

ELEMENTIS UK LIMITED
Registered Number: 656457

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002



ELEMENTIS UK LIMITED

Directors' report for the year ended 31 December 2002

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

Directors

The directors of the Company who served during the year were as follows:

PD Brown

GR Fairweather (resigned 22 March 2002)

BG Taylorson (appointed 22 March 2002)

Statement of directors' responsibilities

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 as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for ensuring that the Company keeps proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and which 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
- taking reasonable steps for the prevention and detection of fraud and other irregularities

Principal activities and business review

The activity of the Company has been, and is expected to continue to be, to manufacture a range of organic and inorganic chemicals in the United Kingdom for sale worldwide.

The results for the year ended 31 December 2002 and the state of affairs of the Company at that date are set out in the annexed financial statements.

ELEMENTIS UK LIMITED

Directors' report for the year ended 31 December 2002 (continued)

Dividends

No dividend was paid or proposed during the year (2001: £nil).

Directors' interests in shares, options and loan notes

The directors, and their families had no beneficial interest in the share capital of the Company at any time during the year.

All the directors were also directors of the Company's ultimate parent undertaking, Elementis plc, and their interests in its share capital are disclosed in the financial statements of that company.

Employment communications and involvement

It is Company policy to communicate with all employees on major matters to encourage them to take a wider interest in the affairs of the Company. This is done in a variety of ways including in-house newspapers, bulletins and briefing sessions. The Company operates a savings-related share option scheme allowing all UK employees an opportunity to become shareholders.

Employment policies

The Company is committed to the principle of equal opportunities in employment, regardless of a person's race, creed, colour, nationality, gender, age, marital status or disability. Employment policies are fair, equitable and consistent with the skills and abilities of the employees and the needs of the Company business.

These policies ensure that everyone is accorded equal opportunity for recruitment, training and promotion. Where an employee becomes disabled whilst employed by the Company, every effort is made to allow that person to continue in employment.

Policy on payment of suppliers

The Company applies a policy of agreeing payment terms with each of its major suppliers and abides by these terms, subject to satisfactory performance by the suppliers.

Trade creditors at the year end represented 53 days of purchases (2001: 44 days).

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a limited liability partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 23 January 2003 and the directors' appointed its successor, PricewaterhouseCoopers LLP as auditors. The Company has passed an elective Resolution pursuant to Section 386 of the Companies Act 1985 dispensing with the obligation to appoint auditors annually.

On behalf of the board



PD Brown
Secretary

30 June 2003

Registered office:
Ash House, Fairfield Avenue,
Staines, TW18 4ES

Independent auditors' report to the members of Elementis UK Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the company's members in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
30 June 2003

ELEMENTIS UK LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2002

	Note	2002 £million	2001 restated £million
Turnover	2	153.3	153.2
Cost of sales before exceptional items		(117.8)	(120.0)
Exceptional items	3	(4.9)	-
Gross profit		30.6	33.2
Distribution costs		(16.8)	(17.3)
Administrative expenses		(8.4)	(10.2)
Management charges		(10.2)	(2.1)
Operating (loss)/profit		(4.8)	3.6
Profit on disposal of properties- continuing operations		6.0	-
Profit on ordinary activities before tax	3	1.2	3.6
Tax on profit on ordinary activities	5	(0.5)	(1.4)
Profit for the financial year		0.7	2.2
Amount transferred to reserves	15	0.7	2.2

Results are derived from continuing operations.

There is no difference between the results above and their historic cost equivalents.

