

**Company Registration No. 249759**

## **TIOXIDE GROUP**

### **Consolidated Report and Financial Statements**

**for the year ended 31 December 2002**

Deloitte & Touche  
Newcastle upon Tyne



## **TIOXIDE GROUP**

### **REPORT AND FINANCIAL STATEMENTS 2002**

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## **TIOXIDE GROUP**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

K Esplin  
P R Huntsman  
L R Healy  
T G Fisher  
K J Ninow  
D Emerson

#### **SECRETARY**

M Maughan

#### **REGISTERED OFFICE**

Haverton Hill Road  
Billingham  
TS23 1PS  
England

#### **BANKERS**

ABN Amro  
250 Bishopsgate  
London  
EC2M 4AA

#### **SOLICITORS**

Slaughter and May  
35 Basinghall Street  
London  
EC2V 5DB

#### **AUDITORS**

Deloitte & Touche  
Newcastle Upon Tyne

## **TIOXIDE GROUP**

### **DIRECTORS' REPORT**

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

#### **ACTIVITIES**

Tioxide Group is the investment holding company for worldwide subsidiaries of Huntsman International LLC which are involved in the manufacture and sale of titanium dioxide pigment, olefins, aromatics, polyurethane chemicals and surfactants.

#### **REVIEW OF DEVELOPMENTS**

##### **Group results**

Group Turnover from continuing operations decreased by \$86 million (2.5%) from \$3,401 million to \$3,315 million with higher sales volumes being offset by lower unit selling prices.

Operating profit/loss for continuing operations decreased by \$68 million from \$66 million profit to \$2 million loss predominantly due to lower average selling prices.

#### **RESULTS AND DIVIDENDS**

The loss for the year ended 31 December 2002 was \$235,312,000 (2001: \$3,840,000 loss). Included in the loss for the year are foreign exchange losses of \$90,675,000 arising within the company itself (see note 9 for more information). The directors wish to accrue a dividend of \$49,442,000 for the year to 31 December 2002. The accrual is in respect of dividend payable on the 7% fixed rate cumulative preference shares in issue.

#### **RESEARCH AND DEVELOPMENT**

Research and development facilities are maintained at Billingham, Birmingham, Everberg and Wilton. These facilities are responsible for undertaking scientific research into related fields with the aim of identifying potential new products or processes and for developments in titanium dioxide pigment, surfactants, polyurethane chemicals and petrochemicals, and related products and processes throughout the group both in the UK and overseas.

#### **FUTURE PROSPECTS**

The directors are optimistic about the long-term prospects for continued growth, both organically and by strategic acquisition. This will be assisted by the recovery of the titanium dioxide industry from the cyclical lows of recent years, the strengthening of margins in the petrochemicals businesses and the benefits from recent investments being realised.

## **TIOXIDE GROUP**

### **DIRECTORS' REPORT(continued)**

#### **DIRECTORS AND THEIR INTERESTS**

The present directors are shown on Page 1. All directors served for the entire year.

None of the directors had any interest in the shares of the company, its subsidiaries, or any parent undertaking incorporated in Great Britain at any time during the year.

#### **DONATIONS**

During the year the group made donations totalling \$478,000 (2001: \$443,000) for charitable purposes.

#### **EMPLOYEE INVOLVEMENT**

Regular meetings are held with employees or their representatives to discuss sales, financial position, prospects and environmental, health and safety matters. Opportunity is given at these meetings for senior executives to be questioned about matters which concern employees.

The business produces a magazine a number of times a year which is distributed to all employees. This magazine includes articles on the businesses' performance and plans, and items of interest about teams, projects and employees.

The group complies with all employment legislation including requirements concerning equal opportunities in employment, employment of disabled people, and health and safety at work.

#### **EMPLOYMENT OF DISABLED PERSONS**

The group gives full and fair consideration to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. Appropriate training is arranged for disabled persons, including retraining for alternative work for employees who become disabled, to promote their career development within the organisation.

#### **SUPPLIER PAYMENT POLICY**

It is group policy to agree terms and conditions for its business transactions with suppliers. Payments are then made on these terms, subject to the terms and conditions being met by the supplier.

Tioxide Group holds the investments in the group companies, does not trade itself and does not have suppliers within the meaning of the Companies Act 1985.

#### **AUDITORS**

On 1 August 2003, Deloitte & Touche will transfer their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. However, at present they remain the company's auditors and have signed the financial statements in that capacity. The company has given its consent to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003.

Accordingly, although the accounts have been signed in the name of Deloitte & Touche, a resolution for the re-appointment of Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

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



M Maughan  
Secretary

Date : 30 June 2003

## TIOXIDE GROUP

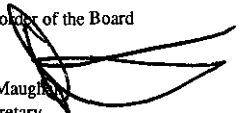
### STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 group and company 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 are followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



M Maughan  
Secretary

Date : 30 June 2003

## TIOXIDE GROUP

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TIOXIDE GROUP

We have audited the financial statements for Tioxide Group for the year ended 31 December 2002 which comprise the consolidated profit and loss account, the balance sheets, consolidated statement of total recognised gains and losses and the related notes 1 to 30 together with the statement of movement on reserves, note of historical cost profits and losses and reconciliation of movement in consolidated shareholders' funds. 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 financial statements, which are required to be prepared 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 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.

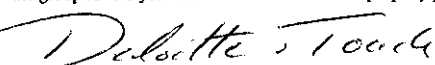
#### Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes an 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 circumstances of the company and the group, 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 evaluate 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 affairs of the company and the group as at 31 December 2002 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  
Chartered Accountants and Registered Auditors  
Newcastle Upon Tyne

1 July 2003

# TIOXIDE GROUP

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2002

	Note	2002 \$000	2002 \$000	2001 \$000	As restated- see note 1 2001 \$000
Group Turnover including its share of joint ventures			3,409,184		3,494,937
Share of turnover of joint ventures			(93,835)		(94,019)
<b>Total Group Turnover</b>					
Continuing operations	3,4		3,315,349		3,400,918
Cost of sales - ordinary activities		(2,968,556)		(2,990,798)	
Cost of sales - exceptional items	5	-		(41,314)	
Cost of sales - total			(2,968,556)		(3,032,112)
Gross profit			346,793		368,806
Distribution costs			(84,126)		(76,022)
Administrative expenses			(264,975)		(226,829)
<b>Operating (Loss)/Profit</b>					
Continuing operations	3,4,7		(2,308)		65,955
Share of operating profit of joint ventures			-		-
<b>(Loss)/Profit on Ordinary Activities before Interest</b>			(2,308)		65,955
Interest receivable and similar income-ordinary activities	8	396		11,687	
Interest receivable and similar income-exchange difference	8	-		18,109	
Interest receivable and similar income-total			396		29,796
Interest payable and similar charges-ordinary activities	9	(156,853)		(113,203)	
Interest payable and similar charges-exchange difference	9	(90,675)		-	
Interest payable and similar charges-total			(247,528)		(113,203)
<b>Loss on Ordinary Activities before Taxation</b>			(249,440)		(17,452)
Tax on loss on ordinary activities	10		17,173		15,818
<b>Loss on Ordinary Activities after Taxation</b>			(232,267)		(1,634)
Equity minority interests			(3,045)		(2,206)
<b>Loss for the Financial Year</b>			(235,312)		(3,840)
Other finance costs in respect of non-equity shares	12		(49,442)		(46,713)
<b>Withdrawn from reserves</b>			(284,754)		(50,553)



