Company Registration No. 530121

LUBRIZOL ADIBIS HOLDINGS (UK) LIMITED

Report and Financial Statements

31 December 2003



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REPORT AND FINANCIAL STATEMENTS 2003

CONTENTS

	Page
Directors' report	1
Statement of directors' responsibilities	2
Independent auditors' report	3
Consolidated profit and loss account	4
Balance sheets	5
Consolidated statement of total recognised gains and losses	6
Reconciliation of movements in consolidated shareholders' funds	6
Notes to the accounts	7

DIRECTORS' REPORT

The directors present their annual report and the financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the group during the year was the manufacture and sale of a wide range of chemical additives for lubricants and fuels. The directors expect the company to continue developing new technologies in these markets.

The financial position of the group is shown on page 5.

DIVIDENDS AND TRANSFERS TO RESERVES

The loss after taxation for the year amounts to £1,320,000 (2002 – profit of £1,785,000) which has been withdrawn from (transferred to) reserves.

The directors do not recommend the payment of a dividend (2002 £Nil).

DIRECTORS

The directors of the company who held office during the financial year and thereafter were:

Mr G P Baker	
Mr C B Chapman	(resigned 31 July 2003)
Mr G R Hill (US)	(resigned 30 September 2004)
Mr J Pilley	(appointed 31 July 2003)
Mr S Kirk (US)	(appointed 30 September 2004)

No director had any material interest, as defined by the Companies Act 1985, at either the beginning or end of the year in shares of the company, or any other Lubrizol group company in the United Kingdom.

There were no contracts of significance during the year in which any director had a material interest.

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

G.P. Baker

Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group 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 accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and group 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 the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Deloitte.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LUBRIZOL ADIBIS HOLDINGS (UK) LIMITED

We have audited the financial statements of Lubrizol Adibis Holdings (UK) Limited for the year ended 31 December 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated statement of total recognised gains and losses, the movement in consolidated shareholders' funds and the related notes 1 to 22. 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

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 United Kingdom legal and regulatory requirements and 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 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 and other members of the group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 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 affairs of the company and the group as at 31 December 2003 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Liverpool

13 October 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 31 December 2003

	Note	2003 £'000	2002 £'000
TURNOVER	2	18,251	23,109
Cost of sales		(18,083)	(18,541)
Gross profit		168	4,568
Administrative expenses		(2,163)	(2,310)
Other operating income		16	118
OPERATING (LOSS)/PROFIT	3	(1,979)	2,376
Interest receivable and similar income	5	66	126
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,913)	2,502
Tax on (loss)/profit on ordinary activities	6	593	(717)
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR	15	(1,320)	1,785

All activities arise from continuing operations.

A consolidated statement of historical cost profits and losses has not been prepared, as any differences are immaterial.

BALANCE SHEETS
31 December 2003

	Note	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
FIXED ASSETS					
Investments	8	-	-	3,582	3,582
Tangible assets	9	380	270	-	-
		380	270	3,582	3,582
CURRENT ASSETS					
Stock	10	6,808	7,527	-	-
Debtors	11	2,726	3,667	412	412
Cash at bank and in hand		330	39	-	-
		9,864	11,233	412	412
CREDITORS: amounts falling due within one year	12	(3,461)	(4,522)	-	-
NET CURRENT ASSETS		6,403	6,711	412	412
TOTAL ASSETS LESS CURRENT LIABILITIES		6,783	6,981	3,944	3,994
PROVISIONS FOR LIABILITIES AND CHARGES	13,19	(481)	(362)	-	-
TOTAL NET ASSETS		6,302	6,619	3,994	3,994
CAPITAL AND RESERVES					
Called-up share capital	14	5,087	5,087	5,087	5,087
Profit and loss account	15	1,215	1,532	(1,093)	(1,093)
EQUITY SHAREHOLDERS' FUNDS		6,302	6,619	3,994	3,994

These financial statements were approved by the Board of Directors on 6/10/04

Signed on behalf of the Board of Directors

G.P. Baker

Director

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2003

	2003 £'000	2002 £'000
(Loss)/profit for the financial year	(1,320)	1,785
Currency translation differences on foreign currency net investments	1,003	1,120
Total recognised gains and losses relating to the year	(317)	2,905

RECONCILIATION OF MOVEMENT IN CONSOLIDATED SHAREHOLDERS' FUNDS
Year ended 31 December 2003

	2003 £'000	2002 £'000
(Loss)/profit for the financial year	(1,320)	1,785
Currency translation differences on foreign currency net investments	1,003	1,120
Net addition to/(reduction in) shareholders' funds	(317)	2,905
Opening shareholders' funds	6,619	3,714
Closing shareholders' funds	6,302	6,619

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Basis of consolidation

The financial statements consolidate the results of all companies within the group.

