

ELEMENTIS

A global specialty
chemicals company

Elementis plc
Annual report and accounts

2011



ELEMENTIS PLC

Based in London, the role of the Group holding company is to:

- Set corporate objectives and the strategic direction of the Group.
- Provide leadership and direction to management and monitor corporate and business performance.
- Set high standards in business conduct and ethics, and in business, employee and community relations.
- Set policy and provide oversight for governance, financial control and risk management, and health, safety and environmental performance.
- Provide funding for the Group to invest in growth.

Key investment drivers

- Specialty Products contributed 59 per cent of Group revenue and 65 per cent of operating profit before exceptional items in 2011, with operating margins of 20 per cent.
- Specialty Products has a significant exposure to emerging markets in Asia as well as a growing exposure to Latin America.
- Specialty Products has a strong reputation for customer service, technical support and innovation, with a robust new product pipeline.
- Specialty Products has a diversified portfolio of proprietary technology; its products have many end users and a wide range of applications and are essential to its customers' performance.
- Chromium business operates a robust business model, with high capacity utilisation, stable earnings and cash flow, and high operating margins.
- The Group has a strong balance sheet and is in a net cash position at the end of 2011; dividend is growing and the management team is experienced and well regarded by investors.

OUR SPECIALIST BUSINESSES

Employees

850+

Global locations

24

ELEMENTIS SPECIALTY PRODUCTS

What we do

The Specialty Products division provides high value functional additives to the architectural and industrial coatings, personal care and oilfield drilling markets that improve the flow characteristics and performance of our customers' products or production processes. The business has a significant expertise in the science of rheology, which in its simplest form means our technology imparts thickness and viscosity control. For example, paint without rheological additives would have the consistency of water, but paint with our additives is smooth, homogeneous and has a controlled, even spread on a surface. The same requirements for rheological additives exist in personal care products, such as creams and lotions, and in oil and gas drilling applications, providing the stable viscosity required to extract material during the drilling process.

In addition to rheology additives, the business provides a comprehensive portfolio of specialty additives to its customers, including defoamers, colourants, dispersants and tinting systems, waxes and surface active additives.

Key strengths

The Specialty Products business provides an excellent growth platform with its balanced geographical exposure across mature and emerging economies, strong technology base and strategic market diversification. The business has a significant technical service and application support presence in all its markets, which has been built on long term relationships of trust, collaboration and technical expertise. The business's differentiated technology and new product innovation is supported by "best in class" process technology and tightly held manufacturing know how.

We own and operate the only rheology grade hectorite mine in the world, which owing to its unique properties makes hectorite a premium raw material used in many of our products.

Key products

Rheological additives/modifiers

High performance dispersing agents

Flow and levelling additives

Other specialty additives and resins

Organoclays

Colourants and pigments

Defoamers and coalescing agents

Wetting and slip agents

Lanolin and other natural oil derivatives

Key sectors

Architectural coatings: homes, offices and similar environments

Industrial coatings: protective applications in automotive, containers, furniture, flooring, marine, plastics and construction

Oilfield: drilling and fracturing fluids utilised in oil and gas exploration activities

Construction: concrete, plasters, mortars, renderings, stuccos, flooring systems and building adhesives

Personal care: antiperspirants, nail enamels, mascara, make-up, eye shadow, lipsticks, creams, lotions and sun care products

Supply chain

Top ten customers represent 26 per cent of divisional sales

Competitors range from multinationals to privately owned enterprises

Key raw material suppliers are for clays, quaternary amines and other chemical intermediates

Key facts

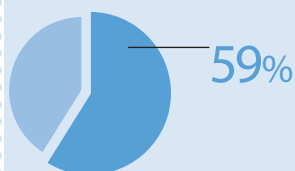
The Group's largest and most profitable division

Employs over 850 people

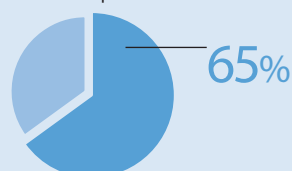
Operates from 24 locations worldwide

Ten manufacturing locations in the United States, Europe and Asia Pacific

Percentage of Group revenue



Percentage of Group operating profit before exceptional items



(All percentage figures quoted are based on 2011 revenue.)

ELEMENTIS CHROMIUM

What we do

The Chromium business provides chemicals to its customers that make their products more durable in applications, such as aerospace alloys, timber treatment and leather production.