# TIOXIDE GROUP

## STATEMENT OF MOVEMENT ON RESERVES

Year ended 31 December 2002

	Share Capital issued \$'000	Share premium account \$'000	Revaluation reserves \$'000	Other reserve \$'000	Profit and loss account \$'000	Total \$'000
<b>The Group</b>						
Balance at 1 January 2002	684,461	45,239	40,245	106,757	(129,229)	747,473
Loss for the year	-	-	-	-	(235,312)	(235,312)
Foreign exchange translation differences on the translation of net equity investments in foreign enterprises	-	-	-	-	76,642	76,642
Foreign exchange translation differences on the translation of Revaluation/Other reserves	-	-	9,908	14,623	-	24,531
Foreign exchange translation differences on the translation of the share capital/premium account	71,337	4,715	-	-	-	76,052
Transfer of amount equivalent to additional depreciation on revalued assets	-	-	(3,747)	-	3,747	-
Accrued other finance costs in respect of non-equity shares	-	-	-	49,442	(49,442)	-
Balance at 31 December 2002	755,798	49,954	46,406	170,822	(333,594)	689,386
<b>The Company</b>						
Balance at 1 January 2002	684,461	45,239	-	106,757	(11,214)	825,243
Loss for the year	-	-	-	-	(91,340)	(91,340)
Foreign exchange translation differences on the translation of the Share capital/ Share premium account/ Other reserves	71,337	4,715	-	14,623	-	90,675
Accrued other finance costs in respect of non-equity shares	-	-	-	49,442	(49,442)	-
Balance at 31 December 2002	755,798	49,954	-	170,822	(151,996)	824,578

**TIOXIDE GROUP**
**CONSOLIDATED BALANCE SHEET**  
**31 December 2002**

	Note	2002 \$000	2001 \$000
<b>Fixed Assets</b>			
Licences	13	1,480	956
Goodwill	13	18,383	16,061
Negative goodwill	13	(175,169)	(182,020)
		(156,786)	(165,959)
Intangible assets		(155,306)	(165,003)
Tangible assets	14	2,191,878	1,903,306
Investment in joint venture	15		
Share of gross assets		142,789	149,433
Share of gross liabilities		(10,937)	(9,633)
		131,852	139,800
Other investments	15	4,981	4,417
		2,173,405	1,882,520
<b>Current Assets</b>			
Stocks	16	495,134	444,360
Debtors			
due within one year	17	394,965	493,329
due after one year	17	163,492	136,131
Cash at bank and in hand		57,947	61,596
		1,111,538	1,135,416
<b>Creditors: Amounts falling due within one year</b>	18, 20	(812,181)	(761,195)
<b>Net Current Assets</b>		299,357	374,221
<b>Total Assets Less Current Liabilities</b>		2,472,762	2,256,741
<b>Creditors: Amounts falling due after more than one year</b>	19	(1,638,060)	(1,327,238)
<b>Provisions for Liabilities and Charges</b>	21	(145,211)	(174,849)
<b>Equity minority interests</b>		(105)	(7,181)
	3	689,386	747,473
<b>Capital and Reserves</b>			
Called up share capital - equity	22	1	1
- non-equity	22	755,797	684,460
Share premium account		49,954	45,239
Revaluation reserve		46,406	40,245
Other reserves		170,822	106,757
Profit and loss account		(333,594)	(129,229)
<b>Total shareholders' funds</b>		689,386	747,473
Equity shareholders' funds		(287,187)	(88,983)
Non-equity shareholders' funds		976,573	836,456

These financial statements were approved by the Board of Directors on 30 June 2003  
Signed on behalf of the Board of Directors on 30 June 2003



Director

**TIOXIDE GROUP**

**COMPANY BALANCE SHEET**

**31 December 2002**

	Note	2002 \$000	2001 \$000
<b>Fixed Assets</b>			
Investments	15	828,523	827,902
<b>Current Assets</b>			
Debtors	17	4,548	4,120
Cash at bank and in hand		-	1
		<u>4,548</u>	<u>4,121</u>
<b>Creditors: Amounts falling due within one year</b>	18	<u>(8,493)</u>	<u>(6,780)</u>
<b>Net Current Liabilities</b>		(3,945)	(2,659)
		<u>824,578</u>	<u>825,243</u>
<b>Capital and Reserves</b>			
Called up share capital - equity	22	1	1
- non-equity	22	755,797	684,460
Share premium account		49,954	45,239
Other reserves		170,822	106,757
Profit and loss account		(151,996)	(11,214)
<b>Total shareholders' funds</b>		<u>824,578</u>	<u>825,243</u>
Equity shareholders' funds		(151,995)	(11,213)
Non-equity shareholders' funds		976,573	836,456

These financial statements were approved by the Board of Directors on 30 June 2003

Signed on behalf of the Board of Directors on 30 June 2003



Director

**TIOXIDE GROUP****Year ended 31 December 2002****CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

	<b>2002</b>	<b>2001</b>
	<b>\$000</b>	<b>\$000</b>
Loss for the financial year	(235,312)	(3,840)
Currency translation differences on net investments(taken from Statement of Movement on Reserves)	76,642	(29,593)
Other Currency translation differences (taken from Statement of Movement on Reserves)	100,583	(28,302)
<b>Total recognised losses relating to the year</b>	<b>(58,087)</b>	<b>(61,735)</b>

**NOTE OF HISTORICAL COST PROFITS AND LOSSES**

	<b>2002</b>	<b>2001</b>
	<b>\$000</b>	<b>\$000</b>
Reported loss on ordinary activities before taxation	(249,440)	(17,452)
Difference between historical cost depreciation and actual depreciation charge for the year calculated on the revalued amount	3,747	3,693
<b>Historical cost loss on ordinary activities before taxation</b>	<b>(245,693)</b>	<b>(13,759)</b>
<b>Historical cost loss for the year retained after taxation, minority interests and dividends</b>	<b>(281,006)</b>	<b>(46,860)</b>

**RECONCILIATION OF MOVEMENT IN CONSOLIDATED SHAREHOLDERS' FUNDS**

	<b>2002</b>	<b>2001</b>
	<b>\$000</b>	<b>\$000</b>
Loss for the financial year	(235,312)	(3,840)
Other finance costs in respect of non-equity shares	(49,442)	(46,713)
	(284,754)	(50,553)
Other recognised losses for the year (net)	177,225	(57,895)
Reserves attributable to non-equity shareholders	49,442	46,713
Issue of shares	-	52,202
<b>Net reduction in shareholders' funds</b>	<b>(58,087)</b>	<b>(9,533)</b>
Opening shareholders' funds	747,473	757,006
<b>Closing shareholders' funds</b>	<b>689,386</b>	<b>747,473</b>

## TIOXIDE GROUP

### NOTES TO THE ACCOUNTS

Year ended 31 December 2002

#### 1 ACCOUNTING POLICIES

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

##### Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

##### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all its subsidiaries.

##### Cash flow statement

The company does not produce a cash flow statement in accordance with FRS 1 (Revised) as the parent company's financial statements include a consolidated cash flow statement that is publicly available.

##### Acquisitions and disposals

On the acquisition of a business including an interest in a joint venture, fair values are attributed to the group's share of net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and, following the implementation of FRS 10, is capitalised in the group balance sheet in the year of acquisition.

The results relating to a business are included in the profit and loss account from the date of acquisition or up to the date of disposal.

##### Goodwill and intangible fixed assets

For acquisition of a business, including an interest in an associated undertaking, following the implementation of FRS 10 "Goodwill and intangible fixed assets", positive purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful life up to a maximum of 20 years. The directors regard 20 years as a reasonable maximum for the estimated useful life of goodwill since it is difficult to make projections exceeding this period.

Negative goodwill up to the fair values of the non-monetary assets acquired is recognised in the profit and loss account in the periods in which the non-monetary assets are recovered, whether through depreciation or sale. Any negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised in the profit and loss account in the periods expected to be benefited.