Investments

Investments held as fixed assets are stated at cost less provision for impairment.

Tangible fixed assets

Depreciation is not provided on freehold land. On other assets, depreciation is provided in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Land and buildings	2%
Machinery and equipment	10-33%
Fixtures and fittings	5-100%

Assets in the course of construction are not depreciated.

The 100% relates to small value items that are considered portable.

Stock

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and a share of the production overheads appropriate to the relevant stage of production. Net realisable value is based on estimated selling price less all further costs to completion.

Pension and other post retirement benefits

The expected cost of providing pensions, calculated periodically by professionally qualified actuaries, is charged to the profit and loss account, so as to spread the cost over the service lives of employees in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

Post retirement benefits are valued annually and are provided in full in the balance sheet.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates 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.

The financial statements of foreign subsidiaries are translated into sterling, the balance sheet at the closing rate and the profit and loss account at the average rate of exchange and the difference arising from the translation of the opening net investment in subsidiaries at the closing rate is taken direct to reserves.

Operating lease rentals

Rentals on operating leases are charged against profit in the year to which they relate.

Goodwill

Goodwill arising on consolidation is capitalised and amortised over its estimated useful economic life.

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

1. ACCOUNTING POLICIES (continued)

Deferred taxation

Current taxation is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not they will be recovered. Deferred tax assets and liabilities are not discounted.

2. TURNOVER

Turnover represents amounts derived from the provision of goods and services which fall within the group's ordinary activities after deduction of trade discounts and allowances. Turnover, all of which arises in South Africa, is attributable to one activity, the sale of chemical additives and lubricants.

3. OPERATING (LOSS)/PROFIT

	2003 £'000	2002 £'000
Operating (loss)/profit is after charging:		
Depreciation – owned assets	70	44
Rentals under operating leases – plant and machinery	74	54
Auditors' remuneration		
Group audit fees	14	14
Company audit fees	-	3

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors did not receive any remuneration for their services to this company or subsidiary companies, nor are they members of the Company's pension scheme.

	2003 £'000	2002 £'000
Staff costs during the year (including directors):		
Wages and salaries	340	275
Social security costs	71	49
Pension costs	59	42
	470	366

	2003 No.	2002 No.
Average number of persons employed:		
Production	16	14
Administration	12	15
	28	29

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2003 £'000	2002 £'000
Bank interest	66	126

6. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	2003 £'000	2002 £'000
Analysis of tax credit/(charge) on ordinary activities		
South African tax at 30% (2002 - 30%)	-	(818)
Adjustment in respect of prior years	21	(16)
	21	(834)
Deferred tax		
Timing differences, origination and reversal	572	101
Adjustment in respect of prior years	-	16
	593	(717)

Factors affecting tax credit/(charge) for the current year

The tax assessed for the year is higher (2002 – higher) than that resulting from applying the standard rate of tax in South Africa of 30% (2002 - 30%)

The differences are explained below:

	2003 £'000	2002 £'000
(Loss)/profit on ordinary activities before tax	(1,913)	2,502
Tax at 30% thereon:	574	(750)
Effects of:		
Expenses not deductible for tax purposes	(2)	(180)
Capital allowances in excess of depreciation	(3)	-
(Increase in)/utilisation of tax losses carried forward	(426)	11
Movement in short term timing differences	(143)	6
Post retirement benefit aid	-	95
Prior period adjustments	21	(16)
Current tax credit/(charge) for year	21	(834)

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

7. PROFIT ON PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's profit after tax for the year was £nil (2002 - £852,000 loss after tax).