Key strengths

The business benefits from a flexible and cost competitive operating footprint capable of delivering stable earnings and cash flow over a broad range of economic conditions. The business focuses on key regional sectors and value added product offerings and retains a strong geographical presence in North America, where it has a unique product delivery system, with export sales to South America, Europe and Asia Pacific.

Key products

Chromic acid
Chromic oxide
Sodium dichromate
Liquid chrome sulphate

Key sectors

Leather tanning
Metal finishing
Timber treatment
Chrome metal alloys
Ceramics/refractory

Supply chain

Top ten customers represent 52 per cent of divisional sales

Competitors: one quoted multinational company and a number of privately owned producers

Key raw material suppliers are for chrome ore, soda ash and sulphuric acid

Key facts

Employs over 250 people
Operates from five locations in the United States

Employees
250+

Facilities in the
United States
5

ELEMENTIS SURFACTANTS

What we do

The Surfactants business manufactures a wide range of surface active ingredients and products that are used as intermediates in the production of chemical components. Our products have many applications and are used in a large number of industries and sectors, such as in oilfield services, household, textiles and leather and other niche markets.

Key strengths

The strengths of the business are in its flexibility and ability to produce a wide range of complex products, often in relatively small quantities, customised to meet our customers' requirements.

Key products

Range of surface active ingredients

Key sectors

Oilfield production chemicals
Construction chemicals
Agro-chemical and animal feed markets
Pharmaceutical ingredients
Textiles and leather
Plastics and resins
Household
Resin and polymer emulsification

Supply chain

Top ten customers represent 68 per cent of divisional sales

Many competitors from multinationals to privately owned enterprises

Uses ethylene and propylene oxides, nonylphenol ethoxylate and fatty alcohols to manufacture its products

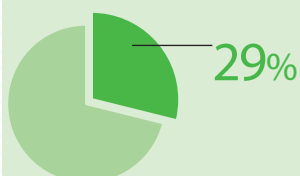
Key facts

Employs over 150 people
Shares manufacturing plant in Delden, Netherlands with Elementis Specialty Products

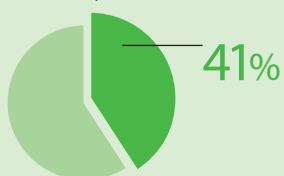
Employees
150+

Shares
manufacturing
plant in Delden,
Netherlands with
Elementis Specialty
Products

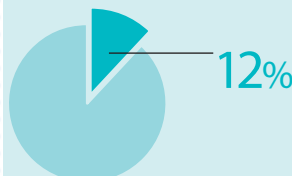
Percentage of Group revenue



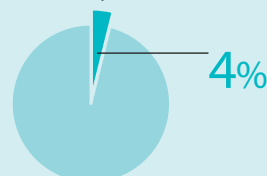
Percentage of Group operating profit before exceptional items



Percentage of Group revenue



Percentage of Group operating profit before exceptional items



AT A GLANCE

WHO WE ARE

Elementis plc (the "Company") is a global specialty chemicals company with operations worldwide that serve customers in North and South America, Europe and Asia Pacific in a wide range of markets and sectors. The Company has a premium listing in the UK on the London Stock Exchange and is a member of the FTSE 250 index, making it one of the 350 largest companies in the UK by market capitalisation, and is also a member of the FTSE4Good index – a leading global responsible investment index.



A global specialty chemicals company

WHAT WE DO

The Company comprises three businesses: Specialty Products, Chromium and Surfactants. Both Specialty Products and Chromium hold leading market positions in their chosen sectors. Elementis employs over 1,300 people at more than 30 locations worldwide.

Specialty Products

The Specialty Products business provides high value functional additives to the architectural and industrial coatings, personal care and oilfield drilling markets that improve the flow characteristics and performance of our customers' products or production processes.



Chromium

The Chromium business is a leading producer of chromium chemicals that make its customers' products more durable.

