

Great Lakes Manufacturing (UK) Limited

Report and Accounts

31 December 2004



Great Lakes Manufacturing (UK) Limited

Registered No. 2624692

Directors

J J Gallagher III
J M Lipshaw
D Cartmel
W Neagle

Secretary

K W Duros

Auditors

Ernst & Young LLP
100 Barbirolli Square
Manchester
M2 3EY

Bankers

Barclays Bank plc
4 Water Street
Liverpool
L69 2DU

Bank of America NT & SA
1 Alie Street
London
E1 8DE

ABN Amro
250 Bishopsgate
London
EC2M 4AA

Solicitors

Baker & McKenzie
100 New Bridge Street
London
EC4V 6JA

Registered Office

Tenax Road
Trafford Park
Manchester
M17 1WT

Directors' report

The directors present their report and accounts for the year ended 31 December 2004.

Results and Dividends

The profit for the year, after taxation, amounted to £11,923,000 (2003: £5,663,000). Interim dividends of £2,250,000 were paid in the year (2003: £40,334,000). The directors do not propose payment of a final dividend.

Review of the Business and Future Developments

The principal activity of the company is the manufacture of speciality chemicals.

The company intends to continue to develop and progress its other operations over the coming year.

On 9th March 2005, it was announced that Crompton Corporation and Great Lakes Chemical Corporation, our ultimate parent undertaking, had entered into a definitive merger agreement, which will create the third largest publicly traded chemicals company in the USA. This transaction, which is not expected to be finalised until mid 2005, is subject to US regulatory approvals, and approval by the shareholders of both companies.

Research and Development

The company undertakes research and development on an ongoing basis to enhance its market position.

Directors and their Interests

The directors of the company during the year ended 31 December 2004 were as follows:

D Cartmell (Resigned 17 March 2005)

W Neagle

J J Gallagher III

J M Lipshaw

There are no directors' interests requiring disclosure under the Companies Act 1985.

Disabled Employees

The company gives a high priority to recruitment and subsequent career development of disabled employees.

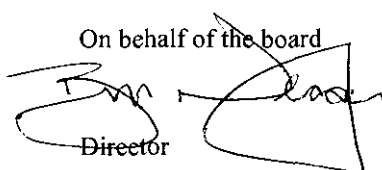
Employment Involvement

During the year the policy of providing employees with information about the company has been continued through company journals, notice boards and conferences. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

Auditors

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the members at the Annual General Meeting.

On behalf of the board


Director 26/5/05

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare accounts 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 those accounts, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts 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 Great Lakes Manufacturing (UK) Limited

We have audited the company's financial statements for the year ended 31 December 2004 which comprise of the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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.

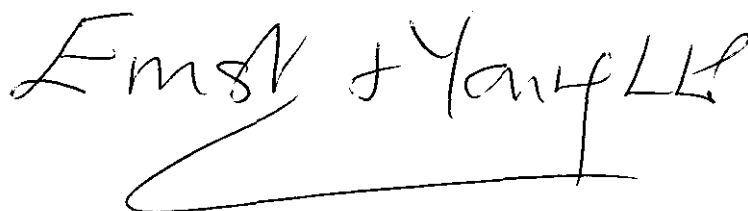
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 of the state of affairs of the company as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
Manchester

09 JUN 2005

A large, stylized handwritten signature in black ink, appearing to read 'Ernst & Young LLP', is written over the printed name of the firm.