8. FIXED ASSET INVESTMENT

Company

Shares in subsidiary undertakings:

Cost and net book value	**£'000**
As at 1 January 2003 and 31 December 2003	3,582

The subsidiary undertaking during the year was:

Company	**Country of incorporation**	**Nature of business**	**Proportion of shares held**
Lubrizol South Africa (Proprietary) Limited	South Africa	Importation and distribution of lubricating oil additives	100%

9. TANGIBLE FIXED ASSETS

Group

Cost	**Construction in progress £'000**	**Freehold land and buildings £'000**	**Machinery and equipment £'000**	**Fixtures and fittings £'000**	**Total £'000**
At 1 January 2003	6	91	291	261	649
Foreign exchange translation differences	1	16	50	45	112
Additions	10	31	77	28	146
Disposals	(7)	-	(18)	(4)	(29)
At 31 December 2003	10	138	400	330	878
Accumulated depreciation					
At 1 January 2003	-	31	154	194	379
Foreign exchange translation differences	-	5	29	34	68
Charge for year	-	4	40	26	70
Disposals	-	-	(15)	(4)	(19)
At 31 December 2003	-	40	208	250	498
Net book value					
At 31 December 2003	10	98	192	80	380
At 31 December 2002	6	60	137	67	270

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

10. STOCKS

Group	2003 £'000	2002 £'000
Raw materials and consumables	6	30
Work in progress	411	84
Finished goods	6,391	7,413
	6,808	7,527

11. DEBTORS

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade accounts receivable	1,412	2,731	-	-
Amounts owed by group undertakings	422	453	412	412
Other debtors	876	467	-	-
Prepayments and accrued income	16	16	-	-
	2,726	3,667	412	412

Included within other debtors is South African tax overpaid of £nil (2002 - £173,000) and a deferred tax asset of £720,000 (2002 - £133,000).

The movement on deferred tax during the year was:	£'000
Balance at 1 January 2003	133
Credit for the year	572
Foreign exchange movements	15
Balance at 31 December 2003	720

The amounts of deferred taxation provided in the financial statements are:

	2003 £'000	2002 £'000
Capital allowances in excess of depreciation	14	11
Other timing differences	264	122
Losses	442	-
	720	133

The deferred tax asset is being recognised because based on the forecast profitability of Lubrizol South Africa (Proprietary) Ltd it is considered more likely than not that the asset will be recovered.

A deferred tax asset has not been recognised in respect of timing differences relating to non-trade losses carried forward as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £60,000 (2002 - £60,000). The asset would be recovered against future non-trading profits of the parent company.

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

12. CREDITORS

Group	2003 £'000	2002 £'000
Bank loans and overdraft	-	345
Trade accounts payable	327	599
Amounts owed to group undertakings	3,113	3,537
Accruals and deferred income	21	41
	3,461	4,522

13. PROVISIONS FOR LIABILITIES AND CHARGES

Post retirement medical aid benefits

During the year, Lubrizol South Africa (Proprietary) Limited has provided post retirement benefits and £119,000 has been charged to the income statement in the current year.

The plan obligations at 31 December 2003 have been valued by an actuary. The movement during the year was as follows:

	2003 £'000
Balance at 1 January 2003	362
Charge in the year	119
Balance at 31 December 2003	481

14. CALLED UP SHARE CAPITAL

	2003 £'000	2002 £'000
Authorised, allotted and fully paid		
5,087,325 ordinary shares of £1 each	5,087	5,087

15. RESERVES

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
At 1 January	1,532	(1,373)	(1,093)	(241)
Retained (loss)/profit	(1,320)	1,785	-	(852)
Foreign exchange translation differences	1,003	1,120	-	-
At 31 December	1,215	1,532	(1,093)	(1,093)

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

16. OPERATING LEASES

Annual commitments for the group under non-cancellable operating leases are as set out below:

	Land and buildings £'000	Other £'000
Operating leases which expire:		
Within one year	-	140
In the second to fifth years	-	16
	-	156

17. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Group and Company

There were no contingent liabilities and capital commitments at the year end (2002 Nil).

18. PENSIONS

The company does not have any employees and does not participate in any pension scheme.

However, Lubrizol South Africa (Proprietary) Limited and Lubrizol Adibis Africa (Proprietary) Limited (its subsidiaries) participate in a defined benefit scheme, the Lubrizol South Africa Pension Fund.

The scheme is funded with assets held separately by the Trustees from those of the member companies.

Contributions to the scheme are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

The most recent actuarial valuation at 31 December 2002 showed that the market value of the scheme's assets was 6,636,443 Rands and represented 93.3% of the benefits that had accrued to members, after allowing for expected future increases in payroll costs. The actuarial valuation assumes the membership size will remain constant, with leavers replaced by new members. The discount rate, expected future salary increases, and expected return on plan assets was 10.7%, 9.0%, and 12.0% respectively.

The pension cost charge for the year was £59,000 (2002 - £42,000).