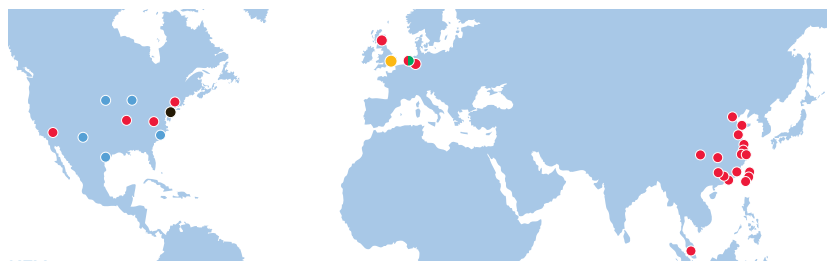


Surfactants

The Surfactants business manufactures a wide range of surface active ingredients and products that are used as intermediates in the production of chemical components.



WHERE WE DO IT



KEY

- Executive Management Headquarters
- Corporate Head Office
- Specialty Products
- Chromium
- Surfactants

CONTENTS

Company overview

- 1fc At a glance
- 1fc Our specialist businesses
- 01 Highlights and financial summary

Business review

- 02 Chairman's statement
- 03 Group Chief Executive's overview
- 05 Statement of Group strategy
- 07 Business commentaries
- 11 Finance report
- 15 Key performance indicators
- 16 Principal risks and uncertainties
- 19 Corporate social responsibility report

Corporate governance

- 26 Board of Directors and senior executives
- 28 Directors' report
- 31 Directors' responsibility statement
- 32 Corporate governance report
- 37 Report of the Audit Committee
- 39 Report of the Nomination Committee
- 40 Report of the Remuneration Committee
- 49 Independent auditor's report

Financial statements

- 50 Consolidated income statement
- 50 Consolidated statement of comprehensive income
- 51 Consolidated balance sheet
- 52 Consolidated statement of changes in equity
- 53 Consolidated cash flow statement
- 54 Notes to the consolidated financial statements
- 87 Parent company statutory accounts
- 88 Notes to the financial statements of Elementis plc
- 91 Five year record

Shareholder information

- 92 Shareholder services
- 93 Corporate information
- 93 Financial calendar
- 93 Annual General Meeting
- 93 Principal offices

HIGHLIGHTS

Significant improvement in Group sales and operating profit

- Sales up nine per cent; Operating profit* up 34 per cent

Operating margin* improved to 18.0 per cent (2010: 14.7 per cent)

Another record performance in Specialty Products

- Sales up ten per cent; Operating profit* up 25 per cent
- Investing in capacity to support further growth

Robust performance in Chromium

- Strong earnings and cash flow

Excellent cash generation

- Net cash position at end of 2011

Full year dividend increased by 42 per cent

FINANCIAL SUMMARY

	2011	2010	Change
Sales	\$760.5m	\$697.4m	+9%
Operating profit*	\$137.1m	\$102.3m	+34%
Profit before tax*	\$134.5m	\$96.0m	+40%
Diluted earnings per share*	20.8c	15.2c	+37%
Net cash/(debt)	\$26.2m	\$(79.3)m	
Profit for the year	\$124.1m	\$74.1m	
Basic earnings per share	27.8c	16.7c	
Dividend to shareholders:			
– final proposed	4.66c	2.60c	+79%
– full year	7.00c	4.94c	+42%

* Before exceptional items.

CAUTIONARY STATEMENT:

The Annual Report and Accounts for the financial year ended 31 December 2011, as contained in this document ("Annual Report"), contain information which viewers or readers might consider to be forward looking statements relating to or in respect of the financial condition, results, operations or businesses of Elementis plc. Any such statements involve risk and uncertainty because they relate to future events and circumstances. There are many factors that could cause actual results or developments to differ materially from those expressed or implied by any such forward looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Robert Beeston
Chairman



In 2011, the global economic environment continued to be challenging for businesses in general, with low growth in North America and disruption in Europe caused by the financial strains in the Euro currency area. In such an environment, the quality and resilience of a company is very much put to the test and only those companies with a valuable product offering to their customers, a clear strategy and the inherent skills to drive performance are likely to be able to make progress. I am therefore pleased to report that Elementis has continued to meet that test in 2011, by delivering improvements in sales, operating profit and margins, leading to strong cash flow generation and growth in earnings per share. At the core of our success is our global presence, the superior product and technical service provided to our customers by Specialty Products, combined with a more resilient business model in Chromium. Actions taken over the past three years to improve the quality of our businesses are clearly evident in our results, with our operating margins continuing to improve and now reaching levels well above those experienced before the economic downturn in 2009. Cash flow has also been impressive over that period, such that the Group now enjoys a strong balance sheet with a net cash position.