The notes on pages 6 to 17 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2002

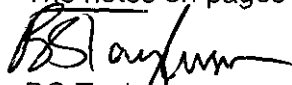
	2002 £million	2001 £million
Profit for the financial year	0.7	2.2
Prior year adjustments (note 24)	(4.1)	
Total recognised losses since last report and financial statements	(3.4)	

ELEMENTIS UK LIMITED

BALANCE SHEET
at 31 December 2002

	Note	2002 £million	2001 restated £million
Fixed assets			
Intangible assets	6	8.3	9.1
Tangible assets	7	49.3	57.0
Investments:			
Group undertakings	8	11.2	11.2
		<u>68.8</u>	<u>77.3</u>
Current assets			
Stocks	9	20.3	20.4
Debtors	10	33.4	27.2
Cash at bank and in hand		14.4	0.5
		<u>68.1</u>	<u>48.1</u>
Creditors: amounts falling due within one year			
Borrowings	11	3.2	2.7
Creditors	12	85.7	75.2
		<u>88.9</u>	<u>77.9</u>
Net current liabilities		<u>(20.8)</u>	<u>(29.8)</u>
Total assets less current liabilities		48.0	47.5
Creditors :amounts falling due after more than one year			
Government grants		0.5	0.6
Provisions for liabilities and charges	13	6.5	6.6
		<u>7.0</u>	<u>7.2</u>
Net assets		<u>41.0</u>	<u>40.3</u>
Capital and reserves			
Called up share capital	14	26.5	26.5
Profit and loss account	15	14.5	13.8
Shareholders' funds – equity	16	<u>41.0</u>	<u>40.3</u>

The notes on pages 6 to 17 form part of these financial statements.


BG Taylorson
Director

Approved by the Board on 30 June 2003

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002

1 Accounting policies

Basis of preparation

The financial statements on pages 4 to 17 have been prepared under the historical cost convention and in accordance with generally accepted accounting principles and applicable accounting standards. These are unchanged from the previous year with the exception of pension costs following the adoption of FRS17 'Retirement Benefits' and taxation following the adoption of FRS19 'Deferred Taxation'. The effect of these changes in accounting policy are set out in note 24.

Consolidated accounts are not prepared because the Company is a wholly owned subsidiary and its results are included in the consolidated financial statements of its ultimate parent undertaking, Elementis plc.

Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange ruling at the date of the transaction. Foreign currency assets and liabilities are translated into sterling at the exchange rates ruling at the relevant balance sheet date.

Investments

Investments in group undertakings are included in the balance sheet at cost or, if lower, directors' valuation.

Investment income

Dividends from group undertakings are accounted for on an accruals basis.

Pension and other post-retirement benefits

The Company participates in the Elementis Group defined benefit pension scheme. The Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and accordingly the Company has treated the scheme as a defined contribution scheme and has recognised only the contributions payable for the year.

Goodwill

Goodwill arising on acquisitions since 1 January 1998 is capitalised in the balance sheet and then amortised through the profit and loss account over its estimated useful life, up to a maximum of 20 years. Goodwill arising on acquisitions prior to this date was charged directly against reserves in the year of acquisition; on subsequent disposals this is charged through the profit and loss account.

Leased assets

Rental costs in respect of operating leases are charged against profit before interest as they arise.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002 (continued)

1 Accounting policies (continued)

Depreciation

Freehold land is not depreciated. Leasehold property is depreciated over the period of the lease. Freehold buildings, plant and machinery, vehicles, and fixtures, fittings, tools and equipment are depreciated over their estimated useful lives on a straight line basis. Estimated useful lives of these assets are:

Buildings	10 to 50 years
Plant and machinery	2 to 20 years
Vehicles	2 to 10 years
Fixtures, fittings, tools and equipment	3 to 20 years

Stocks

Stocks are stated at cost or net realisable value whichever is the lower. Cost, in the case of manufactured goods, includes direct and overhead expenses attributable to manufacture.

Taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse.

Government grants

Grants against capital expenditure from government and other bodies are accrued and released to the profit and loss account over the period during which the relevant assets are depreciated.

2 Turnover and segmental information

Turnover is based on the invoiced value of the sale of goods and services. It excludes sales between Group undertakings, VAT and similar sales based taxes.

Turnover and operating profit is derived from one class of business in the UK.

