

Ciba Specialty Chemicals PLC

**Directors' report and financial
statements**

Registered number 3249009

31 December 2005



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Directors' report

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

Principal activity

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

Results and dividends

The loss for the year ended 31 December 2005 was £4.5 million (2004: loss £13.9 million). The directors are unable to recommend the payment of a dividend in 2005 (2004: Nil).

On 1 January 2005, the share capital of the company was transferred to Ciba Specialty Chemicals Water Treatments Limited and the operating trade and assets of Ciba Specialty Chemicals Water Treatments Limited was transferred to the company. On 1 February 2005 the trade and assets, excluding the land and buildings, of Ciba Specialty Chemicals (RC-GB) Limited, (formally known as Raisio Chemicals UK Limited) were transferred to the company. In addition, the company acquired the Metasheen trade and assets on 2 March 2005.

Post balance sheet events

On 20 February 2006 the Textile Effects business was sold to Huntsman. This sale is not yet completed and therefore the turnover and results of the business during the financial year have been shown within continuing activities.

Directors

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

AH Dimery
CA Forbes
IEF Stewart
MD Wright

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

Employee involvement and consultation is managed in a number of ways. The process of team briefings by line managers continues to be an important basis for ensuring good internal communications. These arrangements also promote a common awareness amongst employees of the financial and economic factors affecting the performance of their segments and the business. This is supplemented by both segmental and company-wide publications and an intranet.

Employment of disabled persons

Applications for disabled employees are always fully considered, bearing in mind the aptitude of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment within the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Directors' report (continued)

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.

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 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.

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.

Political and charitable donations

No contributions were made by the company during the year for political purposes. Donations amounting to £17,000 (2004: £12,000) were made for charitable purposes. In addition, £121,000 (2004: £149,000) 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 51 outstanding days (2004: 47 days).

Directors' report (continued)

Auditors

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

9 June 2006

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

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 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 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 that 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 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 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 21. These financial statements have been prepared under 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

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

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

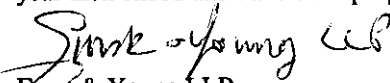
Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered Auditor
Manchester

13 June 2006

Profit and loss account
for the year ended 31 December 2005

	<i>Notes</i>	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Turnover	2	433,227	450,188
Cost of sales		(370,479)	(417,131)
Gross profit		62,748	33,057
Net operating expenses	3(a)	(31,974)	(28,278)
Operating profit	3(b)	30,774	4,779
Loss on sale of tangible fixed assets	4(a)	(481)	(366)
Restructuring costs	4(b)	(19,333)	(25,659)
Profit/(Loss) before finance charges		10,960	(21,246)
Net interest payable	5	(17,062)	(2,155)
Loss on ordinary activities before taxation		(6,102)	(23,401)
Tax on loss on ordinary activities	6	1,625	9,518
Loss for the financial year attributable to members		(4,477)	(13,883)
Dividends		-	-
Loss for the financial year	18	(4,477)	(13,883)

There were no recognised gains and losses other than those reflected in the above profit and loss account.

All of the items above arose from continuing operations.

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

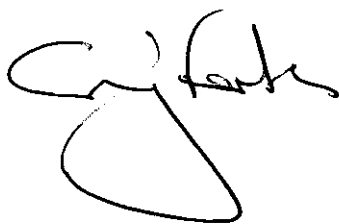
Balance sheet
as at 31 December 2005

	Notes	2005		2004	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	9		195		-
Tangible assets	10(a)		183,664		93,802
Investments	10(b)		15		15
			<hr/>		<hr/>
			183,874		93,817
Current assets					
Stocks	11	52,884		34,944	
Debtors					
due within one year	12	87,546		444,965	
due after one year	12	432,398		180,003	
Cash at bank and in hand		21,977		17,061	
		<hr/>		<hr/>	
		594,805		676,973	
Creditors: amounts falling due within one year	13	(100,455)		(157,911)	
		<hr/>		<hr/>	
Net current assets			494,350		519,062
			<hr/>		<hr/>
Total assets less current liabilities			678,224		612,879
Creditors: amounts falling due after more than one year	14		(606,700)		(560,181)
Provisions for liabilities and charges	16		(40,422)		(17,119)
			<hr/>		<hr/>
Net assets			31,102		35,579
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	17		49,991		49,991
Share premium account	18		60,032		60,032
Profit and loss account	18		(78,921)		(74,444)
			<hr/>		<hr/>
Equity shareholders' funds	19		31,102		35,579
			<hr/>		<hr/>

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

These financial statements were approved by the board of directors on 9 June 2006 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.