Capitalised purchased goodwill in respect of both subsidiaries and joint ventures is included within intangible fixed assets.

Goodwill which arose on the acquisition of a business, including an interest in an associated undertaking, in prior periods and was written off to the profit and loss reserve as a matter of accounting policy remained eliminated in that reserve and will be charged or credited in the profit and loss account as appropriate on the subsequent disposal of the business to which it relates.

Licenses represent amounts paid to third parties for use of certain technologies. The Licenses are being amortised over 14 years, being the directors' assessment of its useful economic life.

##### Tangible fixed assets

Tangible fixed assets are included in the balance sheet at cost or revalued amount, net of depreciation and any provision for impairment.

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

Buildings	30 years
Property, plant and equipment capitalised prior to 30 June 1999	15 years
Property, plant and equipment capitalised from 1 July 1999	20 years
Computer equipment and software	3 years
Office equipment	5 years

##### Investments

Except as stated below, investments held as fixed assets are stated at cost less provision for any permanent diminution in value. The group holds no current asset investments.

In the consolidated accounts, shares in joint ventures are accounted for using the gross equity method. In the consolidated balance sheet, the investment in the joint venture is shown at the group's share of the net assets of the joint venture.

## **TIOXIDE GROUP**

### **NOTES TO THE ACCOUNTS**

**Year ended 31 December 2002**

#### **1 ACCOUNTING POLICIES (continued)**

##### **Stocks**

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

##### **Deferred taxation**

FRS19 'Deferred Tax' is effective for accounting periods ending on or after 23 January 2002, therefore, the accounting policy for deferred taxation has been changed in accordance with FRS19. This has not led to a restatement of comparative figures.

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 that they will be recovered. Deferred tax assets and liabilities are not discounted.

##### **Foreign exchange**

Transactions denominated in foreign currencies are translated into US dollars at the rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into US dollars at the rate 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 US dollars at the closing rates of exchange and the difference arising from the translation of the opening net investment in subsidiaries at the closing rate and matched long-term foreign currency borrowings are taken direct to reserves.

##### **Leases**

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term.

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of their lease term and their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

##### **Research and development**

Research and development expenditure is charged to the profit and loss account as incurred.

##### **Pension costs**

The expected cost of providing pensions, as 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 the scheme in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

The company has not introduced the requirements of FRS17 in these financial statements but intends to do so when required. The transitional disclosures, as required by FRS17 in the current year, are detailed in note 26 to these financial statements.

##### **Reporting Currency**

Although the company is registered in England and Wales, the activities of the main subsidiary companies are predominantly in markets in which the underlying economics are determined in US dollars. Additionally, the ultimate parent company of Tioxide Group is incorporated in the United States of America. Accordingly, the directors consider that the most appropriate reporting currency to adopt for the company and the group is US dollars.

##### **Presentation**

The company's share capital, share premium and other reserves are denominated in British pounds and are translated to US dollars at the balance sheet date. Of the company's (and the contribution to the group's) total loss for the year of \$91,340,000, a loss of \$90,675,000 (2001: gain \$18,109,000) arose because of this exchange rate fluctuation. Previously, such exchange movements were reported within administrative expenses and were disclosed within note 7 as exchange gain or loss. The directors consider it more appropriate to disclose such income or costs within interest receivable or payable as they represent financing items (see notes 8 and 9 for more information).

The effect of the restatement is to reclassify the 2001 gain of \$18,109,000 from administrative expenses into Interest receivable and similar income - exchange difference in the 2001 comparative figures. This has no effect on the loss for the previous financial year.

## TIOXIDE GROUP

### NOTES TO THE ACCOUNTS

Year ended 31 December 2002

#### 2 ACQUISITIONS, DISPOSALS AND GOODWILL

The following subsidiary acquisitions took place on the these dates during the year:-

Huntsman Italian Receivables Finance Srl	100%	December 2002
Huntsman Investments South Africa (Pty) Ltd.	100%	November 2002

Provisional fair values represent the directors' current estimate of the net assets acquired. However, in accordance with FRS 7, the values attributed may be revised as further information becomes available.

#### 3. ANALYSIS OF GROUP TURNOVER, OPERATING (LOSS)/PROFIT AND NET ASSETS

Turnover represents amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of trade discounts and value added tax. Analysis of turnover, operating profit and net assets are stated below. There is only one class of business.

Geographical analysis by location	Turnover		Operating (loss)/profit		Net Assets	
	2002	2001	2002	2001	2002	2001
	\$000	\$000	\$000	\$000	\$000	\$000
United Kingdom	1,283,194	1,399,439	(47,725)	(46,365)	(242,187)	(165,255)
Other European countries	1,361,063	1,330,951	(6,221)	62,854	549,013	574,788
Rest of World	671,092	670,528	51,638	49,466	382,560	337,940
	<u>3,315,349</u>	<u>3,400,918</u>	<u>(2,308)</u>	<u>65,955</u>	<u>689,386</u>	<u>747,473</u>

Geographical analysis of turnover by destination	2002	2001
	\$000	\$000
United Kingdom	855,189	861,582
Other European countries	1,500,865	1,521,680
Rest of World	959,295	1,017,656
	<u>3,315,349</u>	<u>3,400,918</u>

	2002	2001
	\$000	\$000
With third parties	3,285,071	3,378,463
Within the group	30,278	22,455
	<u>3,315,349</u>	<u>3,400,918</u>

Turnover within the group relates to sales to the ultimate parent and its subsidiaries.

#### 4 ANALYSIS OF CONTINUING AND DISCONTINUED OPERATIONS

The figures in the consolidated profit and loss account all arise from continuing operations. There are no discontinued operations in 2002.

The total figures for continuing operations in 2002 include no amounts for acquisitions as acquisitions contributed neither turnover, operating profit nor operating loss during the year.

#### 5 EXCEPTIONAL ITEMS

The Cost of sales - exceptional items in 2001 of \$41,314,000 related to restructuring costs (\$33,550,000) and writedown of related fixed assets (\$7,764,000) within the Polyurethanes businesses. The costs related to the first phase of a cost reduction program which included closure of a polyols manufacturing facility at Shepton Mallet in the United Kingdom.

# TIOXIDE GROUP

## NOTES TO THE ACCOUNTS

Year ended 31 December 2002

### 6 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2002 \$000	2001 \$000
<b>Directors' emoluments</b>		
Total emoluments	1,132	1,004
Contributions to defined benefit pension scheme	14	5
	<u>1,146</u>	<u>1,009</u>
	2002 \$000	2001 \$000
<b>Remuneration of the highest paid director</b>		
Total emoluments	683	603
Contributions to defined benefit pension scheme	-	-
	<u>683</u>	<u>603</u>
	2002 No.	2001 No.
<b>Number of directors who were members of the defined benefit pension scheme</b>	<u>1</u>	<u>1</u>
	2002 No.	2001 No.
<b>Average number of persons employed by the group in the year</b>		
Production	4,102	4,041
Sales and distribution	834	842
Administration, research and development	1,588	1,840
	<u>6,524</u>	<u>6,723</u>
	2002 \$000	2001 \$000
<b>Staff costs during the year (including directors)</b>		
Wages and salaries	291,749	255,801
Social security costs	46,073	48,616
Pension costs	42,879	24,676
	<u>380,701</u>	<u>329,093</u>