Group revenues in 2011 were \$760.5 million compared to \$697.4 million in 2010, which is a growth rate of nine per cent, or seven per cent on a constant currency basis. Operating profit, before exceptional items, increased by 34 per cent to \$137.1 million, or 30 per cent on a constant currency basis. Both Specialty Products and Chromium reported improved operating margins in the year. Diluted earnings per share, before exceptional items, improved by 37 per cent to 20.8 cents in 2011, compared to 15.2 cents in the previous year.

As previously reported, the Group recovered €23.4 million (approximately \$34.5 million) from the European Commission during the year and this, together with a provision of \$7.0 million relating to our pension plans in the Netherlands, have been recorded as exceptional items in the year because of their size and non-recurring nature. After taking account of these items, basic earnings per share for 2011 was 27.8 cents compared to 16.7 cents in 2010, which included a one-time tax credit.

BALANCE SHEET

As a result of another year of strong cash flow performance, enhanced by the recovery of the funds from the European Commission, the Group is in the very favourable position of having a net cash position at the end of 2011. The IAS 19 deficit under the Group's pension schemes increased by \$27.4 million to \$94.8 million in the year, due to a fall in bond yields, and current pension regulations require that these plans are funded to a higher level for the time being. Overall, however, the Group is in a very strong financial position and well placed to continue to invest in its future growth. Given the Group's robust balance sheet position and the strongly cash generative nature of our business, the Board will monitor and review the capital structure to ensure it remains appropriate for the Group's needs and delivers optimal returns for investors.

DIVIDEND

The Board is recommending a final dividend of 4.66 cents per share which will be paid on 1 June 2012 in pounds sterling at an exchange rate of £1 = \$1.5723 (equivalent to a sterling amount of 2.9638 pence per share), to shareholders on the register on 4 May 2012. This brings the total dividend to shareholders for the year to 7.00 cents (2010: 4.94 cents) representing an increase of 42 per cent over the previous year. Going forward the Board intends to progress the dividend as the Group's dollar earnings and cash flow permit.

HEALTH, SAFETY AND ENVIRONMENT

Our activities in this important area of our business have continued to be of a high standard and I am able to report that there were no significant incidents in the year. To ensure that our performance remains exemplary, we also closely monitor minor incidents and use the key learnings from each of these to constantly upgrade our processes. In 2011, there was some increase in minor incidents and we have taken immediate steps to ensure that any underlying causes are quickly corrected.

CORPORATE GOVERNANCE

The UK corporate governance code asks company chairmen to report on how the Board has applied various provisions concerning the role and effectiveness of the Board. I have set out the Board's position in these matters in the Corporate governance report.

PEOPLE

The excellent results reported by the Group this year are only possible through the efforts, dedication and skill of our people around the world. On behalf of the Board I would like to thank them for their tremendous contribution to our ongoing success.

OUTLOOK

The Board is confident that the Group has a clearly defined strategy and solid business model and balance sheet that can continue to generate value for our shareholders. Trading in 2012 has started on a solid footing and, although economic uncertainties in Europe are still in evidence, we are confident that we can make further progress in the coming year.

A handwritten signature in black ink, appearing to read 'R. Beeston', with a stylized flourish at the end.

Robert Beeston
Chairman

28 February 2012

GROUP CHIEF EXECUTIVE'S OVERVIEW

David Dutro
Group Chief Executive



Dear Shareholders,

In 2011 Elementis achieved the highest earnings in its history. These historic results, in a year of significant economic headwinds and global uncertainty, demonstrate the strength of our growth strategy and the powerful momentum that exists within Elementis, throughout each business and encompassing every region.

This achievement is a direct result of the hard work and full engagement of our employees in order to deliver profitable growth through innovative technologies that are valued by our customers. All three Elementis businesses made material contributions during the year, including the following highlights:

- Significant improvements in each of our key performance indicators (revenue, profit, margins, EPS, cash flow).
- Elementis Specialty Products:
 - delivered another record year of financial performance;
 - expanded capacity in North America and Europe to support our growth in coatings, personal care and oil drilling markets, as well as in our hectorite production.
- Elementis Chromium:
 - business model delivering strong earnings and cash flow with reduced volatility;
 - Castle Hayne, US facility converted to natural gas in April 2011, which reduced energy costs by \$5 million in that year.
- Elementis Surfactants:
 - continued to improve the quality of its product portfolio.
- Maintaining a strong focus on achieving excellent health and safety performance.
- Full year dividend increased by 42 per cent.

