Chemtura Europe Limited

Directors' report and financial statement

Registered number SCO97824

31 December 2006

Contents

Company information

Directors

P E Boury (resigned 1 June 2007)

J E Malcolm (resigned 30 April 2007)

S James (appointed 30 April 2007)

M Mathieson (appointed 30 April 2007)

Secretary

J E Malcolm (resigned 30 April 2007)

C E Huben (appointed 30 April 2007)

Auditors

KPMG LLP
St James' Square
Manchester
M2 6DS

Registered office

4th Floor
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EN

Directors' report

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

Principal activities

The principal activities of the company is to act as agent for other Chemtura group companies in the marketing and technical support of agricultural and industrial chemicals and the manufacture of plastic extrusion machinery

Business review and future prospects

The Group continues to expand their operations globally to become competitive in the speciality chemicals industry In order to achieve this, a business and functions review was performed and a restructuring programme was announced in 2007 The company remain committed to removing non value added work throughout the organisation as it continues to position itself for the long term success of the business

In December 2006 the company acquired 100% of Chemtura Corporation UK Limited, a subsidiary formerly owed by Chemtura USA Corporation, see note 24 The ultimate parent company and controlling party for which the group accounts are prepared is Chemtura Corporation, see note 23

Strategy

The Group's strategy is to obtain revenue growth and maintain strong margins by the continued focus on the development of speciality chemicals

The strategy will include

- The maximisation of existing patented technology,
- The strong development of new products, Patents and markets particularly in the speciality chemical industry,
- Continued geographic expansion and use of worldwide network of distributors and agents

Performance

The profit for the year after taxation amounted to £7,624,000 *(2005 £380,000)* No dividend has been proposed for the current period *(2005 £nil)*

Risk and Uncertainty

The directors of the company are responsible for all risk management This is accomplished by regular monthly reporting on all aspects of the business These reports are reviewed by the directors regularly at Board Meetings

Another risk to the business is additional regulatory requirements in environmental, health and safety and product registration areas The use of internal employees and external advisers to monitor compliance with specific laws and regulations mitigates the risk where possible

As such, an impairment review was performed in regard to the newly acquired subsidiary in the year This was based on the discounted future cash flows of the subsidiary (see note 12) and resulted in an impairment charge of £7,300,000

Key Performance Indicators

The group monitors the business internally with a number of performance indicators These include for example, an Annual Business Plan, and monthly forecasts showing future expenditure and cashflow to help monitor business performance

Directors' report *(continued)*

Research and development

During 2006 the company has continued its support of 7 existing active substances under EU Directive 91/414 review Also a number of country (re)registrations and extensions of registrations in Europe, Middle East and Africa were achieved during the year

Directors and directors' interests

The directors who held office during the year were as follows

PE Boury	(resigned 1 June 2007)
JE Malcolm	(resigned 30 April 2007)
S James	(appointed 30 April 2007)
M Mathieson	(appointed 30 April 2007)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company or any other group company

According to the register of directors' interests, no rights to subscribe for shares in the company or any other group company were granted to any of the directors or their immediate families, or exercised by them, during the financial year

Branches

The company had branches in Hungary, Slovakia, Poland and the Czech Republic

Political and charitable contributions

The company made no political contributions during the year *(2005 £nil)* Donations to UK charities amounted to £nil *(2005 £150)*

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and the directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the board

Director

4th Floor
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EN

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and financial statements in accordance with applicable laws and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The company 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 for that period

In preparing the 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the accounts, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

KPMG LLP

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditors' report to the members of Chemtura Europe Limited

We have audited the financial statements of Chemtura Europe Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4

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 if information specified by law regarding the 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 group'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

Independent auditors' report to the members of Chemtura Europe Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK 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

KPMG LLP 2 June 2008

KPMG LLP
Chartered Accountants
Registered Auditor

Profit and loss account
for the year ended 31 December 2006

	Note	2006 £000	2005 £000
Turnover	2	**15,835**	16,327
Cost of sales		**(14,815)**	(15,619)
Gross profit		**1,020**	708
Impairment of investment	3	**(7,300)**	
Operating (loss) / profit	4 6	**(6,280)**	708
Other interest receivable and similar income	7	**21**	16
Dividends receivable		**14,000**	
Interest payable and similar charges	8	**(287)**	(25)
Profit on ordinary activities before taxation		**7,454**	699
Tax on profit on ordinary activities	9	**170**	(319)
Profit on ordinary activities after taxation		**7,624**	380