The group is adopting the transitional approach to FRS 17. The additional disclosure requirements are set out below for the Lubrizol South Africa Pension Fund.

	31 December 2003 £'000	31 December 2002 £'000	31 December 2001 £'000
Fair value of scheme assets - managed funds	582	479	384
Actuarial value of the liability	(536)	(514)	(334)
Scheme surplus/(deficit)	46	(35)	50
Related deferred tax (liability)/asset	(14)	11	(15)
Net pension asset/(deficit)	32	(24)	35

The above figures are based on a full actuarial valuation as at 30 September 2003 updated to 31 December 2003 by a qualified independent actuary.

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

18. PENSIONS (continued)

The assumptions made at 31 December 2003 were:

	2003 %	2002 %	2001 %
Inflation	6.0	8.0	8.0
Salary increase	7.0	9.0	9.0
Pension increases in payment	1.85	2.7	3.6
Discount rate	10.0	10.7	11.6
Expected return on investments	10.0	12.0	12.0

If the above pension liability were recognised in the financial statements at 31 December 2003, the group profit and loss reserves would be as follows:

	31 December 2003 £'000	31 December 2002 £'000	31 December 2001 £'000
Profit and loss account reserves as reported	1,215	1,532	(1,373)
Adjustments			
FRS 17 scheme surplus/(deficit)	46	(35)	50
Related deferred tax (liability)/asset	(14)	11	(15)
Profit and loss account reserves on FRS 17 basis	1,247	1,508	(1,338)

Analysis of the amount that would have been charged to operating profit under FRS 17	**2003 £'000**	**2002 £'000**
Current service cost	38	38
Past service costs	-	-
Total included within operating profit	38	38

Analysis of the amount that would have been charged to finance costs under FRS 17	**2003 £'000**	**2002 £'000**
Expected return on scheme assets	55	50
Interest cost/(discount) on scheme liabilities	(55)	(51)
Net finance charge	-	(1)

Analysis of the actuarial loss that would have been recognised in the statement of total recognised gains and losses under FRS 17	**2003 £'000**	**2002 £'000**
Difference between actual and expected return on scheme assets	(14)	(83)
Experience gains arising on scheme liabilities	(15)	35
Effects of changes in assumptions underlying the present value of scheme liabilities	81	(46)
Total actuarial gains and losses recognised in the statement of total recognised gains and losses	52	(94)

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

18. PENSIONS (continued)

	2003 £'000	2002 £'000
Analysis of the movement in the scheme deficit during the year		
Opening (deficit)/surplus in the scheme	(35)	50
Current service cost	(38)	(38)
Contributions	51	48
Past service costs	-	-
Other finance income	-	(1)
Actuarial gains	68	(94)
Closing surplus/(deficit) in the scheme	46	(35)

History of experience gains and losses

	2003	2002
Difference between expected and actual return on scheme assets:		
Amount (£'000)	14	83
Percentage of scheme assets (%)	2%	17%
Experience gains and losses on scheme liabilities:		
Amount (£'000)	15	34
Percentage of scheme liabilities (%)	3%	7%
Total amount recognised in statement of total recognised gains and losses:		
Amount (£'000)	52	94
Percentage of scheme liabilities (%)	10%	18%

19. POST RETIREMENT MEDICAL AID BENEFITS

The liability, valued on an FRS 17 basis at 31 December 2003 is £481,000 (2002 - £362,000). This is fully provided as disclosed in note 13.

The assumptions made at 31 December were:

	2003 %	2002 %
Discount sale	10	10.7
Medical premium increase assumption	7.84%	8.5%

20. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The immediate parent company is Lubrizol Europe BV, a company incorporated in the Netherlands, the smallest group of which the reporting company is a member.

The ultimate parent company and controlling party is Lubrizol Corporation incorporated in the United States of America, the parent undertaking of the largest group for which group financial statements are drawn up and of which the reporting company is a member.

Copies of the group financial statements of Lubrizol Corporation are available from 29400 Lakeland Boulevard, Wickliffe, Ohio, 44092 USA.

21. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemptions contained in Financial Reporting Standard 8 - Related Party Transactions, not to present transactions with fellow group companies.

22. CASH FLOW STATEMENT

The company has taken advantage of the exemption for subsidiaries in FRS 1 Cash Flow Statements from the requirement to present a cashflow statement.

A consolidated cashflow statement is presented in the financial statements of the ultimate parent company.