Ciba Specialty Chemicals PLC

Directors' report and financial statements

Registered number 3249009

31 December 2006

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

Principal activity and review of the business

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

The company's key statutory and non-statutory financial and other performance indicators during the year were as follows

	2006	2005	Change
	£000	£000	
Growth and profitability development			
Turnover	427,331	433,227	-1 4%
Total period costs as a % of sales	33 6%	36 0%	2 4 %
Headcount	1,849	2,159	14 4%
Working capital management			
Accounts receivable as a % of sales	19 3%	19 7%	0 4%
Accounts payable as a % of inventory	71 4%	85 6%	-14 2%
Safety			
Accident frequency rate	0 09	0 25	0 16

Turnover fell during the year reflecting the previously announced closure of the Clayton site and the divestment of the Textile business to Huntsman, partly offset by growth achieved on a number of product lines Total period costs as a percentage of sales has improved and headcount has reduced, reflecting the restructuring program and proactive cost management actions taken, including changes to the pension scheme implemented from 1 January 2007 The development of accounts receivable as a percentage of sales and accounts payable as a percentage of inventory reflect the decision to move to new business processes towards the end of the year, with the benefits expected to start flowing through in 2007 The company's accident frequency rate remains at an excellent level, reflecting the commitment the company has to the safety of its' employees

Principal risks and uncertainties

The company's management meet quarterly to review risks and uncertainties, and evaluate what decisions are required The principal risks and uncertainties facing the company are competition, industry development and environment, health and safety

Competition

The company operates in a very competitive set of markets and has many traditional as well as new global competitors The whole business faces competitive risks and uncertainties

Industry development

Raw material and energy costs are prone to increase which the company makes all efforts to pass onto the customer Dependent on the market, selling price increases cannot always be achieved

Environment, Health and Safety

The company meets the legal requirements to manage these risks Given the importance the company places on managing those risks, it also adheres to best practice and Chemical Industries Association standards

Directors' report (continued)

Results and dividends

The profit for the year ended 31 December 2006 was £40 0 million (2005 loss £15 8 million) The directors recommend the payment of no dividend in 2006 (2005 Nil)

On 30 June 2006, the Textile Effects business was sold to Huntsman Turnover and results of the business during the current financial year and the previous financial year have been shown within discontinued operations

Directors

The directors who held office during the year were as follows

AH Dimery	
CA Forbes	
IEF Stewart	Resigned 31 December 2006
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

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, debt and equity 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 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

Directors' report (continued)

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

Political and charitable donations

No contributions were made by the company during the year for political purposes Donations amounting to £23,000 (2005 £17,000) were made for charitable purposes In addition, £113,000 (2005 £121,000) 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 53 outstanding days (2005 51 days)

Auditors

A resolution re-appointing Ernst & Young LLP as auditors for the ensuing year will be proposed at the Annual General Meeting

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

By order of the board

R Wilkinson
Secretary

Charter Way
Macclesfield
Cheshire
SK10 2NX
23 July 2007

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to 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 United Kingdom 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 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 25 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 Annual Report and 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 whether in our opinion the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or of 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 2006 and of its profit for the year then ended, the financial statements have been properly prepared in accordance with the Companies Act 1985, and the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP
Ernst & Young LLP
Registered Auditor
Manchester
26 July 2007

Profit and loss account

for the year ended 31 December 2006

	Notes	2006 £000	As restated (see note 8) 2005 £000
Turnover	2	**427,331**	433,227
Turnover - Continuing operations		**422,082**	403,133
Turnover - Discontinued operations		**5,249**	30,094
Cost of sales		**(358,459)**	(370,479)
Gross profit		**68,872**	62,748
Net operating expenses – excluding one-off pension effects	*3(a)*	**(29,383)**	(34,364)
Net operating income/(expenses) - one-off pension effects	*3(a)*	**41,736**	(16,525)
Net operating income/(expenses)		**12,353**	(50,889)
Operating profit	*3(b)*	**81,225**	11,859
Operating profit - Continuing operations		**82,411**	12,680
Operating profit - Discontinued operations		**(1,186)**	(821)
Gain/(loss) on sale of tangible fixed assets	*4(a)*	**5,153**	(481)
Loss on discontinued operations	*4(b)*	**(1,435)**	-
Restructuring costs	*4(c)*	**(11,099)**	(19,333)
Profit/(loss) before finance charges		**73,844**	(7,955)
Profit/(loss) before finance charges - Continuing operations		**81,917**	4,110
Profit/(loss) before finance charges - Discontinued operations		**(8,073)**	(12,065)
Net interest payable	*5*	**(18,236)**	(17,062)
Other finance income	*6*	**5,243**	2,684
Profit/(loss) on ordinary activities before taxation		**60,851**	(22,333)
Tax on profit/(loss) on ordinary activities	*7*	**(20,822)**	6,494
Profit/(loss) for the financial year	*20*	**40,029**	(15,839)