All 2006 results derive from continuing operations

Statement of Total Recognised Gains and Losses
for the year ended 31 December 2006

There were no recognised gains or losses other than those passing through the profit and loss account for the current and preceding financial year

Balance sheet

at 31 December 2006

	Note	**2006**	**2006**	2005	2005
		£000	**£000**	£000	£000
Fixed assets					
Intangible fixed assets	*10*		**2,813**		2,676
Tangible fixed assets	*11*		**1,575**		2,073
Investment	*12*		**17,480**		
			21,868		4,749
Current assets					
Debtors	*13*	**16,339**		2,421	
Cash at bank and in hand		**536**		482	
		16,875		2,903	
Creditors. amounts falling due within one year	*14*	**(10,408)**		(2,087)	
Net current assets			**6,467**		816
Total assets less current liabilities			**28,335**		5,565
Creditors. amounts falling due after more than one year	*15*				(125)
Provisions for liabilities and charges	*16*		**(280)**		(9,789)
Net assets / (liabilities)			**28,055**		(4,349)
Capital and reserves					
Called up share capital	*17*		**1,697**		1,697
Capital contribution account	*18*		**24,780**		
Profit and loss account	*19*		**1,578**		(6,046)
Shareholders' equity / (deficit)	*20*		**28,055**		(4,349)

These financial statements were approved by the board of directors on 28/05/08 and were signed on its behalf by

Director

Notes

(forming part of 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 have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

The Company is exempt from preparing group accounts under s228 of the Companies Act 1985 since the Company is a wholly owned subsidiary of another company The financial statements present information about the company as an individual undertaking and not about its group

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cashflow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

As 100% of the voting rights of the company are controlled within the group headed by Chemtura Corporation, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 "Related Party Disclosures", and has, therefore, not disclosed transactions or balances with entities which form part of the group

The financial statements of Chemtura Corporation, within which this company is included, can be obtained from the address shown in note 23

Fixed assets and depreciation

Fixed assets are included in the balance sheet at cost less accumulated depreciation and any provisions for impairment

Depreciation is not provided on freehold land or assets in the course of construction Depreciation is provided on other assets to write off cost less the estimated residual value in equal annual instalments over the estimated lives of the assets The rates of depreciation are as follows

Freehold buildings	4% per annum
Machinery, equipment, fixtures and fittings	6½% 30% per annum

Investments

Investment in subsidiary and associates are included in the balance sheet at cost less any provision for impairment

Intangible assets and amortisation

Licences obtained are valued on a historic cost basis Amortisation is provided to write off the cost in equal instalments over a period of ten years once the licence has been brought into use

Turnover

Turnover in Chemtura Europe Limited is a management recharge from Chemtura Europe Limited to other group companies for administrative services and research and development work provided, which is recognised net of VAT at the point in which the services have been rendered

Notes *(continued)*

1 Accounting policies *(continued)*

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate ruling at the dates of the transactions Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date These translation differences are dealt with in the profit and loss account

Leases

Rental costs under operating leases are charged to the profit and loss account on a straight line basis over the periods of the leases The company has no finance leases

Post retirement benefits

The company participates in a group wide pension scheme providing benefits based on final pensionable pay The assets of the scheme are held separately from those of the company The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis there therefore, as required by FRS 17 'Retirement Benefits', accounts of the scheme as if it were a defined contribution pension scheme As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes

Research and development

Expenditure on research and development is capitalised where it meets the requirements of SSAP 13 'Research and Development' Other expenditure on research and development it is written off as incurred

Classification of financial instruments issued by the company

Financial instruments issued by the company are treated as equity (i e forming part of shareholders' funds) only to the extent that they meet the following two conditions

a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company, and

b) where the instrument will or may be settled in the company's own equity instruments, it is either a non derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds

Notes *(contınued)*

2 Turnover

	2006 £000	2005 £000
By busıness sector		
Provısıon of servıces	**15,835**	16,327

	2006 £000	2005 £000
By geographıcal area		
Rest of Europe	**12,786**	13,583
Amerıca	**3,049**	2,744
	15,835	16,327

3 Impaırment of ınvestment

	2006 £000	2005 £000
Carryıng value of Chemtura Corporatıon UK Lımıted	**24,780**	
Dıscounted cash flow value of ınvestment	**(17,480)**	
Impaırment of ınvestment of Chemtura Corporatıon UK Lımıted	**7,300**	