Analysis of turnover by geographical markets:

	2002 £ million	2001 £ million
Europe	122.4	123.4
North America	10.3	9.6
Rest of the World	20.6	20.2
	<u>153.3</u>	<u>153.2</u>

ELEMENTIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2002 (continued)

3 Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging / (crediting):	2002 £ million	2001 £ million
Employee costs:		
Wages and salaries	10.6	10.1
Social security costs	1.4	1.3
Pension costs	2.2	(1.2)
Depreciation of owned tangible fixed assets	8.0	5.8
Amortisation of goodwill	0.8	0.8
Hire charges for plant & machinery	0.2	0.2
Hire charges for other assets	0.2	0.2
Exceptional charges (charged to cost of sales) :		
Restructuring of Pigments & Specialties Birtley operation	4.5	-
Restructuring of combined Chromium businesses	0.4	-
	<u>4.9</u>	<u>-</u>

Total fees paid to the auditors during the year in respect of audit services were £47,000 (2001: £42,000).

4. Directors and employees

The emoluments of all the directors are borne by the Company's parent undertaking, Elementis Plc, being the company for which they performed substantially all of their executive duties.

The average number of persons employed during the year was 475 (2001: 489).

ELEMENTIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2002 (continued)

5 Tax on profit on ordinary activities

	2002 £ million	2001 restated £ million
The charge for tax comprises:		
United Kingdom corporation tax at 30% (2001: 30%)	(0.8)	(1.8)
Corporation tax prior year adjustment	-	0.4
Deferred tax	0.3	-
	<u>(0.5)</u>	<u>(1.4)</u>
	2002 £ million	2001 restated £ million
Factors affecting tax charge for the year:		
Profit on ordinary activities before tax	1.2	3.6
Tax on ordinary activities at 30% (2001: 30%)	(0.4)	(1.1)
Expenses not deductible for tax purposes	(1.9)	(0.4)
Income not taxable for tax purposes	1.8	-
Accelerated capital allowances and other timing differences	(0.3)	(0.3)
Current tax charge for the period	<u>(0.8)</u>	<u>(1.8)</u>

Factors that may affect future tax charges:

The current tax charge will be affected by the utilisation of surplus ACT.

6 Intangible assets

	Goodwill £ million
Cost:	
At 1 January and 31 December 2002	<u>11.3</u>
Amortisation:	
At 1 January 2002	2.2
Amortisation for the year	0.8
At 31 December 2002	<u>3.0</u>
Net book value:	
At 31 December 2002	<u>8.3</u>
At 31 December 2001	<u>9.1</u>

ELEMENTIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002 (continued)

7 Tangible fixed assets

	Freehold land and buildings £ million	Plant and machinery £ million	Fixtures, fittings, tools & equipment £ million	Assets under construction £ million	Total £ million
Cost:					
At 1 January 2002	30.7	105.9	2.6	0.6	139.8
Additions	-	1.1	-	1.0	2.1
Disposals	(3.5)	(0.7)	(0.2)	-	(4.4)
Reclassification	-	1.4	-	-	1.4
Transfers	-	1.0	-	(1.0)	-
At 31 December 2002	27.2	108.7	2.4	0.6	138.9
Depreciation:					
At 1 January 2002	15.1	65.4	2.3	-	82.8
Charge for the year	0.8	7.0	0.2	-	8.0
Disposals	(1.1)	-	(0.1)	-	(1.2)
At 31 December 2002	14.8	72.4	2.4	-	89.6
Net book value:					
At 31 December 2002	12.4	36.3	-	0.6	49.3
At 31 December 2001	15.6	40.5	0.3	0.6	57.0

ELEMENTIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002 (continued)

8 Investments in group undertakings

Subsidiary undertakings

**Shares at
cost
£ million**

At 1 January and December 2002

11.2

Principal investments in group undertakings are as follows:

	<i>Country of incorporation</i>	<i>Equity held %</i>
N B Chrome Limited	England	92

In the opinion of the directors, the value of investments is not less than the value at which they are included in the balance sheet.

ELEMENTIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2002 (continued)

9 Stocks

	2002 £ million	2001 £ million
Raw materials and consumables	5.5	5.4
Work in progress	1.1	1.1
Finished goods and goods for resale	13.7	13.9
	<u>20.3</u>	<u>20.4</u>

10 Debtors

	2002 £ million	2001 restated £ million
Trade debtors	20.3	19.3
Amounts owed by group undertakings	8.9	3.6
Other debtors	2.9	3.5
Prepayments and accrued income	1.3	0.8
	<u>33.4</u>	<u>27.2</u>

11 Borrowings

	2002 £ million	2001 £ million
Borrowings repayable within one year: Unsecured bank borrowings	<u>3.2</u>	<u>2.7</u>

All borrowings at 31 December 2002 and 31 December 2001 were at floating rates bearing interest at the relevant interbank rate plus a margin.

ELEMENTIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2002 (continued)

12 Creditors: amounts falling due within one year

	2002 £ million	2001 £ million
Trade creditors	13.7	11.4
Amounts owed to group undertakings	41.3	37.0
Amounts due to parent undertaking in respect of corporation tax	25.5	24.1
Other taxes and social security	1.8	0.7
Other creditors	0.7	0.2
Accruals and deferred income	2.7	1.8
	<u>85.7</u>	<u>75.2</u>

13 Provisions for liabilities and charges

	Deferred tax £ million	Other £ million	Total restated £ million
At 1 January 2002 as reported	4.0	3.7	7.7
Prior year adjustment	(1.1)	-	(1.1)
At 1 January 2002 as restated	2.9	3.7	6.6
(Credit)/charge to the profit and loss account	(0.3)	1.4	1.1
Utilised during the year	-	(1.2)	(1.2)
At 31 December 2002	2.6	3.9	6.5

Other provisions include environmental, restructuring and self insurance provisions. Environmental provisions at 31 December 2002 relate to chemical manufacturing sites where the Company believes that it is probable that expenditure will be incurred and have been derived using a discounted cash flow methodology. Self insurance provisions at 31 December 2002 represent the aggregate of outstanding claims plus a projection of losses incurred but not reported. Restructuring provisions are expected to be utilised during 2003 and self insurance provisions are expected to be utilised over five years.

ELEMENTIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2002 (continued)

13 Provisions for liabilities and charges (continued)

The provision made for deferred tax is detailed below:

	2002 £ million	2001 restated £ million
Accelerated capital allowances	9.1	9.8
Other timing differences	(1.3)	(1.1)
	<u>7.8</u>	<u>8.7</u>
Advance corporation tax	(5.2)	(5.8)
	<u>2.6</u>	<u>2.9</u>

14 Called up share capital

	Authorised		Issued and fully paid	
	2002 £ million	2001 £ million	2002 £ million	2001 £ million
Ordinary shares of £1 each	<u>26.5</u>	<u>26.5</u>	<u>26.5</u>	<u>26.5</u>

15 Reserves

	Profit & loss account £ million
At 1 January 2002 as reported	17.9
Prior year adjustment	(4.1)
At 1 January 2002 as restated	<u>13.8</u>
Retained profit for the year	0.7
At 31 December 2002	<u>14.5</u>

ELEMENTIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002 (continued)

16 Reconciliation of movements in shareholders' funds

	2002 £ million	2001 restated £ million
Profit for the financial year after tax	0.7	2.2
Opening shareholders funds as reported	44.4	40.1
Prior year adjustments (note 24)	(4.1)	(2.0)
Opening shareholders' funds as restated	40.3	38.1
Closing shareholders' funds	41.0	40.3

17 Post-retirement benefits

The Company participates in a multi-employer scheme and as such it is not possible to separately identify the assets and liabilities relating to the Company's employees. Hence full disclosure in line with the requirements of FRS17 may be found in the consolidated financial statements of the Company's parent company, Elementis plc.