The accompanying notes form an integral part of the financial statements

Statement of total recognised gains and losses
for the year ended 31 December 2006

	Notes	2006 £000	As restated (see note 8) 2005 £000
Profit/(loss) for the financial year		**40,029**	(15,839)
Actuarial gain on pension scheme	*9(c)*	**5,971**	4,218
Movement on deferred tax relating to the actuarial gain on the pension scheme	*18*	**(1,791)**	(1,265)
Other gains and losses relating to the year	*21*	**4,180**	2,953
Total recognised gains/(losses) since last annual report		**44,209**	(12,886)

Balance sheet
as at 31 December 2006

	Notes	2006		2005 As restated (see note 8)	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	*11*		185		195
Tangible assets	*12(a)*		167,397		183,664
Investments	*12(b)*		15		15
			167,597		183,874
Current assets					
Stocks	*13*	53,239		52,884	
Debtors					
due within one year	*14*	104,508		87,546	
due after one year	*14*	440,906		432,398	
Cash at bank and in hand		2,997		21,977	
		601,650		594,805	
Creditors: amounts falling due within one year	*15*	(86,649)		(100,455)	
Net current assets			515,001		494,350
Total assets less current liabilities			682,598		678,224
Creditors: amounts falling due after more than one year	*16*		(606,663)		(606,700)
Provisions for liabilities and charges	*18*		(34,850)		(40,422)
Net assets excluding pension asset/(liability)			41,085		31,102
Pension asset/(liability)	*9(c)*		25,817		(8,409)
Net assets			66,902		22,693
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*		(43,121)		(87,330)
Equity shareholders' funds	*21*		66,902		22,693

The accompanying notes form an integral part of these financial statements

These financial statements were approved by the board of directors on 23 July 2007 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 16(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 the Ciba Specialty Chemicals group defined benefit and defined contribution scheme which is self administered and is funded by contributions from members and from the company In accordance with FRS17, the service cost of pension provision relating to the period, together with the cost of any benefits relating to past service, is charged to the profit and loss account A charge equal to the increase in the present value of the company's share of the scheme liabilities and a credit equivalent to the long-term expected return on the company's share of the scheme assets (based on the mid-market value) at the start of the period, are included in the profit and loss account

In 2005, the contributions paid by the company were accounted for as a defined contribution scheme, as the pension accounting and related disclosures were made in the group accounts of Ciba Specialty Chemicals Investment PLC The directors now believe that the splitting of assets and liabilities between the legal entities involved is consistent and reasonable with effect from 1 January 2005, the date when the operating trade and assets were transferred from Ciba Specialty Chemicals Water Treatments Limited to Ciba Specialty Chemicals PLC Therefore, the 2005 figures have been restated on a defined benefit basis and the 2006 figures are stated on a defined benefit basis

The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as an asset or liability on the balance sheet net of deferred tax Any difference between the expected return on assets and that actually achieved is recognised in the statement of total recognised gains and losses along with differences which arise from experience gains and losses and changes of assumptions

Further information on pension arrangements is set out in note 9(c) to the accounts

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

Notes to the financial statements (continued)

1 Accounting policies (continued)

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 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

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, debt and equity 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 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

Notes to the financial statements (continued)

2 Turnover

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

	2006 £000	2005 £000
United Kingdom	**110,199**	111,972
Americas	**55,272**	52,618
Europe	**200,920**	203,141
Asia, Australia and Africa	**60,940**	65,496
	427,331	433,227

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

3 (a) Net operating expenses – excluding one-off pension effects

	2006 £000	As restated (see note 8) 2005 £000
Distribution	**22,040**	22,565
Administration	**7,343**	11,799
	29,383	34,364

Net operating (income)/expenses – one-off pension effects (note 9(c))

	2006 £000	As restated (see note 8) 2005 £000
Curtailment gains	**(34,252)**	-
Prior service credit	**(7,484)**	-
Prior year adjustment	**-**	16,525
	(41,736)	16,525