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.

Intangible assets

Positive goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life of 20 years. Provision is made for any impairment.

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. Revised depreciation is provided where an asset is expected to become obsolete before the end of its normal useful life.

The principal estimated lives are as follows:

Buildings	-	20-50 years
Plant and machinery	-	10-20 years
Fixtures and fittings	-	3-10 years

Tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. These reviews assess the recoverable amount by reference to the net present value of expected future cash flows of the relevant income-generating unit, or disposal value if higher, resulting in revised depreciation or amortisation as appropriate.

Government grants

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 received to date less the amounts so far credited to the profit and loss account (see note 14 (a)).

Notes to the financial statements (continued)

1 Accounting policies (continued)

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.

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

The company participates in a group defined benefit scheme funded by contributions from members and from the company. However, the contributions paid by the company are accounted for as a defined contribution scheme, as the company is unable to identify its share of the underlying assets and liabilities in the group scheme on a consistent and reasonable basis.

The amount charged to the profit and loss account is the contributions payable in the year. Differences between contributions payable and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

The expected cost of providing post-retirement medical insurance and ex gratia pension benefits 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 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.

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 2005 £000	Year ended 31 December 2004 £000
United Kingdom	111,972	114,965
Americas	52,618	59,811
Europe	203,141	214,786
Asia, Australia and Africa	65,496	60,626
	<hr/> 433,227 <hr/>	<hr/> 450,188 <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 2005 £000	Year ended 31 December 2004 £000
Distribution	22,565	11,987
Administration	9,409	16,291
	<u>31,974</u>	<u>28,278</u>

(b) Operating profit on ordinary activities

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

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Auditors' remuneration:		
Statutory	236	92
Other assurance work	131	-
Non-audit services	3	6
Depreciation of tangible fixed assets	25,693	12,850
Operating leases:		
plant and machinery	248	367
other assets	1,298	397
Directors' emoluments (see note 8)	627	704
Amounts transferred from government grants (see note 14 (a))	-	(475)
Research and development expenditure (see note (c) below)	8,856	2,610
Exchange gains and losses	600	478
Provisions charge in the year (see note 16):		
Post retirement medical insurance	(246)	369
Ex gratia	187	218
Environmental	<u>(2,325)</u>	<u>-</u>

(c) Central research

Ciba Specialty Chemicals PLC makes a contribution to the central research expenditure of the ultimate holding company. Agreed costs of research of worldwide applications undertaken in the UK are reimbursed by the ultimate holding company.

For Ciba Specialty Chemicals PLC's contribution to the ultimate holding company, the total amount adjusted for during the year to 31 December 2005 relating to prior years was a debit of £2,114,000 (2004: £1,392,000 debit).

For the ultimate holding company's reimbursement to Ciba Specialty Chemicals PLC, the total amount adjusted for during the year to 31 December 2005 relating to prior years was a credit of £200,000 (2004: £400,000 credit).

Notes to the financial statements (continued)

4 (a) Loss on sale of tangible fixed assets

The loss on sale of tangible fixed assets of £481,000 (2004: £366,000 loss) relates to the disposal of assets to third parties and group undertakings.

(b) Restructuring costs

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Impairment of fixed assets	3,140	23,907
Severance costs	15,601	1,025
Other restructuring costs	592	727
	<u>19,333</u>	<u>25,659</u>

5 Net interest payable

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
<i>Interest payable</i>		
On loans wholly repayable within five years:		
Group companies	(1,830)	(5,472)
Bank interest and similar charges	(23)	(190)
	<u>(1,853)</u>	<u>(5,662)</u>
On loans wholly repayable after five years:		
Bank interest and similar charges	(15,789)	(15,788)
	<u>(17,642)</u>	<u>(21,450)</u>
<i>Interest receivable</i>		
Bank interest receivable and similar income	550	734
Group companies	30	18,561
	<u>(17,062)</u>	<u>(2,155)</u>

Notes to the financial statements (continued)

6 Tax on loss on ordinary activities

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Current tax		
UK corporation tax	-	-
Adjustments in respect of prior years	130	-
Deferred tax		
Adjustments in respect of prior periods	49	(3,992)
Origination and reversal of timing differences	(1,804)	(5,526)
Total deferred tax	<u>(1,755)</u>	<u>(9,518)</u>
Total tax on loss on ordinary activities	<u>(1,625)</u>	<u>(9,518)</u>