A full actuarial valuation was carried out for the group UK scheme at 30 September 2002. The actuaries updated the valuations to 31 December 2002.

At 31 December 2002 the net pension liability in the group scheme was £39.8 million (2001: £7.8 million).

Total employer contributions in the group scheme for 2002 were £4.2 million (2001: £0.2 million). Contributions in 2003 are expected to be £9.1 million.

The Company contribution for the year ended 31 December 2002 was £2.2 million. The Company has no prepaid or outstanding contributions at 31 December 2002 (2001: £nil).

18 Commitments

Commitments to pay operating lease rentals for the next year comprise:

	Land & buildings		Other assets	
	2002 £ million	2001 £ million	2002 £ million	2001 £ million
Leases terminating in:				
Less than one year	0.8	-	0.4	-
Between one and five years	1.6	-	0.7	0.2
	2.4	-	1.1	0.2

Capital expenditure contracted but not provided for amounted to £nil (2001: £nil).

ELEMENTIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002 (continued)

19 Contingent liabilities

The Company is a member of the Elementis Group cash management scheme, under which each company provides a guarantee to discharge the indebtedness of any other Group Company which is party to the scheme, limited to the extent of its own cash balances within the scheme.

20 Parent and ultimate parent undertakings

The Company's immediate parent undertaking is Elementis London Limited.

Elementis plc, the Company's ultimate parent undertaking, was the smallest and largest group to consolidate the financial statements of the Company. Copies of the consolidated financial statements of Elementis plc may be obtained from Ash House, Fairfield Avenue, Staines, TW18 4ES.

21 Related party transactions

As the Company is a wholly owned subsidiary of Elementis plc advantage has been taken of the exemption afforded by FRS8 not to disclose any related party transactions with members of the Elementis Group or associates and joint ventures of Elementis plc.

22 Financial support from parent undertaking

The Company has been informed that it is the intention of Elementis Holdings Limited to provide the financial support necessary to meet its liabilities as they are stated in the balance sheet at 31 December 2002.

23 Cash flow statement

Elementis plc has presented in its consolidated financial statements a group cash flow statement drawn up in accordance with the provisions of Financial Reporting Standard 1 (FRS1). Accordingly the Company has taken advantage of the exemption available under FRS1 to dispense with presenting its own cash flow statement.

ELEMENTIS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2002 (continued)

24 Prior year adjustments

The prior year adjustments are as a result of adopting FRS17 'Retirement Benefits' and FRS19 'Deferred Tax' during the year. The effect of these changes is set out below:

Year ended 31 December 2002				
	Without changes to accounting policy £million	Adoption of FRS17 £million	Adoption of FRS19 £million	As reported £million
Profit and loss account:				
Administrative expenses	(8.2)	(0.2)	-	(8.4)
Tax on profit on ordinary activities	(0.3)	0.3	(0.5)	(0.5)
Profit for the financial year	1.1	0.1	(0.5)	0.7
Balance sheet:				
Provisions for liabilities and charges	(7.4)	1.8	(0.9)	(6.5)
Debtors	38.8	(5.4)	-	33.4
Shareholders funds at 1 January	44.4	(3.6)	(0.5)	40.3
Shareholders funds at 31 December	45.5	(3.5)	(1.0)	41.0

Year ended 31 December 2001				
	Without changes to accounting policy £million	Adoption of FRS17 £million	Adoption of FRS19 £million	As reported £million
Profit and loss account:				
Administrative expenses	(6.7)	(3.5)	-	(10.2)
Tax on profit on ordinary activities	(2.8)	1.0	0.4	(1.4)
Profit for the financial year	4.3	(2.5)	0.4	2.2
Balance sheet:				
Provisions for liabilities and charges	(7.7)	1.6	(0.5)	(6.6)
Debtors	32.4	(5.2)	-	27.2
Shareholders funds at 1 January	40.1	(1.2)	(0.8)	38.1
Shareholders funds at 31 December	44.4	(3.6)	(0.5)	40.3