# TIOXIDE GROUP

## NOTES TO THE ACCOUNTS

Year ended 31 December 2002

### 7 OPERATING (LOSS)/PROFIT

	2002	As restated- see note 1 2001
	\$000	\$000
Operating (loss)/profit is stated after charging/(crediting)		
Depreciation and other amounts written off tangible and intangible fixed assets		
Owned assets	163,637	133,445
Leased assets	420	286
Goodwill amortisation	(13,375)	(12,609)
Rentals under operating leases		
Hire of plant and machinery	5,555	5,286
Other operating leases	9,519	10,082
Research and development	39,779	11,037
Loss on sale of fixed assets	2,275	1,147
Auditors' remuneration		
- Group audit fees	1,949	2,236
- Company audit fees	36	36
- Other services - UK	183	287
- Overseas	546	252
Exchange (Gains)/Losses	(24,669)	7,392

### 8 INTEREST RECEIVABLE AND SIMILAR INCOME

	2002	2001
	\$000	\$000
Other interest receivable	396	11,687
	<u>396</u>	<u>11,687</u>

The Interest receivable and similar income - exchange difference of \$Nil(2001: \$18,109,000) in the consolidated profit and loss account related to an exchange gain within the company itself. This gain arose from the retranslation of the company's share capital, share premium and other reserves from British pounds to US dollars at balance sheet date exchange rates as the company's share capital is denominated in British pounds. These gains are included in the profit and loss account because the share capital of the company is predominantly non-equity share capital. Such exchange amounts do not represent cashflow into or out of the company or group.

### 9 INTEREST PAYABLE AND SIMILAR CHARGES

	2002	2001
	\$000	\$000
Group company loans	124,977	112,836
Bank loans, overdrafts and other loans repayable within 5 years	4,962	5,057
Amounts payable to securitisation vehicles	16,207	16,200
Exchange losses/(gains)	10,707	(20,890)
	<u>156,853</u>	<u>113,203</u>

Tioxide Group has offered to assign certain trade debtor balances to Huntsman International LLC as part of a group-wide securitisation of trade debtor balances with Chase Manhattan Bank (Ireland) plc. Tioxide Group is not obliged to support any losses of the securitisation company and does not intend to do so. The floating rate notes (principal and interest) issued by the securitisation company are only repayable out of funds generated from the securitised trade debtors and there is no recourse to Tioxide Group for any shortfall.

As at the balance sheet date, the total value of trade debtor balances securitised in this manner amounted to \$302,101,000(2001: \$150,261,000). The increase in total securitised debt is due to certain group companies joining the securitisation scheme in October 2002. These new members of the scheme had securitised debts totalling \$128,000,000 at entry into the scheme. The closing total of securitised debt represents 54.4% of total closing trade debtor balances(2001: 30.5%).

The Interest payable and similar charges - exchange difference of \$90,675,000(2001: \$Nil) in the consolidated profit and loss account relates to an exchange loss within the company itself. This loss arises from the retranslation of the company's share capital, share premium and other reserves from British pounds to US dollars at balance sheet date exchange rates as the company's share capital is denominated in British pounds. These losses are included in the profit and loss account because the share capital of the company is predominantly non-equity share capital. Such exchange amounts do not represent cashflow into or out of the company or group.

# TIOXIDE GROUP

## NOTES TO THE ACCOUNTS

Year ended 31 December 2002

### 10 TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	2002 \$000	2001 \$000
Corporation tax:		
United Kingdom corporation tax at 30% (2001 - 30% ) based on the (loss)/profit for the year	-	1
Overseas corporation tax	13,895	13,852
Current year group relief	-	-
	<u>13,895</u>	<u>13,853</u>
Deferred tax:		
United Kingdom deferred tax - ordinary activities	(9,727)	(22,731)
Overseas deferred tax - ordinary activities	(17,343)	(11,348)
	<u>(13,175)</u>	<u>(20,226)</u>
Adjustments to prior year's tax provisions:		
United Kingdom corporation tax	-	-
Overseas corporation tax	135	1,048
United Kingdom deferred tax	(760)	3,542
Overseas deferred tax	(3,373)	(185)
Group relief	-	3
	<u>(17,173)</u>	<u>(15,818)</u>
Factors affecting the tax credit on ordinary activities:-	2002 %	2001 %
The current tax credit for the year is lower(2001: higher) than that resulting from applying the standard rate of corporation tax of 30% (2001: 30%). The differences are explained below:		
Standard tax rate for the year as a percentage of loss	30	30
Effects of :-		
Expenses not deductible for tax purposes	3	105
Foreign exchange differences	(15)	44
Non-utilisation of tax losses	(16)	(58)
Overseas tax rates	2	(20)
Prior period adjustments	3	(10)
	<u>7</u>	<u>91</u>

### 11 (LOSS)/PROFIT OF PARENT COMPANY

As permitted by Section 230 of the Companies Act, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's loss for the financial year amounted to \$91,340,000 (2001: profit \$17,514,000).

### 12 OTHER FINANCE COSTS

	2002 \$000	2001 \$000
Other finance costs in respect of non-equity shares-7% cumulative preference shares	<u>49,442</u>	<u>46,713</u>

# TIOXIDE GROUP

## NOTES TO THE ACCOUNTS

Year ended 31 December 2002

### 13 INTANGIBLE FIXED ASSETS

#### The group

	Positive Goodwill \$'000	Negative Goodwill \$'000	Total Goodwill \$'000	Licences \$'000	Total Intangibles \$'000
<b>Cost</b>					
At 1 January 2002	16,909	(213,021)	(196,112)	997	(195,115)
Arising on acquisitions (see note 2)	406	-	406	-	406
Additions	-	-	-	477	477
Foreign exchange translation differences	2,633	(9,647)	(7,014)	137	(6,877)
At 31 December 2002	19,948	(222,668)	(202,720)	1,611	(201,109)

#### Accumulated amortisation

At 1 January 2002	848	(31,001)	(30,153)	41	(30,112)
Charge/(release) for the year	563	(13,938)	(13,375)	80	(13,295)
Foreign exchange translation differences	154	(2,560)	(2,406)	10	(2,396)
At 31 December 2002	1,565	(47,499)	(45,934)	131	(45,803)

#### Net book value

At 31 December 2002	18,383	(175,169)	(156,786)	1,480	(155,306)
At 31 December 2001	16,061	(182,020)	(165,959)	956	(165,003)

#### Company

The company had no intangible fixed assets (2001: \$Nil).

# TIOXIDE GROUP

## NOTES TO THE ACCOUNTS

Year ended 31 December 2002

### 14 TANGIBLE FIXED ASSETS

The group	Freehold Land and Buildings \$000	Plant and Equipment \$000	Assets in the course of construction \$000	Total \$000
<b>Cost or valuation</b>				
At 1 January 2002	196,424	2,221,781	197,855	2,616,060
Foreign exchange translation differences	23,713	315,367	20,307	359,387
Transfers	7,084	229,677	(236,761)	-
Additions	-	36,723	154,282	191,005
Disposals	(141)	(9,636)	-	(9,777)
At 31 December 2002	227,080	2,793,912	135,683	3,156,675
<b>Accumulated depreciation</b>				
At 1 January 2002	69,812	642,942	-	712,754
Foreign exchange translation differences	5,955	83,769	-	89,724
Charge for year	4,854	159,123	-	163,977
Disposals	(34)	(1,624)	-	(1,658)
At 31 December 2002	80,587	884,210	-	964,797
<b>Net book value</b>				
At 31 December 2002	146,493	1,909,702	135,683	2,191,878
At 31 December 2001	126,612	1,578,839	197,855	1,903,306

Included in the depreciation charge for the year for Plant and equipment is \$Nil (2001: \$7,764,000) which relates to a writedown of redundant fixed assets within the Polyurethanes businesses.

Included in land and buildings is land valued at \$37,239,000 (2001: \$32,022,000) which is not depreciated.