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

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Loss on ordinary activities before tax	<u>(6,102)</u>	<u>(23,401)</u>
Tax on loss on ordinary activities at standard UK corporation tax rate of 30% (2004: 30%)	(1,831)	(7,020)
Effects of:		
Expenses not deductible for tax purposes	161	169
Depreciation in excess of capital allowances	1,710	6,175
Short term timing differences	202	(649)
Group relief surrendered for nil consideration	(242)	1,325
Prior year adjustments	130	-
Current tax charge for period	<u>130</u>	<u>-</u>

Notes to the financial statements (continued)

7 Employees

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

	Year ended 31 December 2005 Number	Year ended 31 December 2004 Number
Production	1,429	734
Administration	730	396
	<u>2,159</u>	<u>1,130</u>

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

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Wages and salaries	64,367	34,663
Social security costs	7,211	3,695
Pension costs	6,702	3,574
	<u>78,280</u>	<u>41,932</u>
Education, training and welfare	458	553
	<u>78,738</u>	<u>42,485</u>

Notes to the financial statements (continued)

7 Employees (continued)

At 31 December 2005 the following amounts were outstanding from non-director officers:

	2005 £000	2005 Number	2004 £000	2004 Number
Loans	531	6	531	6

(c) Pension scheme

The company participates in a group defined benefit scheme funded by contributions from members and from the company. However, the contributions paid by the company are accounted for as payments under a defined contribution scheme, as the company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. Details of the group's scheme are available in the financial statements of Ciba Specialty Chemicals Investment PLC. As at 31 December 2005 the group scheme had a deficit of £12,939,000. Ciba Specialty Chemicals PLC made contributions of £6,702,000 to the defined benefit scheme during the year and has agreed to make contributions varying from 7% to 13.7% to pensionable salaries.

(d) Post-retirement medical insurance (see note 16)

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 2005 by independent actuaries.

The principal assumptions can be summarised as follows:

- (i) The rate of medical expenses inflation has been assumed as 10% for 2006, decreasing 1% per year thereafter until reaching the ultimate rate of 5%.
- (ii) The discount rate used is 4.80%.
- (iii) Other assumptions are consistent with those made in evaluating the pension cost.

(e) Ex-gratia pensions (see note 16)

The company pays a pension to certain ex-employees based on the number of years' service. This scheme is now closed.

Notes to the financial statements (continued)

8 Directors

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
(a) Emoluments of directors		
Payments to executive directors	627	704
Included in payments to executive directors is £79,828 (2004: £105,727) receivable under long term incentive schemes.		
(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	232	219

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 December 2005 was £50,000 (2004: £60,000) per annum. There was no lump sum entitlement at 31 December 2005 (2004: £nil).

9 Intangible fixed assets

	Total £000
<i>Cost</i>	
At 1 January 2005	-
Additions	205
At 31 December 2005	205
<i>Amortisation</i>	
At 1 January 2005	-
Amortisation charge for the year	10
At 31 December 2005	10
<i>Net book value</i>	
At 31 December 2005	195
At 31 December 2004	-

This goodwill has arisen on the acquisition of the Metasheen trade and assets during the period.

Notes to the financial statements (continued)

10 Fixed assets

(a) Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Assets in the course of construction £000	Total £000
Cost					
At 1 January 2005	64,440	186,267	14,563	3,719	268,989
Additions	-	44	38	14,344	14,426
Disposals	(260)	(473)	(76)	(175)	(984)
Transfers from group undertakings	31,855	144,223	8,792	8,188	193,058
Transfers	902	11,300	47	(12,249)	-
	<u>96,937</u>	<u>341,361</u>	<u>23,364</u>	<u>13,827</u>	<u>475,489</u>
At 31 December 2005					
Depreciation					
At 1 January 2005	27,565	134,911	11,923	788	175,187
Charge for the year	3,770	21,078	845	-	25,693
Impairment	1,387	1,640	113	-	3,140
Disposals	(146)	(281)	(76)	-	(503)
Transfers from group undertakings	6,139	74,520	7,649	-	88,308
	<u>38,715</u>	<u>231,868</u>	<u>20,454</u>	<u>788</u>	<u>291,825</u>
At 31 December 2005					
Net book value					
At 31 December 2005	<u>58,222</u>	<u>109,493</u>	<u>2,910</u>	<u>13,039</u>	<u>183,664</u>
At 31 December 2004	<u>36,875</u>	<u>51,356</u>	<u>2,640</u>	<u>2,931</u>	<u>93,802</u>

Freehold land with a value of £4.3 million at 31 December 2005 (2004: £2.4 million) has not been depreciated.