Notes to the financial statements (continued)

(b) Operating profit on ordinary activities

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

	2006 £000	2005 £000
Auditors' remuneration		
UK Statutory Fees	**302**	236
Other UK assurance work	**131**	131
UK taxation services	**4**	3
Depreciation of tangible fixed assets	**19,838**	25,693
Operating leases		
plant and machinery	**582**	248
other assets	**1,410**	1,298
Directors' emoluments (see note 10)	**490**	627
Amounts transferred from government grants (see note 16 (a))	**(401)**	-
Research and development expenditure (see note (c) below)	**5,159**	8,856
Exchange gains and losses	**(121)**	600
Provisions charge/(credit) in the year (see note 18)		
Post retirement medical insurance	**(99)**	(246)
Ex gratia	**77**	187
Environmental	**(4,804)**	(2,325)

(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

Included within the above £5,159,000 (2005 £8,856,000) are the following contributions and reimbursements

For Ciba Specialty Chemicals PLC's contribution to the ultimate holding company, the total amount adjusted for during the year to 31 December 2006 relating to prior years was a credit of £13,693,000 (2005 £2,114,000 debit) For the ultimate holding company's reimbursement to Ciba Specialty Chemicals PLC, the total amount adjusted for during the year to 31 December 2006 relating to prior years was a debit of £10,169,000 (2005 £200,000 credit)

4 (a) Gain/(loss) on sale of tangible fixed assets

The gain on sale of tangible fixed assets of £5,153,000 (2005 £481,000 loss) relates to the disposal of assets to third parties and group undertakings The proceeds and related costs for the sale of land at Clayton were £10,500,000 and £5,347,000 respectively

(b) Loss on discontinued operations

The loss of £1,435,000 relates to the disposal of the Textile Effects business to Huntsman on 30 June 2006

Notes to the financial statements (continued)

(c) Restructuring costs

	2006 £000	2005 £000
Impairment of fixed assets	**2,769**	3,140
Severance costs	**5,606**	15,601
Other restructuring costs	**2,724**	592
	11,099	19,333

5 Net interest payable

	2006 £000	2005 £000
Interest payable		
On loans wholly repayable within five years		
Group companies	**(1,254)**	(1,830)
Bank interest and similar charges	**(1,595)**	(23)
Amortised loan interest	**(419)**	-
	(3,268)	(1,853)
On loans wholly repayable after five years		
Bank interest and similar charges	**(15,789)**	(15,789)
	(19,057)	(17,642)
Interest receivable		
Bank interest receivable and similar income	**657**	550
Group companies	**164**	30
	(18,236)	(17,062)

6 Other finance income

	2006 £000	As restated (see note 8) 2005 £000
Expected return on pension scheme assets (refer to note 9(c))	**28,601**	25,788
Interest on pension scheme liabilities (refer to note 9(c))	**(23,358)**	(23,104)
	5,243	2,684

Notes to the financial statements (continued)

7 Tax on profit/(loss) on ordinary activities

	2006 £000	As restated (see note 8) 2005 £000
Current tax		
UK corporation tax	-	-
Adjustments in respect of prior years	5,527	131
Deferred tax		
Adjustments in respect of prior periods	(443)	49
Origination and reversal of timing differences	15,738	(6,674)
Total deferred tax	15,295	(6,625)
Total tax on profit/(loss) on ordinary activities	20,822	(6,494)

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/(loss) before tax is as follows

	2006 £000	As restated (see note 8) 2005 £000
Profit/(loss) on ordinary activities before tax	60,851	(22,333)
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 30% (2005 30%)	18,255	(6,700)
Effects of		
Expenses not deductible for tax purposes	1,171	160
Income not taxable	(2,573)	-
Depreciation (lower than) / in excess of capital allowances	293	1,564
Short term timing differences	(16,022)	5,072
Group relief surrendered for nil consideration	(1,124)	(96)
Prior year adjustments	5,527	131
Current tax charge for period	5,527	131

Notes to the financial statements (continued)