The transitional arrangements of FRS 15 have been adopted in the case of tangible fixed assets in the companies existing in Tioxide Group at 1 January 1999 where the valuation of \$338,018,000 has not been updated since 1 July 1999 as the directors are not aware of any material change in value from this valuation. The group is not continuing the revaluation policy in relation to these assets.

The historical value of these assets at the date of revaluation was \$271,392,000.

The revaluation, as at 1 January 1999, of land and buildings and plant and equipment referred to above was made on 1 July 1999. The value was determined by the directors based on the open-market value for existing use at the time of valuation. The revaluation resulted in a surplus of \$70,908,000 across all asset categories which was taken to the revaluation reserve at that time.

The net book value of plant and machinery includes \$5,941,000 (2001: \$3,756,000) in respect of assets held under finance leases and hire purchase contracts.

#### Company

The company had no tangible fixed assets (2001: \$Nil).

# TIOXIDE GROUP

## NOTES TO THE ACCOUNTS Year ended 31 December 2002

### 14 TANGIBLE FIXED ASSETS (continued)

The comparable amounts determined according to the historic cost convention are as follows:

	Freehold Land and Buildings \$000	Plant and Equipment \$000	Assets in course of construction \$000	Total \$000
Cost as at 31 December 2002	223,475	2,735,652	135,683	3,094,810
Accumulated depreciation	(80,359)	(868,979)	-	(949,338)
Net book value as at 31 December 2002	<u>143,116</u>	<u>1,866,673</u>	<u>135,683</u>	<u>2,145,472</u>
Net book value as at 31 December 2001	<u>123,775</u>	<u>1,541,431</u>	<u>197,855</u>	<u>1,863,061</u>

### 15 INVESTMENTS HELD AS FIXED ASSETS

The group - joint ventures

	Share of net assets \$000
At 1 January 2002	139,800
Shares redeemed	(7,948)
At 31 December 2002	<u>131,852</u>

The group had the following interest in joint ventures at 31 December 2002:

	Description of shares held	Proportion of nominal value of shares held	Accounting year end
Louisiana Pigment Co. L.P.	Ordinary	50%	31 December

At 31 December 2002 the amount due to Louisiana Pigment Co. L.P., a company registered and operating in the United States of America, was \$8,645,000 (2001: \$6,133,000).

The above joint venture is managed jointly in accordance with the respective interests held in the joint venture. The directors consider the disclosure of further financial information about the joint venture to be commercially sensitive and accordingly have not disclosed any additional information.

The group had the following share in its joint venture:

	2002 \$000	2001 \$000
Fixed assets	117,868	125,242
Current assets	24,921	24,191
Liabilities (all due within one year)	(10,937)	(9,633)
	<u>131,852</u>	<u>139,800</u>

# TIOXIDE GROUP

## NOTES TO THE ACCOUNTS

Year ended 31 December 2002

### 15 INVESTMENTS HELD AS FIXED ASSETS (continued)

The group - other investments	Total \$000
At 1 January 2002	4,417
Additions	283
Foreign exchange translation differences	281
At 31 December 2002	<u>4,981</u>

The Other Investments principally comprises Arabian Polyol. The amount of the group's investment at 31 December 2002 was \$3,143,000(2001 \$3,008,000).

### The group - total net book values

	Joint ventures \$000	Other investments \$000	Total \$000
At 31 December 2002	<u>131,852</u>	<u>4,981</u>	<u>136,833</u>
At 31 December 2001	<u>139,800</u>	<u>4,417</u>	<u>144,217</u>

The company	Shares in subsidiary undertakings \$000
Cost	
At 1 January 2002	988,847
Adjustment	621
At 31 December 2002	<u>989,468</u>
Provisions	
At 1 January 2002 and 31 December 2002	<u>160,945</u>
Net book value	
At 31 December 2002	<u>828,523</u>
At 31 December 2001	<u>827,902</u>

The adjustment relates to a re-classification of the company's investment in a subsidiary undertaking at the end of the previous year.

All the above investments (group and company) are unlisted.

# TIOXIDE GROUP

## NOTES TO THE ACCOUNTS Year ended 31 December 2002

### 16 STOCKS

	Group	
	2002	2001
	\$000	\$000
Raw materials and consumables	168,742	160,343
Work in progress	21,668	16,860
Finished goods and goods for resale	304,724	267,157
	<u>495,134</u>	<u>444,360</u>

The company held no stocks (2001: \$Nil).

### 17 DEBTORS

	Group		Company	
	2002	2001	2002	2001
	\$000	\$000	\$000	\$000
Trade debtors	207,292	308,023	-	-
Amounts owed by group undertakings	116,842	124,921	4,548	4,120
Other debtors	216,554	182,809	-	-
Prepayments and accrued income	17,769	13,707	-	-
	<u>558,457</u>	<u>629,460</u>	<u>4,548</u>	<u>4,120</u>

The group has amounts of \$163,492,000 (2001: \$136,131,000) included in debtors in relation to amounts due after more than one year. Of this total, \$132,032,000 (2001: \$123,806,000) relates to pension balances. The company had no balances due after more than one year.

### 18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2002	2001	2002	2001
	\$000	\$000	\$000	\$000
Bank loans and overdrafts (see note 20)	5,221	39,888	-	-
Obligations under finance leases	1,268	1,426	-	-
Trade creditors	287,100	263,224	-	-
Amounts owed to group undertakings	270,092	226,641	8,493	6,780
Other creditors including taxation & social security	48,024	29,257	-	-
Accruals and deferred income	200,476	200,759	-	-
	<u>812,181</u>	<u>761,195</u>	<u>8,493</u>	<u>6,780</u>

#### Other creditors includes:

	Group	
	2002	2001
	\$000	\$000
Taxation and social security	<u>14,432</u>	<u>7,859</u>

The company had no taxation and social security liabilities (2001: \$Nil).

# TIOXIDE GROUP

## NOTES TO THE ACCOUNTS

Year ended 31 December 2002

### 19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group	
	2002	2001
	\$000	\$000
Bank loans (see note 20)	6,090	265
Obligations under finance leases	1,220	1,509
Trade creditors	-	643
Amounts owed to group undertakings	1,621,427	1,319,248
Other creditors	9,323	5,573
	<u>1,638,060</u>	<u>1,327,238</u>

Obligations under finance leases of \$1,220,000(2001: \$1,509,000) are repayable as follows :- \$1,206,000(2001: \$1,483,000) within two to five years of the balance sheet date and \$14,000(2001: \$26,000) after five years of the balance sheet date. All finance lease obligations are secured by the related leased assets.

The company had no creditors falling due after more than one year (2001: \$Nil).

### 20 BANK LOANS AND OVERDRAFTS

	Group	
	2002	2001
	\$000	\$000
Wholly repayable within 5 years		
Secured	5,776	-
Unsecured	5,535	40,153
	<u>11,311</u>	<u>40,153</u>
Due within 1 year	5,221	39,888
Due within 1 to 2 years	6,090	265
	<u>11,311</u>	<u>40,153</u>

The company had no bank loans and overdrafts (2001: \$Nil).

### 21 PROVISIONS FOR LIABILITIES AND CHARGES

The group	Pensions and similar obligations \$000	Deferred tax \$000	Other \$000	Total \$000
Balance at 1 January 2002	28,422	88,378	58,049	174,849
Profit and loss account charge/(release) - ordinary activities	3,728	(31,203)	(4,965)	(32,440)
Foreign exchange translation differences	3,034	25,831	6,089	34,954
Applied	(13,582)	-	(18,570)	(32,152)
Balance at 31 December 2002	<u>21,602</u>	<u>83,006</u>	<u>40,603</u>	<u>145,211</u>

The total group pension cost for the year amounted to \$42,879,000 (2001: \$24,676,000). The charge arose from balances within Pensions and similar obligations \$3,728,000 (2001: \$7,534,000) and balances within amounts due greater than one year within debtors \$39,151,000 (2001: \$17,142,000). The closing provision arises from defined benefit schemes operated by subsidiaries.