In accordance with FRS 11 the carrying values of assets at Clayton and Paisley have been compared to their recoverable amount represented by value in use to the company. The value in use has been derived from discounted cash flow projections using nominal discount rates between 5.3% and 7.2%

Capital commitments

Contracts for capital expenditure for which provision has not been made in the financial statements amounted to £2,715,000 (2004: £383,000).

(b) Investments

Name	Country of incorporation	Principal activity	Nominal value £000	Holding	%
Subsidiary undertaking					
Ciba Specialty Chemicals (Financial Services) Limited	Great Britain	Dormant	-	Ordinary shares	100
Other investments					
Manchester Science Park Ltd	Great Britain	Property investment company	15	Ordinary shares	2.5

Notes to the financial statements (continued)

11 Stocks

	2005 £000	2004 £000
Raw materials and consumables	13,441	7,933
Work in progress	8,315	6,625
Finished goods	31,128	20,386
	<u>52,884</u>	<u>34,944</u>

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

12 Debtors

	2005 £000	2004 £000
<i>Amounts falling due within one year</i>		
Trade debtors	26,273	24,490
Amounts owed by group undertakings	58,684	418,618
Other debtors	1,306	1,294
Prepayments and accrued income	870	563
Corporation tax	413	-
	<u>87,546</u>	<u>444,965</u>
<i>Amounts falling due after more than one year</i>		
Amounts owed by group undertakings	432,398	180,003
Other debtors	-	-
	<u>432,398</u>	<u>180,003</u>

13 Creditors: amounts falling due within one year

	2005 £000	2004 £000
Bank overdraft (see note 14(b))	-	601
Trade creditors	32,839	18,066
Amounts owed to group undertakings	39,881	113,221
Other taxation and social security	3,177	1,890
Other creditors	430	430
Accruals and deferred income	24,128	23,703
	<u>100,455</u>	<u>157,911</u>

Notes to the financial statements (continued)

14 Creditors: amounts falling due after more than one year

	2005 £000	2004 £000
Accruals and deferred income (see (a) below)	2,649	2,649
Unsecured long term debt (see (b) below)	239,861	239,442
Amounts owed to group undertakings	364,190	318,090
	<u>606,700</u>	<u>560,181</u>

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

	2005 £000	2004 £000
At 1 January 2005	2,649	3,554
Amounts credited to profit and loss account (see note 3 (b))	-	(475)
Transferred to creditors falling due within one year	-	(430)
	<u>2,649</u>	<u>2,649</u>
At 31 December 2005	<u>2,649</u>	<u>2,649</u>

(b) Unsecured borrowings are repayable as follows:

	2005 £000	2004 £000
In less than one year (see note 13)	-	601
In more than one year but not more than two years	-	-
In more than two years but not more than five years	-	-
In more than five years	239,861	239,442
	<u>239,861</u>	<u>240,043</u>

The long term loan is repayable on 24 April 2013 and interest is charged at 6.5% per annum.

Notes to the financial statements (continued)

15 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 (2004: sterling).

As at 31 December 2005, the company's borrowings were at floating and fixed rates. The interest rate profile of these financial liabilities was:

	2005 £000	Weighted average interest rate %	2004 £000	Weighted average interest rate %
Fixed rate financial liabilities	239,861	6.50	239,442	6.50
Floating rate financial liabilities – group loans	389,515	0.31	408,890	1.09
	<u>629,376</u>		<u>648,332</u>	

The weighted average period for which rates are fixed is 10 years (2004:10 years).

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 2005, the company held open various currency swaps and forward contracts that the company had taken out to hedge expected future foreign currency transactions.