An ımpaırment loss was recognısed for the amount by whıch the carryıng value of the acquıred ınvestment ın Chemtura Corporatıon UK Lımıted (the cash generatıng unıt) exceeds ıts recoverable amount The recoverable amount of the ınvestment ın the subsıdıary was referenced wıth regard to ıts value ın use The calculatıon was based on a three year forecast perıod and a dıscount rate of 10 5% was applıed (consıstent wıth the weıghted average cost of capıtal for Chemtura Europe Lımıted)

Thıs assessment led to a decısıon to ımpaır the carryıng value of the ınvestment ın the subsıdıary acquıred by £7,300,000, whıch was charged to other operatıng expendıture ın the profıt and loss

4 Profit on ordınary actıvıtıes before taxatıon

	2006 £000	2005 £000
Profit on ordınary actıvıtıes before taxatıon ıs stated after chargıng/(credıtıng)		
Audıtors' remuneratıon		
Audıt	**28**	26
Tax	**10**	31
Deprecıatıon and other amounts wrıtten off tangıble and ıntangıble fixed assets – owned	**584**	641
Hıre of plant and machınery rentals payable under operatıng leases	**233**	304
Hıre of other assets operatıng leases	**161**	335
Research and development expendıture	**2,823**	2,673
Impaırment charge	**7,300**	
Exchange loss / (gaın)	**22**	(223)

Notes *(continued)*

5 Remuneration of directors

	2006 £000	2005 £000
Directors' emoluments	**120**	147
Company contributions to money purchase pension schemes	**3**	11
	123	158

	Number of directors 2006	2005
Retirement benefits are accruing to the following number of directors under		
Money purchase schemes	**1**	1

6 Staff numbers and costs

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

	Number of employees 2006	2005
Selling and distribution	**51**	60
Administration	**14**	28
Research, development and technical advice	**49**	48
	114	136

The aggregate payroll costs of these persons were as follows

	2006 £000	2005 £000
Wages and salaries	**4,929**	5,615
Social security costs	**694**	884
Other pension costs	**331**	349
	5,954	6,848

7 Other interest receivable and similar income

	2006 £000	2005 £000
Bank interest	**13**	8
Other	**8**	8
	21	16

Notes *(continued)*

8 Interest payable and similar charges

	2006 £000	2005 £000
Amounts payable to group undertakings	**277**	7
Amounts payable on other loans	**10**	18
	287	25

9 Taxation

a) Analysis of the tax charge for the year	2006 £000	2005 £000
UK Corporation Tax		
Current tax on profit for the year	**314**	328
Adjustment in respect of prior years	**(372)**	96
Total current tax (credit) / charge	**(58)**	424
Deferred tax		
Origination/reversal of timing differences	**(112)**	(105)
Tax on profit on ordinary activities	**(170)**	319

The current tax charge for the year is lower *(2005 higher)* than the standard rate of taxation in the UK of 30% *(2005 30%)* The differences are explained below

b) Factors affecting the tax charge for the current year	2006 £000	2005 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**7,454**	699
Current tax at 30% (2005 30 %)	**2,236**	210
Effects of		
Expenses not deductible for tax purposes	**2,221**	74
Non taxable income	**(4,200)**	
Depreciation for period in excess of capital allowances	**57**	44
Adjustments to tax charge in respect of previous periods	**(372)**	96
Total current tax (credit) / charge (see above)	**(58)**	424

Notes *(continued)*

10 Intangible fixed assets

	Licences £000
Cost	
At beginning of financial year	2,766
Additions	170
At end of financial year	2,936
Amortisation	
At beginning of financial year	90
Charged in financial year	33
At end of financial year	123
Net book value	
At 31 December 2006	**2,813**
At 31 December 2005	2,676

11 Tangible fixed assets

	Freehold land and buildings £000	Machinery, equipment, fixtures and fittings £000	Total £000
Cost			
At beginning of financial year	813	5,769	6,582
Additions		91	91
Disposals		(26)	(26)
At end of financial year	813	5,834	6,647
Depreciation			
At beginning of financial year	491	4,018	4,509
Charge for year	50	534	584
On disposals		(21)	(21)
At end of financial year	541	4,531	5,072
Net book value			
At 31 December 2006	**272**	**1,303**	**1,575**
At 31 December 2005	322	1,751	2,073

Notes *(contınued)*

12 Fıxed asset ınvestment

	£000
At 31 December 2005	
Acquısıtıons	**24,780**
Impaırment charge	**(7,300)**
At 31 December 2006	**17,480**