Other provisions comprises amounts relating to restructuring, decommissioning and environmental liabilities as set out below. None of these provisions have been discounted as the effect of discounting would not be material. Restructuring costs, relate to expected future directly attributable costs of reorganising subsidiary companies, mainly in England and the Netherlands. Decommissioning and Environmental costs relate to the closure of the Black End plant at the Greatham facility following the opening of the new production facility there during 2002. The payment dates of total restructuring, decommissioning and environmental costs are uncertain, but it is currently anticipated that the majority will be between 2003 and 2005.

	Restructuring \$000	Decommissioning \$000	Environmental \$000	Total \$000
Balance at 1 January 2002	39,370	1,457	17,222	58,049
Profit and loss charge-ordinary activities	(5,130)	165	-	(4,965)
Foreign exchange translation differences	4,457	160	1,472	6,089
Applied	(14,901)	(701)	(2,968)	(18,570)
Balance at 31 December 2002	<u>23,796</u>	<u>1,081</u>	<u>15,726</u>	<u>40,603</u>



# TIOXIDE GROUP

## NOTES TO THE ACCOUNTS

Year ended 31 December 2002

### 21 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

#### Pensions and similar obligations

See note 26 - Pension Schemes

#### Deferred taxation

The amounts of deferred taxation provided and unprovided in the accounts are:

The group	Provided 2002 \$000	Provided 2001 \$000	Not provided 2002 \$000	Not provided 2001 \$000
Capital allowances in advance of depreciation	100,631	121,284	15,043	17,965
Other timing differences	(12,542)	(33,011)	(59,695)	(34,008)
Taxation on valuation surplus	(5,083)	105	157,182	167,418
	<u>83,006</u>	<u>88,378</u>	<u>112,530</u>	<u>151,375</u>

No provision has been made for taxation that would arise in the event of the overseas subsidiaries distributing the balance of their reserves as these amounts are retained for investment in the business.

The company had no provisions for liabilities and charges (2001: \$Nil).

### 22 CALLED UP SHARE CAPITAL

	Number of Shares	2002 \$000	Number of Shares	2001 \$000
Authorised				
Ordinary shares of £1 each translated at the rate of 1.605 (2001: 1.453)	100	-	100	-
7% Fixed rate preference shares of £1 each translated at rate of 1.605 (2001: 1.453)	478,476,900	767,897	478,476,900	695,418
Class A ordinary shares of £1 each translated at rate of 1.605 (2001: 1.453)	900	1	900	1
	<u>478,477,900</u>	<u>767,898</u>	<u>478,477,900</u>	<u>695,419</u>

#### Called up, allotted and fully paid

Ordinary shares of £1 each translated at the rate of 1.605 (2001: 1.453)	100	-	100	-
7% Fixed rate preference shares of £1 each translated at rate of 1.605 (2001: 1.453)	470,937,403	755,797	470,937,403	684,460
Class A ordinary shares of £1 each translated at rate of 1.605 (2001: 1.453)	900	1	900	1
	<u>470,938,403</u>	<u>755,798</u>	<u>470,938,403</u>	<u>684,461</u>

Non-equity shareholders' funds for each class of non-equity share are as follows:-

	2002 \$000	2001 \$000
7% Fixed rate preference shares of £1 each	976,573	836,456
	<u>976,573</u>	<u>836,456</u>

## TIOXIDE GROUP

### NOTES TO THE ACCOUNTS

Year ended 31 December 2002

#### 22 CALLED UP SHARE CAPITAL (continued)

The ordinary shares of £1 each have dividend rights on a per share basis of one hundred times the dividend rights of the Class A shares. The holders of the ordinary shares are entitled to one vote in respect of each share held.

The Class A shares of £1 each entitle the holder to receive a dividend on the paid up capital and the right to return of capital in equal priority to any payment to the holders of the ordinary shares. The Class A shares shall have no further rights of participation in the assets of Tioxide Group. The Class A shares do not entitle the holders to receive notice of general meetings, nor do they carry any voting rights.

The 7% fixed rate preference shares of £1 each entitle the holder of each share to receive a cumulative preferential dividend at the rate of 7% on the paid up capital when declared and the right to a return of capital upon either a winding up or a repayment of capital in priority to the holders of the other classes of shares. The preference shares do not entitle the holders to any further or other participation on the profits or assets of Tioxide Group. The holders of the fixed rate preference shares are entitled to receive notice of and to attend at any general meeting of Tioxide Group. Each preference share also carries the right to one vote on any resolution proposed at any such general meeting where either 1) at the date of the meeting any part of any preference dividend payable in respect of the preference shares is for whatever reason in arrears for more than six months or 2) upon any resolution proposing a winding up of Tioxide Group.

#### 23 CAPITAL COMMITMENTS

	Group	
	2002	2001
	\$000	\$000
Contracted for but not provided	14,858	79,113

The company had no capital commitments at the year end (2001: \$Nil).

#### 24 CONTINGENT LIABILITIES

	Group	
	2002	2001
	\$000	\$000
Guarantees under company home ownership schemes	35	25

The company had no contingent liabilities (2001: \$Nil).

The group has given unsecured guarantees and pledges of certain shares in subsidiaries to third parties in respect of the bank and bond borrowings of its parent company Huntsman International LLC. As at 31 December 2002, the outstanding amount of such borrowings amounted to \$2.744 billion (31 December 2001: \$2.625 billion).

# TIOXIDE GROUP

## NOTES TO THE ACCOUNTS Year ended 31 December 2002

### 25 OPERATING LEASE COMMITMENTS

At 31 December the group was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings 2002 \$000	Other 2002 \$000	Total 2002 \$000	Land and buildings 2001 \$000	Other 2001 \$000	Total 2001 \$000
Leases which expire:						
Within one year	1,225	5,228	6,452	1,188	4,887	6,075
Within 2 to 5 years	1,540	5,907	7,448	1,669	7,280	8,949
After 5 years	2,052	-	2,052	4,186	196	4,382
	4,817	11,135	15,952	7,043	12,363	19,406

### 26 PENSION SCHEMES

The group maintains various pension schemes for all eligible full-time and part-time employees. Scheme funds are administered by Trustees and are independent of group finances. Investment of pension scheme assets in group companies is not permitted by the Trustees.

The principal schemes are all defined benefit schemes. The pension cost relating to the schemes is assessed in accordance with the advice of independent actuaries and is such as to spread the cost of pensions over the working lives of the employees who are scheme members.

The latest valuations of the schemes were carried out on either 31 March 2000 or 31 December 2000, dependent upon the scheme, all using the projected unit method. The next actuarial valuation is to be carried out as at 31 March 2003. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries, pensions and dividends. It is assumed that retail price inflation would be between 2.5% and 3% per annum, that the investment return would be between 3% and 7.5% per annum, that salary increases would average between 3.5% and 5% per annum and that pensions (in excess of the Guaranteed Minimum Pension) would increase at the rate of between 2.5% and 3% per annum, dependent on the country the scheme and employees reside in.

Contributions to group pension schemes are charged to the profit and loss account so as to spread the cost of pensions at a substantially level percentage of payroll costs over employees' working lives with the group. The agreed contribution rates for the next 12 months for the main schemes operated within the group are between 17.5% and 20.0%. These rates will be reviewed in light of the results of the formal actuarial valuations as at 31 March 2003 when they become available.