Profit and loss account

For the year ended 31 December 2004

	Notes	2004 £000	2003 £000
Turnover			
-Continuing operations		81,114	69,889
-Discontinued operations		-	5,500
	2	81,114	75,389
Cost of sales	3	(62,897)	(58,272)
Gross profit		18,217	17,117
Distribution costs	3	(5,243)	(5,805)
Administrative expenses	3	(10,190)	(5,242)
Operating expenses		(15,433)	(11,047)
Operating profit			
-Continuing operations		2,784	5,948
-Discontinued operations		-	122
	4	2,784	6,070
Dividend income from fixed asset investments		-	889
		2,784	6,959
Exceptional restructuring costs			
- Continuing operations	3	(403)	(707)
- Discontinued operations	3	(1,535)	(7,528)
Profit on disposal of discontinued operations		1,808	-
Interest receivable and similar income	7	6,432	6,563
Interest payable and similar charges	8	(464)	(5)
Profit on ordinary activities before taxation		8,622	5,282
Tax on profit on ordinary activities	9	3,301	381
Profit on ordinary activities after taxation		11,923	5,663
Interim dividends paid	10	(2,250)	(40,334)
Retained profit/ loss for the year		9,673	(34,671)

Statement of total recognised gains and losses

For the year ended 31 December 2004

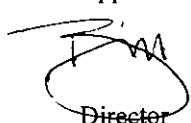
	2004 £000	2003 £000
Profit for the financial year	11,923	5,663
	<hr/>	<hr/>
Total gains & losses recognised since last annual report	11,923	5,663
	<hr/>	<hr/>

Balance sheet


at 31 December 2004

	<i>Notes</i>	<i>2004</i> <i>£000</i>	<i>2003</i> <i>£000</i>
Fixed assets			
Tangible assets	11	30,153	30,070
Investments	12	43,307	43,307
		<u>73,460</u>	<u>73,377</u>
Current assets			
Stocks	13	11,290	8,831
Debtors	14	168,840	164,463
Cash at bank and in hand		38,447	34,829
		<u>218,577</u>	<u>208,123</u>
Creditors: amounts falling due within one year	15	(141,446)	(140,006)
Net current assets		<u>77,131</u>	<u>68,117</u>
Total assets less current liabilities		<u>150,591</u>	<u>141,494</u>
Provisions for liabilities and charges			
Deferred taxation	16	(176)	(752)
		<u>150,415</u>	<u>140,742</u>
Capital and reserves			
Share capital	17	-	-
Share premium account	18	25,000	25,000
Capital contribution reserve	18	96,970	96,970
Profit and loss account	18	28,445	18,772
Total shareholders' funds - equity		<u>150,415</u>	<u>140,742</u>

Approved by the Board



Director



26/5/05

Notes to the accounts

at 31 December 2004

1. Accounting policies

Accounting convention

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

Group accounts

The financial statements present information about the company as an individual undertaking and not about its group. The company is not required to prepare group accounts in accordance with s228 of the Companies Act 1985 as it is a wholly owned subsidiary undertaking of an EU parent. The company is included in the consolidated accounts of Great Lakes Europe Unlimited, a company registered in England and Wales.

Related party transactions

As a wholly owned subsidiary the company has taken advantage of the exemptions available under Financial Reporting Standard 8 and has not disclosed transactions with fellow members of the Great Lakes Chemical Corporation group.

Cash flow statement

The accounts do not include a cash flow statement since the company, as a wholly owned subsidiary whose parent company accounts are publicly available, is exempt under the provisions of FRS 1 (revised) from the requirement to prepare such a statement.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Buildings	-	Between 7 and 40 years
Plant and machinery	-	Between 3 and 14 years

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value as follows:

Raw materials and goods for resale	- purchase cost on a first-in, first-out basis.
Work in progress and finished goods	- cost of direct materials and labour plus attributable overheads based on a normal level of activity

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

Leasing commitments

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

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 substantially enacted by the balance sheet date.

Notes to the accounts

at 31 December 2004

Deferred tax 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 the date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

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, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Research and development

Expenditure on research and development is charged against the operating results of the year in which the expenditure is incurred.

Pensions

Eligible employees of the Company are members of the group defined benefit pension and life assurance plan. The assets of the pension scheme are held in trustee administered funds. It is not possible to identify the company's share of the underlying assets and liabilities of the scheme. Contributions are therefore charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Foreign currencies

Transactions in foreign currencies are recorded at monthly standard rates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Notes to the accounts

at 31 December 2004

2. Turnover and segmental analysis

Turnover, which is stated net of value added tax, represents amounts invoiced to other Great Lakes Chemical group companies and third parties.