Name of acquısıtıon	Country of ıncorporatıon	Type of shares held	% of shares acquıred	Prıncıpal actıvıty
Chemtura Corporatıon UK Lımıted	England and Wales	Ordınary £1	100	Manufacture and sale of specıalıty chemıcals

Durıng the year followıng an ınternal restructurıng the company acquıred the wholly owned subsıdıary of Chemtura Corporatıon UK Lımıted from Chemtura USA Corporatıon on the 19 December 2006 Chemtura Corporatıon UK Lımıted holds 53 5% of the share capıtal of Baxenden Chemıcals Lımıted, a company regıstered ın England and Wales

13 Debtors

	2006 £000	2005 £000
Trade debtors	**29**	38
Amounts owed by group undertakıngs	**15,641**	1,880
Other debtors	**106**	165
Prepayments and accrued ıncome	**563**	338
	16,339	2,421

All debtors fall due wıthın one year

Notes *(continued)*

14 Creditors: amounts falling due within one year

	2006 **£000**	2005 £000
Trade creditors	**1,366**	1,102
Amounts owed to group undertakings	**8,176**	
Corporation tax	**416**	441
Other creditors including taxation and social security	**317**	381
Deferred tax liability	**133**	163
	10,408	2,087

15 Creditors: amounts falling due after more than one year

	2006 **£000**	2005 £000
Amounts owed to group branches		125

16 Provisions for liabilities and charges

	Onerous lease provision £000	**Deferred taxation £000**	**EU Settlement £000**	**Total £000**
At 31 December 2005	282	245	9,262	9,789
Released during the year	(135)	(112)		(247)
Utilised during the year			(9,262)	(9,262)
At 31 December 2006	**147**	**133**		**280**

The lease on the premises relates to Watford Office and Thames House Thames House was assigned to a third party and consequently this provision, has now been released during the year

On 30 April 2006 the EU settlement claim was agreed and Chemtura Europe Limited paid £9,262,000 in full settlement of this claim

The elements of deferred taxation are set out below

	2006 **£000**	2005 £000
Differences between accumulated depreciation and amortisation and capital allowances	**133**	245
Other timing differences		
Deferred tax liability	**133**	245

Notes *(continued)*

17 Called up share capital

	2006 £000	2005 £000
Authorised		
5,000,000 ordinary shares of £1 each	**5,000**	5,000
Allotted, called up and fully paid		
1,697,373 ordinary shares of £1 each	**1,697**	1,697

18 Capital contribution account

	2006 £000	2005 £000
Fully paid		
24,779,999 Paid in capital	**24,780**	

Chemtura USA transferred its shares in Chemtura Corporation UK Limited to Chemtura Europe Limited for one share of the company

19 Profit and Loss Reserve

	2006 £000	2005 £000
At start of year	(6,046)	(6,426)
Profit for the year	7,624	380
At 31 December 2006	**1,578**	**(6,046)**

20 Reconciliation of movements in shareholders' funds

	2006 £000	2005 £000
Profit for the financial year	**7,624**	380
Capital contribution reserve	**24,780**	
Net addition to shareholders' fund	**32,404**	380
Opening shareholders' fund	**(4,349)**	(4,729)
Closing shareholders' fund	**28,055**	(4,349)

Notes *(continued)*

21 Commitments

Annual commitments under non cancellable operating leases are as follows

	2006 Plant and machinery £000	**2006 Land and buildings £000**	2005 Plant and machinery £000	2005 Land and buildings £000
Operating leases which expire				
Within one year			28	
In the second to fifth years inclusive	**240**	**344**	276	60
Over five years				275
	240	**344**	304	335

22 Pension scheme

The company operates a defined contribution pension scheme The pension cost for the year represents contributions paid by the company to the scheme and amounts to £331,000 *(2005 £349,000)*

There were no prepaid contributions at the end of the financial year *(2005 £nil)*

23 Ultimate parent company and parent undertaking of larger group

At the year end the company's ultimate parent company and controlling party was Chemtura Corporation, a company incorporated in the United States of America Chemtura Manufacturing Co Inc , a company incorporated in the United States of America, is the immediate parent undertaking of Chemtura Europe Limited and prepares consolidated accounts The largest group in which the results of the company and its subsidiary are consolidated is that headed by Chemtura Corporation Copies of the consolidated financial statements of these groups are available from The Securities Exchange Commission, Washington D C 20549

24 Group restructuring

On 19 December 2006, Chemtura Europe Limited acquired 100% of Chemtura Corporation UK Limited at a premium of £24,779,999