8 Prior year adjustment

In 2005, the contributions paid by the company were accounted for as a defined contribution scheme, as the pension accounting and related disclosures were made in the group accounts of Ciba Specialty Chemicals Investment PLC The directors now believe that the splitting of assets and liabilities between the legal entities involved is consistent and reasonable with effect from 1 January 2005 Therefore, the company is splitting the assets and liabilities within the group pension scheme on a consistent and reasonable basis, and as a result, the 2006 figures are stated on a defined benefit basis The 2005 figures have been restated on a defined benefit basis The overall impact on 2005 includes a one-off pension cost of £16,525,000 (£11,568,000 net of deferred tax) to bring the net FRS17 liability position onto the balance sheet as a prior service cost The impact on net assets is a decrease of £8,409,000 from £31,102,000 to £22,693,000 The loss after tax in 2005 has increased by £11,362,000 from £4,477,000 to £15,839,000

9 Employees

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

	2006 Number	2005 Number
Production	**1,217**	1,429
Administration	**632**	730
	1,849	2,159

(b) Cost of employees, including executive directors

	2006 £000	As restated (see note 8) 2005 £000
Wages and salaries	**63,497**	64,367
Social security costs	**5,466**	7,211
Pension costs - excluding one-off pension effects	**10,018**	9,092
	78,981	80,670
Education, training and welfare	**411**	458
	79,392	81,128

Notes to the financial statements (continued)

9 Employees (continued)

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

	2006 £000	**2006 Number**	2005 £000	2005 Number
Loans	**356**	**4**	531	6

(c) Pension scheme

The company participates in a single UK defined benefit and defined contribution scheme for employees of Ciba Specialty Chemicals PLC and Pira International Limited, funded by contributions from members and from those companies The company adopted FRS17, "Retirement Benefits" in 2003 The assets of the pension scheme are held in a separate trustee administered fund

An actuarial valuation of the UK defined benefit scheme using the projected unit basis was carried out as at 31 December 2005 by Watson Wyatt, consulting actuaries PricewaterhouseCoopers LLP then updated this valuation specifically for independent accounting purposes This was carried out as at 31 December 2006 to take account of the requirements of FRS 17 in order to assess the assets and liabilities of the scheme as at 31 December 2006

	2006 Projected unit	2005 Projected unit
Inflation rate	**3.10%**	2 80%
Rate of increase in salaries	**4.10%**	3 80%
Rate of increase in pensions in payment and deferred pension	**2.95%**	2 70%
Rate used to discount scheme liabilities	**5.10%**	4 80%

Notes to the financial statements (continued)

9 Employees (continued)

(c) Pension scheme (continued)

The market value of the assets held by the pension scheme and the expected rate of return for each class of the asset held at 31 December were

	Long-term rate of return expected at 2006	**Value at 2006 £000**	Long-term rate of return expected at 2005	Value at 2005 £000
Equities	**7.60%**	**336,218**	7 10%	303,661
Bonds	**4.65%**	**166,231**	4 53%	162,647
Cash	**5.00%**	**13,828**	4 50%	14,347
Total market value of the assets		**516,277**		480,655
Present value of the scheme liabilities		**(479,396)**		(492,668)
Surplus /(deficit) in the scheme		**36,881**		(12,013)
Related deferred tax (liability)/asset		**(11,064)**		3,604
Net pension asset / (liability)		**25,817**		(8,409)

Analysis of the amount (credited)/charged to operating profit:

	2006 £000	2005 £000
Current service cost	**10,018**	9,357
Curtailment gains	**(34,252)**	(360)
Prior service (credits)/ costs	**(7,484)**	95
Total operating (credit)/charge	**(31,718)**	9,092

The curtailment gain in 2006 arises due to the breaking of the final salary link (i e. now linking retirement benefits to inflation rather than to final salary) with effect from 1 January 2007

The prior service credit in 2006 relates to a change in the rules to allow members to commute some of their pension for tax-free cash

Analysis of the amount credited to other finance income:

	2006 £000	2005 £000
Expected return on pension scheme assets	**28,601**	25,788
Interest on pension scheme liabilities	**(23,358)**	(23,104)
Net return	**5,243**	2,684

Notes to the financial statements (continued)

9 Employees (continued)

(c) Pension scheme (continued)

Analysis of amount recognised in statement of total recognised gains and losses:

	2006 £000	2005 £000
Actual return less expected return on pension scheme assets	**18,808**	51,698
Experience gains and losses arising in scheme liabilities	**-**	8,045
Changes in assumptions underlying the present value of the scheme liabilities	**(12,837)**	(55,525)
Actuarial gain recognised in the statement of total recognised gains and losses	**5,971**	4,218

Movements in deficit during the period:

	2006 £000	2005 £000
Deficit in the scheme at the beginning of the period	**(12,013)**	(16,525)
Movements in the year		
Current service cost	**(10,018)**	(9,357)
Curtailment gains	**34,252**	360
Prior service credits / (costs)	**7,484**	(95)
Contributions	**5,962**	6,702
Other finance income	**5,243**	2,684
Actuarial gain	**5,971**	4,218
Surplus / (deficit) in the scheme at the end of the period	**36,881**	(12,013)

History of experience gains and losses:

	2006	2005
Difference between the expected and actual return on scheme assets:		
Amount (£000)	**18,808**	51,698
Percentage of scheme assets	**3.64%**	10 76%
Experience gains and losses on scheme liabilities:		
Amount (£000)	**-**	8,045
Percentage of the present value of scheme liabilities	**-**	1 67%
Changes in assumptions underlying the present value of the scheme liabilities:		
Amount (£000)	**(12,837)**	(55,525)
Percentage of the present value of scheme liabilities	**(2.68%)**	(11 27%)
Total actuarial gains recognised in the statement of total recognised gains and losses:		
Amount (£000)	**5,971**	4,218
Percentage of the present value of scheme liabilities	**1.25%**	0 86%

Notes to the financial statements (continued)

9 Employees (continued)

(d) Post-retirement medical insurance (see note 18)

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 valuation has been updated to 31 December 2006 to reflect movements in plan participation and the actual 2006 medical trend of 0%.

The principal assumptions can be summarised as follows

(i) The rate of medical expenses inflation has been assumed as 9% for 2007, decreasing 1% per year thereafter until reaching the ultimate rate of 5%

(ii) The discount rate used is 5 10%

(iii) Other assumptions are consistent with those made in evaluating the pension cost

(e) Ex-gratia pensions (see note 18)

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)

10 Directors

	2006 £000	2005 £000
(a) Emoluments of directors		
Payments to executive directors	**490**	627

Included in payments to executive directors is £51,592 (2005 £79,828) 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	**213**	232

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 December 2006 was £50,000 (2005 £50,000) per annum There was no lump sum entitlement at 31 December 2006 (2005 £nil)

11 Intangible fixed assets

	Total £000
Cost	
At 1 January 2006	205
Additions	-
At 31 December 2006	**205**
Amortisation	
At 1 January 2006	(10)
Amortisation charge for the year	(10)
At 31 December 2006	**(20)**
Net book value	
At 31 December 2006	**185**
At 31 December 2005	195

This goodwill arose on the acquisition of the Metasheen trade and assets during 2005

Notes to the financial statements (continued)

12 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 2006	96,937	341,361	23,364	13,827	475,489
Additions	-	-	3	7,263	7,266
Disposals	(1,300)	(512)	(1)	(2)	(1,815)
Transfers from/(to) group undertakings	-	43	(1,011)	-	(968)
Transfers	28	11,253	488	(11,769)	-
At 31 December 2006	95,665	352,145	22,843	9,319	479,972
Depreciation					
At 1 January 2006	38,715	231,868	20,454	788	291,825
Charge for the year	2,739	16,517	582	-	19,838
Impairment	270	2,505	(6)	-	2,769
Disposals	(898)	(101)	(27)	-	(1,026)
Transfers from/(to) group undertakings	-	-	(831)	-	(831)
Transfers	-	788	-	(788)	-
At 31 December 2006	40,826	251,577	20,172	-	312,575
Net book value					
At 31 December 2006	**54,839**	**100,568**	**2,671**	**9,319**	**167,397**
At 31 December 2005	58,222	109,493	2,910	13,039	183,664

Freehold land with a value of £3 8million at 31 December 2006 (2005 £4 3 million) has not been depreciated

In accordance with FRS 11 the carrying values of assets at the production sites 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 9 4%

Capital commitments

Contracts for capital expenditure for which provision has not been made in the financial statements amounted to £6,204,000 (2005 £2,715,000)

Notes to the financial statements (continued)

12 Fixed assets (continued)

(b) Investments

Name	Country of incorporation	Principal activity	Nominal value £000	Holding	%
Subsidiary undertaking					
Kolorcube Limited (formerly 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
			15		

13 Stocks

	2006 £000	2005 £000
Raw materials and consumables	**6,589**	13,441
Work in progress	**8,156**	8,315
Finished goods	**38,494**	31,128
	53,239	52,884