Turnover is attributable to one business segment, the manufacture and merchandising of speciality chemicals. Analysis of turnover by geographical market is as follows:

	2004 £000	2003 £000
Europe	53,180	55,957
Asia, Africa & Middle East	10,728	8,837
Americas	17,206	10,595
	<u>81,114</u>	<u>75,389</u>

3. Analysis of costs associated with discontinued operations

	2004 <i>Continuing operations</i> £'000	2004 <i>Discontinued operations</i> £'000	2004 <i>Total</i> £'000	2003 <i>Continuing operations</i> £'000	2003 <i>Discontinued operations</i> £'000	2003 <i>Total</i> £'000
Cost of sales	62,897	-	62,897	53,091	5,181	58,272
Net operating expenses						
Distribution costs	5,243	-	5,243	5,805	-	5,805
Administrative expenses	10,190	-	10,190	5,045	197	5,242
Exceptional restructuring costs	403	1,535	1,938	707	7,528	8,235

The exceptional restructuring costs consisted of severance costs and an impairment of fixed assets arising due to rationalisation of the Company's manufacturing operations at the Newton Aycliffe site and the rationalisation of support roles at Trafford Park.

The tax effect of the exceptional restructuring costs is £581,000 (2003: £2,470,000).

4. Operating Profit

This is stated after charging/(crediting):	2004 £000	2003 £000
Auditors' remuneration - audit services	70	33
- non-audit services	-	-
Depreciation of owned fixed assets	3,560	3,611
Impairment of fixed assets	184	4,937
Research and development costs	1,463	1,602
Operating lease rentals - plant and machinery	523	665

Notes to the accounts

at 31 December 2004

5. Directors' emoluments

The emoluments of directors of the company are as stated below:

	2004 £000	2003 £000
Emoluments	245	46
	<u>No.</u>	<u>No.</u>
Members of group defined benefit pension schemes	2	2

The emoluments of the highest paid director of the company are as stated below:

	2004 £000	2003 £000
Emoluments	128	25
Accrued Pension benefits	34	31

6. Staff costs

	2004 £000	2003 £000
Wages and salaries	9,258	10,546
Social security costs	891	1,024
Other pension costs	2,362	602
	<u>12,511</u>	<u>12,172</u>

The average monthly number of employees during the year was as follows:

	2004 No.	2003 No.
Administration	108	129
Manufacturing	157	166
	<u>265</u>	<u>295</u>

Notes to the accounts

at 31 December 2004

7. Interest receivable and similar income

	2004	2003
	£000	£000
Bank interest receivable	13	228
Group undertakings	6,418	6,329
Other interest income	1	6
	<u>6,432</u>	<u>6,563</u>

8. Interest payable and similar charges

	2004	2003
	£000	£000
Group undertakings	402	-
Exchange losses on group funding	-	5
Other	62	-
	<u>464</u>	<u>5</u>

9. Tax on profit on ordinary activities

(a) Analysis of charge in period	2004	2003
	£000	£000
<i>Current tax:</i>		
UK Corporation tax on profits of the period	2,838	4,164
Adjustments in respect of previous periods	(5,563)	(2,444)
<i>Total current tax (note 9b)</i>	<u>(2,725)</u>	<u>1,720</u>
<i>Deferred tax:</i>		
Origination & reversal of timing differences (note 16)	(576)	(2,101)
Tax on profit on ordinary activities	<u>(3,301)</u>	<u>(381)</u>

Notes to the accounts

at 31 December 2004

9. Tax on profit on ordinary activities cont'd

(b) Factors affecting tax charge for period

The tax assessment for the period differs from the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:

	2004 £000	2003 £000
Profit on ordinary activities before tax	8,622	5,282
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	2,587	1,585
Effects of:		
Disallowable expenses	(500)	59
Depreciation in excess of capital allowances	751	2,520
Adjustments to tax charge in respect of previous periods	(5,563)	(2,444)
Total current tax (note 9a)	(2,725)	1,720

10. Dividends paid

An interim dividend of £2,250,000 (2003: £40,334,000) was paid during the year to the holders of ordinary shares of £1 each.

11. Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Total £000
Cost:			
At 1 January 2004	5,963	51,442	57,405
Additions	2	3,627	3,629
Transfer from group companies	-	728	728
Disposals	(13)	(99)	(112)
At 31 December 2004	5,952	55,698	61,650
Depreciation:			
At 1 January 2004	1,009	26,326	27,335
Charge for the year	137	3,423	3,560
Transfers from group companies	-	452	452
Impairment	-	184	184
Disposals	(13)	(21)	(34)
At 31 December 2004	1,133	30,364	31,497

Notes to the accounts

at 31 December 2004

11. Tangible fixed assets cont'd

Net book value: At 31 December 2004	4,819	25,334	30,153
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2003	4,954	25,116	30,070
	<u> </u>	<u> </u>	<u> </u>

12. Investments

	<i>Subsidiary undertakings £000</i>
Cost:	
At 1 January 2004 and 31 December 2004	43,307
Amounts provided for:	
At 1 January 2004 and 31 December 200	-
	<u> </u>
Net book value:	
At 31 December 2003	43,307
	<u> </u>
At 31 December 2004	43,307
	<u> </u>

Details of the investments in which the company holds more than 20% of the nominal value of any class of share capital are as follows:

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
G L Development Ltd	Cayman Islands	Ordinary shares	52.1%	Investment company

13. Stocks

	<i>2004 £000</i>	<i>2003 £000</i>
Raw materials and consumables	1,819	1,688
Work in progress	394	153
Finished goods	9,077	6,990
	<u> </u>	<u> </u>
	11,290	8,831
	<u> </u>	<u> </u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

Notes to the accounts

at 31 December 2004

14. Debtors

	2004	2003
	£000	£000
Trade debtors	5,294	4,808
Amounts owed by group undertakings	161,689	157,981
Prepayments and accrued income	450	298
Other	1,407	1,376
	<u>168,840</u>	<u>164,463</u>

15. Creditors: amounts falling due within one year

	2004	2003
	£000	£000
Trade creditors	11,453	9,751
Amounts owed to group undertakings	122,858	117,301
Accruals and deferred income	4,032	3,979
Corporation tax	3,088	6,179
Other tax and social security	15	2,796
	<u>141,446</u>	<u>140,006</u>

16. Deferred taxation

	£000
At 1 January 2004	752
Deferred tax credit in profit and loss account (note 9)	(576)
At 31 December 2004	<u>176</u>

The amounts provided for deferred taxation and the amounts not provided are set out below:

	2004		2003	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Capital allowances in advance of depreciation	450	-	990	-
Other timing differences	(274)	-	(238)	-
	<u>176</u>	<u>-</u>	<u>752</u>	<u>-</u>

Notes to the accounts

at 31 December 2004

17. Share capital

	<i>No.</i>	<i>2004</i> <i>£000</i>	<i>No.</i>	<i>2003</i> <i>£000</i>
Authorised:				
Ordinary shares of £1 each	100	-	100	-

	<i>No.</i>	<i>2004</i> <i>£000</i>	<i>No.</i>	<i>2003</i> <i>£000</i>
Allotted, called up and fully paid:				
Ordinary shares of £1 each	52	-	52	-