The total group pension cost for the year amounted to \$42,879,000 (2001: \$24,676,000). The increase in group pension cost is due to increases in SSAP24 variation costs in subsidiary companies caused by negative asset returns during 2001 and stronger assumptions used to value scheme liabilities.

At the last actuarial valuation date, the market value of the assets of the principal schemes was \$719,101,202 and this was sufficient to cover 123% of the value of the benefits that had accrued to members, after allowing for expected future increases in salaries.

In November 2000, the Accounting Standards Board issued FRS17 "Retirement Benefits" replacing SSAP24 "Accounting for Pension costs". FRS 17 is not yet fully effective, though certain disclosures are required in the transition period for periods ending on or after 22 June 2001. These further disclosures are included below.

The directors regard disclosure of information, in aggregate, for all group pension schemes to be the most appropriate form of disclosure given the nature of the schemes operated.

The actuarial valuation carried out for FRS17 purposes as at 31 December 2001 has been updated for conditions at 31 December 2002 by qualified actuaries using revised assumptions that are consistent with the requirements of FRS17.

The financial assumptions used, the market value of the pension scheme assets and the value of the pension scheme liabilities as at 31 December 2002 were:

Financial assumptions(% pa average over all group schemes)	2002	2001
Rate of price inflation	2.15	2.50
Rate of increase in salaries	3.37	4.00
Rate of increase in pensions	2.06	2.50
Discount rate	5.45	5.75

\* includes promotional increases

# TIOXIDE GROUP

## NOTES TO THE ACCOUNTS Year ended 31 December 2002

### 26 PENSION SCHEMES-(continued)

#### Assets and expected rates of return

The market value of the pension scheme assets and the expected rates of return at 31 December 2002 were:

	2002		2001	
	Market Value	Expected Return	Market Value	Expected Return
	\$'000	% pa	\$'000	% pa
Equities	553,108	7.80	639,935	7.87
Bonds	291,973	5.32	251,867	5.03
Other	21,521	3.44	8,593	3.93
<b>Total</b>	<b>866,602</b>	<b>6.86</b>	<b>900,395</b>	<b>7.04</b>

Based on the above assumptions, the following amounts were measured in accordance with the requirements of FRS17 as at 31 December 2002:

	2002	2001
	\$'000	\$'000
Fair value of schemes' assets	866,602	900,395
Present value of the schemes' liabilities	1,079,652	903,469
Deficit in the schemes	213,050	3,074
Irrecoverable surplus	-	-
Pension liability	213,050	3,074
Deferred tax	(63,915)	(922)
<b>Net Pension liability</b>	<b>149,135</b>	<b>2,152</b>

Had the company adopted FRS 17 early, the group net assets and profit and loss reserve would have been stated as follows:-

	2002	2001
	\$'000	\$'000
Net assets	689,386	747,473
SSAP 24 pension asset included in Net assets above	(110,430)	(93,424)
FRS 17 Pension liability	(149,135)	(2,152)
<b>Net assets including pension liability</b>	<b>429,821</b>	<b>651,897</b>
Profit and loss reserve	(333,594)	(129,229)
SSAP 24 pension asset -as above	(110,430)	(93,424)
FRS 17 Pension liability	(149,135)	(2,152)
<b>Profit and loss reserve as adjusted</b>	<b>(593,159)</b>	<b>(224,805)</b>

#### Analysis of the amount that would have been charged to operating profit under FRS17:

	2002
	\$'000
Current service cost	31,608
Past service cost	3,777
Gain/(Loss) on settlements and curtailments	-
	<b>35,385</b>

#### Analysis of the amount that would have been credited to net finance income under FRS17:

	2002
	\$'000
Expected return on pension scheme assets	64,903
Interest on pension scheme liabilities	(52,853)
	<b>12,050</b>

#### Analysis of the actuarial loss that would have been recognised in the statement of total recognised gains and losses:

	2002
	\$'000
Actual return less expected return on pension scheme assets	(190,873)
Experience gains and (losses) arising on scheme liabilities	(19,110)
Changes in assumptions underlying the present value of the scheme liabilities	16,603
	<b>(193,380)</b>

## TIOXIDE GROUP

### NOTES TO THE ACCOUNTS

Year ended 31 December 2002

#### 26 PENSION SCHEMES-(continued)

<b>History of experience gains and losses:</b>	
	<b>2002</b>
Difference between the expected and actual return on scheme assets:	
Amount(\$'000)	(190,873)
Percentage of scheme assets	22.03%
Experience gains and (losses) on scheme liabilities:	
Amount(\$'000)	(19,110)
Percentage of the present value of scheme liabilities	1.77%
Total actuarial gain/(loss) recognised in the statement of total recognised gains and losses:	
Amount(\$'000)	(193,380)
Percentage of the present value of scheme liabilities	17.91%

#### 27 RELATED PARTY TRANSACTIONS

Tioxide Group had the following transactions during the year and balances outstanding at the year end:

	2002 \$000	2001 \$000
Sales - ICI PLC and subsidiaries (owns 30% of shares in Huntsman International Holdings LLC)	252,084	286,346
Sales - Huntsman LLC(formerly Huntsman Corporation) and subsidiaries (owns 60% of shares in Huntsman International Holdings LLC)	14,393	7,661
Sales - Pacific Iron Products (50% owned)	263	211
Purchases - ICI PLC and subsidiaries (owns 30% of shares in Huntsman International Holdings LLC)	188,301	235,286
Purchases - Huntsman LLC(formerly Huntsman Corporation) and subsidiaries (owns 60% of shares in Huntsman International Holdings LLC)	67,621	76,208
Purchases - Louisiana Pigment Company (50% owned)	93,500	94,000
Debtors - ICI PLC and subsidiaries (owns 30% of shares in Huntsman International Holdings LLC)	37,933	31,861
Debtors - Huntsman LLC(formerly Huntsman Corporation) and subsidiaries (owns 60% of shares in Huntsman International Holdings LLC)	2,352	9,750
Creditors - ICI PLC and subsidiaries (owns 30% of shares in Huntsman International Holdings LLC)	37,743	8,682
Creditors - Huntsman LLC(formerly Huntsman Corporation) and subsidiaries (owns 60% of shares in Huntsman International Holdings LLC)	14,214	-
Creditors - Louisiana Pigment Company (50% owned)	8,645	6,133

## TIOXIDE GROUP

### NOTES TO THE ACCOUNTS

Year ended 31 December 2002

#### 28 EVENTS OCCURRING AFTER THE YEAR END

No events have occurred between the balance sheet date and the date of signing of these accounts which fall to be disclosed within these financial statements.