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

14 Debtors

	2006 £000	2005 £000
Amounts falling due within one year		
Trade debtors	**26,366**	26,273
Amounts owed by group undertakings	**74,121**	58,684
Other debtors	**2,374**	1,306
Prepayments and accrued income	**1,647**	870
Corporation tax	-	413
	104,508	87,546
Amounts falling due after more than one year		
Amounts owed by group undertakings	**437,758**	432,398
Other debtors	**3,148**	-
	440,906	432,398

Notes to the financial statements (continued)

15 Creditors: amounts falling due within one year

	2006 £000	2005 £000
Trade creditors	27,306	32,839
Amounts owed to group undertakings	25,549	39,881
Corporation tax	6,469	-
Other taxation and social security	3,596	3,177
Other creditors	401	430
Accruals and deferred income	23,328	24,128
	86,649	100,455

16 Creditors: amounts falling due after more than one year

	2006 £000	2005 £000
Accruals and deferred income (see (a) below)	2,277	2,649
Unsecured long term debt (see (b) below)	240,280	239,861
Amounts owed to group undertakings	364,106	364,190
	606,663	606,700

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

	2006 £000	2005 £000
At 1 January 2006	2,649	2,649
Amounts credited to profit and loss account (see note 3 (b))	(401)	-
Transferred to creditors falling due within one year	29	-
At 31 December 2006	2,277	2,649

(b) Unsecured borrowings are repayable as follows

	2006 £000	2005 £000
In less than one year	-	-
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	240,280	239,861
	240,280	239,861

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)

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 (2005 sterling)

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

	2006	**Weighted average interest rate**	2005	Weighted average interest rate
	£000	**%**	£000	%
Fixed rate financial liabilities	**240,280**	**6.50**	239,861	6 50
Floating rate financial liabilities – group loans	**376,431**	**0.17**	389,515	0 31
	616,711		629,376	

The weighted average period for which rates are fixed is 10 years (2005 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 At 31 December 2006, it had none open

	2006	2005
	£000	£000
Net foreign currency monetary liabilities		
US Dollar	-	1,984
Japanese Yen	-	-
Swiss Francs	-	2,323
Euro	-	2,365
	-	6,672

Notes to the financial statements (continued)

17 Financial instruments (continued)

Maturity of financial liabilities

At the end of 2006, 98 0% of the company's borrowings were due to mature in more than five years (2005· 96 0%) The maturity profile of the company's financial liabilities in more detail as at 31 December is as follows

	2006 £000	2005 £000
In one year or less, or on demand	**12,325**	25,325
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	**604,386**	604,051
	616,711	629,376

Borrowing facilities

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

	2006 £000	2005 £000
Overdraft facility	**10,000**	10,000
Bank loan facilities	**30,000**	30,000
	40,000	40,000

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 is shown below

	2006 Book value £000	2006 Fair value £000	2005 Book Value £000	2005 Fair value £000
Group loans to finance the company's operations	**376,431**	**376,431**	389,515	389,515
Long-term borrowings	**240,280**	**249,108**	239,861	262,880

Notes to the financial statements (continued)

17 Financial instruments (continued)

All fair values have been determined using appropriate market rates as at 31 December 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 2006	63	-	63
Gains and losses recognised in the year arising in previous years	(63)	-	(63)
Gains and losses arising in previous years not recognised in the year	-	-	-
Gains and losses not recognised in the year arising in the year	-	-	-
Unrecognised gains and losses at 31 December 2006	-	-	-
Of which			
Gains and losses expected to be recognised in the year ending 31 December 2007	-	-	-
Gains and losses expected to be recognised after 31 December 2007	-	-	-
	-	-	-

18 Provisions for liabilities and charges

	Deferred taxation £000	Post retirement medical insurance (see note 9(d)) £000	Environ-mental provision £000	Ex-gratia pensions (see note 9(e)) £000	Legal Claims £000	Restruc-turing provisions £000	Total £000
At 1 January 2006	17,922	1,306	6,687	1,476	-	13,031	40,422
Utilised during the year	-	(120)	(544)	(56)	-	(11,814)	(12,534)
Charged/(credited) to profit and loss account	2,418	(99)	(4,804)	77	1,040	8,330	6,962
At 31 December 2006	**20,340**	**1,087**	**1,339**	**1,497**	**1,040**	**9,547**	**34,850**

