined using appropriate market rates as at 31 December 2002 and by discounting relevant cash flows at the prevailing rate.

Gains and losses on hedges

Gains and losses on currency and hedging instruments used for hedging purposes are not recognised until the exposure that is being hedged is itself recognised. A summary of such gains and losses and movements therein is as follows:

	Gains £000	Losses £000	Net £000
Unrecognised gains and losses at 1 January 2002	3,825	(17)	3,808
Gains and losses recognised in the year arising in previous years	(37)	17	(20)
	<u> </u>	<u> </u>	<u> </u>
Gains and losses arising in previous years not recognised in the year	-	-	-
Gains and losses not recognised in the year arising in the year	219	(7,691)	(7,472)
	<u> </u>	<u> </u>	<u> </u>
Unrecognised gains and losses at 31 December 2002	219	(7,691)	(7,472)
	<u> </u>	<u> </u>	<u> </u>
Of which:			
Gains and losses expected to be recognised in the year ending 31 December 2002	219	(7,691)	(7,472)
Gains and losses expected to be recognised after 31 December 2002	-	-	-
	<u> </u>	<u> </u>	<u> </u>
	219	(7,691)	(7,472)
	<u> </u>	<u> </u>	<u> </u>

18 Provisions for liabilities and charges

	Deferred taxation	Post retirement medical insurance (see note 9(d))	Environmental provision	Other provisions	Total
	£000	£000	£000	£000	£000
At 1 January 2002 (as restated)	34,627	1,286	-	387	36,300
Charged to profit and loss account	5,757	-	4,799	1,530	12,086
Released unused	-	-	-	(249)	(249)
Utilised during year	-	(2)	-	(93)	(95)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2002	40,384	1,284	4,799	1,575	48,042
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The environmental provision is for the cost of future site remediation on change of use, based primarily on an independent report. The timing of the use of the provision is not known.

Notes to the financial statements (continued)

18 Provisions for liabilities and charges (continued)

Deferred tax is provided as follows:

	Provided	Unprovided	As restated (see note 8) Provided	As restated (see note 8) Unprovided
	2002	2002	2001	2001
	£000	£000	£000	£000
Accelerated capital allowances	17,058	-	16,627	-
Other timing differences	23,711	-	18,386	-
Post retirement medical insurance costs	(385)	-	(386)	-
Capital gains rolled over	-	1,707	-	1,707
	<u>40,384</u>	<u>1,707</u>	<u>34,627</u>	<u>1,707</u>

19 Called up share capital

	2002 £000	2001 £000
<i>Authorised</i>		
2 billion ordinary shares of £0.05 each	<u>100,000</u>	<u>100,000</u>
<i>Allotted, called up and fully paid</i>		
999,813,360 ordinary shares of £0.05 each	<u>49,991</u>	<u>49,991</u>

20 Reserves

	Share premium account £000	Profit and loss account £000
At 1 January 2002 as restated	60,032	22,570
Retained loss for the year	-	(61,510)
Dividends declared and subsequently reversed	-	50,618
At 31 December 2002	<u>60,032</u>	<u>11,678</u>

21 Reconciliation of movements in equity shareholders' funds

	Year ended 31 December 2002 £000	As restated (see note 8) Year ended 31 December 2001 £000
(Loss)/profit for the financial year	(10,892)	9,181
Dividends	-	(6,174)
Net (reduction in)/addition to equity shareholders' funds	<u>(10,892)</u>	<u>3,007</u>
Opening equity shareholders' funds (2001 – originally £158,386,000 restated for prior year adjustment of £28,800,000)	132,593	129,586
Closing equity shareholders' funds	<u>121,701</u>	<u>132,593</u>

Notes to the financial statements *(continued)*

22 Commitments

Annual commitments for the company to make payments under non-cancellable operating leases:

	2002 Other £000	2001 Other £000
Commitments expiring:		
within one year	211	246
within two to five years	140	233
	<hr/>	<hr/>
Total commitments	351	479
	<hr/>	<hr/>

23 Ultimate controlling party

The directors consider that Ciba Specialty Chemicals Holdings Inc., a company incorporated in Switzerland, is the company's ultimate parent undertaking and ultimate controlling party.

Ciba Specialty Chemicals Investment PLC is the parent undertaking of the smallest group of which Ciba Specialty Chemicals PLC is a member and for which group financial statements are drawn up. Copies of these group financial statements will be delivered to and be available from the Registrar of Companies, Companies Registration Office, Crown Way, Maindy, Cardiff, CF4 3UZ.

As a subsidiary undertaking of Ciba Specialty Chemicals Holdings Inc., the company has taken advantage of the exemption in FRS 8 "Related Party Disclosures" not to disclose transactions with other members of the group.