	2005 £000	2004 £000
Net foreign currency monetary liabilities:		
US Dollar	1,984	2,559
Japanese Yen	-	394
Swiss Francs	2,323	4,435
Euro	2,365	-
	<u>6,672</u>	<u>7,388</u>

Notes to the financial statements (continued)

15 Financial instruments (continued)

Maturity of financial liabilities

At the end of 2005 96.0% of the company's borrowings were due to mature in more than five years (2004: 36.9%). The maturity profile of the company's financial liabilities in more detail as at 31 December 2005 is as follows:

	2005 £000	2004 £000
In one year or less, or on demand	25,325	408,890
In more than one year but not more than two years	-	-
In more than two years but not more than five years	-	-
In more than five years	604,051	239,442
	<u>629,376</u>	<u>648,332</u>

Borrowing facilities

The undrawn facilities available at 31 December 2005 in respect of which all conditions precedent had been met, were as follows:

	2005 £000	2004 £000
Overdraft facility	10,000	10,000
Bank loan facilities	30,000	30,000
	<u>40,000</u>	<u>40,000</u>

All undrawn facilities are deemed short term.

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 2005 is shown below:

	2005 Book value £000	2005 Fair value £000	2004 Book Value £000	2004 Fair value £000
Group loans to finance the company's operations	389,515	389,515	408,890	408,890
Long-term borrowings	239,861	262,880	239,442	260,746
	<u>629,376</u>	<u>652,395</u>	<u>648,332</u>	<u>669,636</u>

Notes to the financial statements (continued)

15 Financial instruments (continued)

All fair values have been determined using appropriate market rates as at 31 December 2005 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 2005	74	-	74
Gains and losses recognised in the year arising in previous years	(74)	-	(74)
Gains and losses arising in previous years not recognised in the year	-	-	-
Gains and losses not recognised in the year arising in the year	63	-	63
Unrecognised gains and losses at 31 December 2005	63	-	63
Of which:			
Gains and losses expected to be recognised in the year ending 31 December 2006	63	-	63
Gains and losses expected to be recognised after 31 December 2006	-	-	-
	63	-	63

16 Provisions for liabilities and charges

	Deferred taxation £000	Post retirement medical insurance (see note 7(d)) £000	Environmental provision £000	Ex- gratia pensions (see note 7(e)) £000	Restructuring provisions £000	Total £000
At 1 January 2005	5,514	1,426	8,012	1,408	759	17,119
Utilised during the year	-	126	-	(119)	(3,921)	(3,914)
Charged/(credited) to profit and loss account	(1,755)	(246)	(2,325)	187	16,193	12,054
Transferred from group company	14,163	-	1,000	-	-	15,163
At 31 December 2005	17,922	1,306	6,687	1,476	13,031	40,422

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

The restructuring provision included severance costs for the Clayton site. This provision will be used in 2006 and 2007. Also included in the restructuring provision are costs which are to be incurred in relation to a water contract at Clayton. This provision will be used until 2018.

Notes to the financial statements (continued)

16 Provisions for liabilities and charges (continued)

Deferred tax is provided and unprovided as follows:

	Provided 2005 £000	Unprovided 2005 £000	Provided 2004 £000	Unprovided 2004 £000
Accelerated capital allowances	20,487	-	7,877	-
Other timing differences	(2,565)	-	(2,363)	-
Post retirement medical insurance costs	-	-	-	-
Capital gains rolled over	-	-	-	-
	<u>17,922</u>	<u>-</u>	<u>5,514</u>	<u>-</u>

17 Called up share capital

	2005 £000	2004 £000
<i>Authorised</i>		
2 billion ordinary shares of £0.05 each	100,000	100,000
2 A 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	49,991	49,991
2 A ordinary shares of £0.05 each	-	-
	<u>49,991</u>	<u>49,991</u>

18 Reserves

	Share premium account £000	Profit and loss account £000
At 1 January 2005	60,032	(74,444)
Loss for the financial year	-	(4,477)
	<u>60,032</u>	<u>(78,921)</u>
At 31 December 2005		

Notes to the financial statements (continued)

19 Reconciliation of movements in equity shareholders' funds

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Loss for the financial year	(4,477)	(13,883)
Opening equity shareholders' funds	35,579	49,462
Closing equity shareholders' funds	<u>31,102</u>	<u>35,579</u>

20 Commitments

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

	2005 Other £000	2004 Other £000
Commitments expiring:		
within one year	1,367	437
within two to five years	1,600	236
Total commitments	<u>2,967</u>	<u>673</u>

21 Ultimate parent undertaking and controlling party

The immediate parent undertaking of the company was Ciba Specialty Chemicals Investment PLC, a company incorporated in England and Wales. From 1 January 2005, the immediate parent undertaking of the company changed to Ciba Specialty Chemicals Water Treatments Limited.

The directors consider that Ciba Specialty Chemicals Holding 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 Holding 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.