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

The restructuring provision includes severance and demolition costs for the Clayton site This provision will be used in 2007 and in 2008

The legal claims provision against the company is a best estimate and has been provided for in the accounts in 2006

Notes to the financial statements (continued)

18 Provisions for liabilities and charges (continued)

Deferred tax is provided and unprovided as follows

	Provided 2006 £000	**Unprovided 2006 £000**	As restated (see note 8) Provided 2005 £000	Unprovided 2005 £000
Accelerated capital allowances	**21,446**	**-**	20,487	-
Other timing differences	**(1,106)**	**-**	(2,565)	-
Deferred tax provision	**20,340**	**-**	17,922	-
Deferred tax (asset)/liability on pension (liability)/asset (note 9(c))	**11,064**	**-**	(3,604)	-
	31,404	**-**	14,318	-

	2006	2005
Provision at beginning of year including deferred tax on pension liability	**14,318**	5,514
Transfer from group company on 1 January 2005	**-**	14,164
Amount debited/(credited) to profit and loss account	**15,295**	(6,625)
Amount debited to statement of total recognised gains and losses	**1,791**	1,265
Provision at end of year including deferred tax on pension liability	**31,404**	14,318

19 Called up share capital

	2006 £000	2005 £000
Authorised		
2 billion ordinary shares of £0 05 each	**100,000**	100,000
2 A ordinary shares of £0 05 each	**-**	-
	100,000	100,000
Allotted, called up and fully paid		
999,813,360 ordinary shares of £0 05 each	**49,991**	49,991
2 A ordinary shares of £0 05 each	**-**	-
	49,991	49,991

Notes to the financial statements (continued)

20 Reserves

	Share premium account £000	Profit and loss account £000
At 1 January 2006 (as restated – refer to note 8)	60,032	(87,330)
Profit for the financial year	-	40,029
Other recognised gains and losses	-	4,180
At 31 December 2006	**60,032**	**(43,121)**

21 Reconciliation of movements in equity shareholders' funds

	2006 £000	As restated (refer to note 8) 2005 £000
Profit/(loss) for the financial year	**40,029**	(15,839)
Other recognised gains and losses	**4,180**	2,953
Opening equity shareholders' funds	**22,693**	35,579
Closing equity shareholders' funds	**66,902**	22,693

22 Commitments

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

	2006 Land £000	2006 Other £000	2005 Land £000	2005 Other £000
Commitments expiring				
within one year	-	1,104	-	1,367
within two to five years	-	1,287	-	1,600
Total commitments	-	2,391	-	2,967

Notes to the financial statements (continued)

23 Contingent liabilities

Durıng 2006 a professıonal assessment was undertaken to ıdentıfy the envıronmental financıal provısıons requıred for the Bradford, Duxford, and Paısley sıtes As a result of thıs assessment, contıngent lıabılıtıes totallıng £906,000 were ıdentıfied

24 Ultimate parent undertaking and controlling party

The ımmedıate parent undertakıng of the company was Cıba Specıalty Chemıcals Investment PLC, a company ıncorporated ın England and Wales

The dırectors consıder that Cıba Specıalty Chemıcals Holdıng Inc , a company ıncorporated ın Swıtzerland, ıs the company's ultımate parent undertakıng and ultımate controllıng party

Cıba Specıalty Chemıcals Holdıng Inc ıs the parent undertakıng of the smallest group of whıch Cıba Specıalty Chemıcals PLC ıs a member and for whıch group financıal statements are drawn up Copıes of these group financıal statements are avaılable from Cıba Specıalty Chemıcals Holdıng Inc, Buıldıng K-141, CH-4002 Basle, Swıtzerland or http//www cıbasc com

As a subsıdıary undertakıng of Cıba Specıalty Chemıcals Holdıng Inc , the company has taken advantage of the exemptıon ın FRS 8 "Related Party Dısclosures" not to dısclose transactıons wıth other members of the group

25 Post balance sheet events

On 21 March 2007, the Chancellor of the Exchequer announced that the standard rate of Corporatıon Tax ın the UK would be reduced from 30% to 28% wıth effect from 1 Aprıl 2008 Addıtıonally, wıth effect from 21 March 2007, balancıng allowances / charges arısıng on the sale of ındustrıal buıldıngs were wıthdrawn Had these two measures been enacted, or substantıally enacted, at the balance sheet date, the deferred tax lıabılıty of £31,404,000 would have been reduced to £29,310,000