18. Reconciliation of shareholders' funds and movement on reserves

	<i>Capital contribution reserve £000</i>	<i>Share premium £000</i>	<i>Profit and loss £000</i>	<i>Total £000</i>
At 1 January 2003	96,970	25,000	53,443	175,413
Profit for the year	-	-	5,663	5,663
Dividends paid	-	-	(40,334)	(40,334)
At 31 December 2003	96,970	25,000	18,772	140,742
Profit for the year	-	-	11,923	11,923
Dividends paid	-	-	(2,250)	(2,250)
At 31 December 2004	96,970	25,000	28,445	150,415

19. Capital commitments

	<i>2004</i> <i>£000</i>	<i>2003</i> <i>£000</i>
Contracted, not provided	60	186

20. Other financial commitments

At 31 December 2004, the company had annual commitments under non-cancellable operating leases, none of which related to land and buildings, as set out below:

	<i>2004</i> <i>£000</i>	<i>2003</i> <i>£000</i>
Operating leases which expire:		
Within one year	19	5
In two to five years	79	109
	98	114

Notes to the accounts

at 31 December 2004

21. Contingent liabilities

The company is party to bank overdraft set-off arrangements with the parent and other fellow subsidiary undertakings.

Contingent liabilities entered into in the ordinary course of business in respect of tender guarantees and duty deferment bonds totalled £567,728 at 31 December 2004 (2003: £300,000).

22. Pension commitments

The company is a member of a group pension scheme which covers various UK subsidiaries of Great Lakes Chemical Corporation. The scheme is a defined benefit scheme, and is funded by contributions based on pension costs across the relevant UK companies as a whole. It is not possible to identify the company's share of the underlying assets and liabilities of the scheme.

The particulars of the scheme are contained in the financial statements of Great Lakes Europe Unlimited, the immediate parent entity of the companies which participate in the UK pension scheme. The updated FRS17 valuation at 31 December 2004 indicates that the group scheme has a deficit of £33,754,000 (prior to adjusting for a deferred tax asset of £10,126,000) at that date.

Under the transitional arrangements of Financial Reporting Standard No.17 (FRS 17), "Retirement benefits", the group is required to disclose the following information about the pension scheme and the figures that would have been shown under FRS17 in the balance sheet, profit and loss account and statement of total recognised gains and losses.

The major assumptions used in the updated valuation of 31 December 2004 were;

	<i>At 31 Dec 2004 (p.a.)</i>	<i>At 31 Dec 2003 (p.a.)</i>	<i>At 31 Dec 2002 (p.a.)</i>
Rate of increase in salaries	4.00%	3.89%	3.60%
Rate of increase of pensions in payment*	3.00%	3.00%	3.00%
Rate of increase of pensions in deferment	2.75%	2.64%	2.40%
Discount rate	5.30%	5.36%	5.50%
Inflation assumption	2.75%	2.64%	2.40%

*or as otherwise guaranteed by the Plan Rules

The scheme's net pension liability and expected rate of return on its investments were analysed as follows:

	<i>Long term expected rate of return 2004 (p.a.)</i>	<i>Market value 2004 £000</i>	<i>Long term expected rate of return 2003 (p.a.)</i>	<i>Market value 2003 £000</i>
Equities	7.55%	52,897	7.80%	47,793
Bonds & Cash	4.55%	21,839	4.80%	19,929
Total market value of scheme assets		74,736		67,722
Present value of scheme liabilities		(108,490)		(96,619)

Notes to the accounts

at 31 December 2004

22. Pension commitments cont'd

Deficit in the scheme	(33,754)	(28,897)
Related deferred tax asset	10,126	8,669
Net pension liability	<u>(23,628)</u>	<u>(20,228)</u>

23. Parent undertaking and controlling party

The immediate parent undertaking is Great Lakes Europe Unlimited, a company registered in England and Wales. Copies of Great Lakes Europe Unlimited's accounts can be obtained from the registered office at Tenax Road, Trafford Park, Manchester, M17 1WT.

The ultimate parent undertaking and controlling party is Great Lakes Chemical Corporation which is incorporated in the USA. The accounts of that company may be obtained from 9025 North River Road, Suite 400, Indianapolis, Indiana 46240, USA.