#### 29 ADDITIONAL INFORMATION ON SUBSIDIARIES AND ASSOCIATED UNDERTAKINGS

Name	Country of registration and operation	Activity	Portion of ordinary shares held %
Huntsman (Holdings) UK	England and Wales	Holding company	100
Huntsman Nominees (UK) Limited	England and Wales	Pension nominees	100
Huntsman (UK) Limited	England and Wales	Holding company	100
Huntsman Polyurethanes (UK) Limited	England and Wales	Manufacture and sale of polyurethane chemicals	100
Huntsman International Europe Limited	England and Wales	Provision of central services to other polyurethanes companies	100
Huntsman Polyurethane Sales Limited	England and Wales	Sale of polyurethane chemicals	100
Huntsman Polyurethanes (UK) Ventures Limited	England and Wales	Dormant	100
Huntsman Petrochemicals (UK) Limited	England and Wales	Manufacture and sale of aromatics and olefins	100
Tioxide Europe Limited	England and Wales	Manufacture and sale of titanium dioxide pigment	100
Tioxide Group Services Limited	England and Wales	Provision of central services to other Tioxide companies	100
Tioxide Overseas Holdings Limited	England and Wales	Holding company	100
Huntsman Surface Sciences Overseas Limited	England and Wales	Holding company	100
Huntsman Surface Sciences (UK) Limited	England and Wales	Holding company	100
Huntsman (Argentina) Limitada	Argentina	Manufacture and sale of polyurethane chemicals	100
Huntsman Polyurethanes (Australia) Pty Ltd.	Australia	Manufacture and sale of polyurethane chemicals	100
Huntsman (Brasil) Limitada	Brazil	Sale of polyurethane chemicals	100
Huntsman Europe BVBA	Belgium	Sale of polyurethane chemicals	100
Tioxide Europe NV/SA	Belgium	Dormant	100
Huntsman (Belgium) BVBA	Belgium	Dormant	100
Tioxide Canada Inc	Canada	Manufacture and sale of titanium dioxide pigment	100
Huntsman International (Canada) Corporation	Canada	Sale of polyurethane chemicals	100

## TIOXIDE GROUP

### NOTES TO THE ACCOUNTS

Year ended 31 December 2002

#### 29 ADDITIONAL INFORMATION ON SUBSIDIARIES AND ASSOCIATED UNDERTAKINGS (continued)

Tioxide Americas Inc	Cayman	Sale of titanium dioxide pigment	100
Huntsman (Czech Republic) Spol.sr.o	Czech Republic	Marketing and commercial	100
Huntsman Polyurethanes (China) Ltd	China	Manufacture and sale of polyurethane chemicals	100
Huntsman (Colombia) Limitada	Columbia	Manufacture and sale of polyurethane chemicals	100
Tioxide Europe SAS	France	Manufacture and sale of titanium dioxide pigment	100
Huntsman Lavera SAS	France	Manufacture and sale of surfactants	100
Huntsman France SNC	France	Manufacture and sale of surfactants	100
Huntsman St Mihiel SAS	France	Manufacture and sale of surfactants	100
Huntsman Surface Sciences SAS	France	Manufacture and sale of surfactants	100
Tioxide Europe GmbH	Germany	Sale of Tioxide manufactured titanium dioxide pigment	100
Huntsman (Germany) GmbH	Germany	Manufacture and sale of polyurethane chemicals	100
IRO Chemie Verwaltungsgesellschaft GmbH	Germany	Manufacture and sale of polyurethane chemicals	100
Huntsman International (Hong Kong) Ltd.	Hong Kong	Sale of polyurethane chemicals	100
Yugenkaisha Huntsman Japan	Japan	Sale of polyurethane chemicals	100
Huntsman (Korea) Ltd.	Korea	Sale of polyurethane chemicals	100
Huntsman International (India) private Limited	India	Sale and marketing of Polyurethanes and other chemicals.	100
Tioxide Europe Srl	Italy	Manufacture and sale of titanium dioxide pigment	100
Huntsman Italy Srl	Italy	Manufacture and sale of polyurethane chemicals	100
Huntsman Patrica Srl	Italy	Manufacture and sale of surfactants	100
Huntsman Castiglione Srl	Italy	Manufacture and sale of surfactants	100
Huntsman Surface Sciences Italia Srl	Italy	Manufacture and sale of surfactants	100
Huntsman Surface Sciences Srl	Italy	Manufacture and sale of surfactants	100
Huntsman Italian Receivables Finance Srl	Italy	Finance	100
Sintesi Srl	Italy	Manufacture and sale of surfactants	30
PT Huntsman Indonesia	Indonesia	Sale of polyurethane chemicals	100

## TIOXIDE GROUP

### NOTES TO THE ACCOUNTS

Year ended 31 December 2002

#### 29 ADDITIONAL INFORMATION ON SUBSIDIARIES AND ASSOCIATED UNDERTAKINGS (continued)

Pacific Iron Products Sdn Bhd	Malaysia	Manufacture and sale of ferrous sulphate	50
Huntsman Intl de Mexico de RL de CV	Mexico	Manufacture and sale of polyurethane chemicals	100
Huntsman Servicios Mexico de RL de CV	Mexico	Sale of polyurethane chemicals	100
Huntsman Investments (Netherlands) BV	Netherlands	Holding company	100
Chemical Blending Holland BV	Netherlands	Manufacture and sale of polyurethane chemicals	100
Huntsman (Saudi Investments) BV	Netherlands	Holding company	100
Huntsman Polyurethanes (China) Holdings BV	Netherlands	Holding company	100
Huntsman Holland BV	Netherlands	Manufacture and sale of polyurethane chemicals	100
Steamlec BV	Netherlands	Holding company	25
ICI Iota BV	Netherlands	Holding company	100
Huntsman Canadian Investments BV	Netherlands	Holding company	100
Huntsman (Poland) Sp. Z o.o	Poland	Marketing and commercial	100
Huntsman (Asia Pacific) Pte Limited	Singapore	Sale of polyurethane chemicals	100
Huntsman (Singapore) Pte Ltd.	Singapore	Sale of polyurethane chemicals	100
Tioxide Southern Africa (Pty) Ltd	South Africa	Manufacture and sale of titanium dioxide pigment and sale of polyurethane chemicals	100
Huntsman Investments South Africa (Pty) Ltd	South Africa	Holding company	100
Tioxide Europe SA	Spain	Manufacture and sale of titanium dioxide pigment and sale of polyurethane chemicals	100
Oligo SA	Spain	Processing and sale of titanium dioxide by products	75
Huntsman Surface Sciences SL	Spain	Manufacture and sale of surfactants	100
Huntsman Iberica SL	Spain	Manufacture and sale of surfactants	100
Huntsman Norden AB	Sweden	Sale of Tioxide manufactured titanium dioxide pigment	100
Huntsman (Thailand) Ltd	Thailand	Manufacture and sale of polyurethane chemicals	100
Huntsman (Taiwan) Ltd	Taiwan	Manufacture and sale of polyurethane chemicals	100
Tioxide Europe Titanium Pigmentleri Ticaret Ltd Sirketti	Turkey	Sale of Tioxide manufactured titanium dioxide pigment	100
Louisiana Pigment Co. L.P.	United States of America	Manufacture and sale of polyurethane chemicals	50

On 30 June 2002, the group acquired the remaining 40% of the issued share capital of Tioxide Southern Africa (Pty) Ltd which had been held by minorities.



## **TIOXIDE GROUP**

### **NOTES TO THE ACCOUNTS**

**Year ended 31 December 2002**

#### **30 ULTIMATE PARENT COMPANY**

The immediate parent company is Huntsman International LLC, a company incorporated in the United States of America. At 31 December 2002 the ultimate controlling party and the ultimate parent undertaking of Tioxide Group was Huntsman Holdings LLC, a company incorporated in the United States of America. Huntsman Holdings LLC owns 100% of HMP Equity Holdings Corporation, a company incorporated in the United States of America. HMP Equity Holdings Corporation owns 100% of Huntsman LLC (formerly named Huntsman Corporation), a company incorporated in the United States of America. In May 2003, Huntsman Equity Holdings Corporation acquired the remaining minority shareholdings in Huntsman International Holdings LLC, a company incorporated in the United States of America, and now directly and indirectly owns 100% of Huntsman International Holdings LLC.

A copy of the financial statements of Huntsman International Holdings LLC, the parent undertaking of the largest group preparing group accounts which include Tioxide Group for the year ended 31 December 2002, may be obtained by writing to the Company Secretary at Haverton Hill Road, Billingham, TS23 1PS.