It is gratifying to report that in addition to record earnings we continued to generate strong operating cash flow. During the course of the year we substantially improved our balance sheet, ending the year in a net cash position, while we increased our dividend and drove profit margins higher than they were before the global economic downturn in 2009. We are serious about delivering profitable growth and vigilant about managing costs, which has enabled the Group to consistently operate profitably and to generate positive operating cash flow, across all stages of the economic cycle. We focus on generating high returns on invested capital and challenge everyone in the organisation to seek ways to increase operating profits while controlling working capital. As a consequence, over the last three years the Group has delivered total shareholder return of 62.1 per cent per annum, while over the same three years the FTSE 250 index has delivered a return of 20.1 per cent per annum. Importantly, we were able to accomplish all of this while maintaining high standards of health, safety and environmental performance.

It was a busy and productive year for Specialty Products, our largest and most profitable business, recording its highest ever sales and operating profit. At the core of Specialty Products's ability to deliver these results is an unrelenting commitment to provide technically superior products and application support that helps our customers to be more successful. Elementis believes in and executes a collaborative approach to innovation with our customers. Under this approach, we work very closely with our customers to develop products and technologies that add value for them today, as well as invest in customer linked projects to enable the development of new products for tomorrow. While these market driven projects allow our customers to be more successful, they also position Elementis as our customers' trusted and indispensable partner. Striking the right balance between our short term and long term objectives is absolutely essential, because to be a successful differentiated specialty chemical company, we must drive results today while strengthening our company for the future. Elementis Specialty Products has a successful track record of executing this strategy and will continue to do so going forward. To further support that strategy, during the first half of 2012, our North America based technology group will be moving into a newly built lab and pilot plant facility, which has been equipped with specialised kit that simulates our customers' testing equipment and processes. Going forward, Specialty Products is strategically well placed to continue to benefit from: the powerful global trends of robust growth in shale gas and high pressure/high temperature drilling; the opportunities provided by our established position in emerging and high growth regions; and our portfolio of highly valued and innovative products in high performance coatings and all natural personal care formulations.

IFC – 01

COMPANY
OVERVIEW

02 – 25

BUSINESS
REVIEW

26 – 49

CORPORATE
GOVERNANCE

50 – 91

FINANCIAL
STATEMENTS

92 – 93

SHAREHOLDER
INFORMATION

We are committed to continually expanding our portfolio of specialty chemicals. In parallel with Specialty Products's robust operating performance and organic growth, Elementis continues to look for appropriate bolt on acquisitions. We are interested in companies with value added technologies that participate in our chosen market segments, with particular focus on higher growth regions.

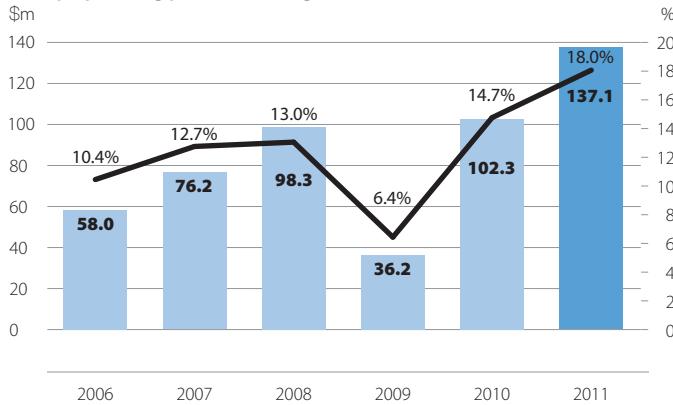
The main focus of the Chromium business in 2011 was to optimise its business model and deliver strong earnings and cash flow with significantly reduced volatility from cyclical markets. To that end, we dramatically reduced energy costs, delivered higher earnings and maintained good margins throughout the year. Overall, the Chromium business proved to be agile and robust in 2011. It demonstrated an ability to run at near capacity levels and to improve profitability during the first part of the year and then respond well to a modest slowdown in the final quarter by shifting production to higher demand products and regions.

2011 was a banner year for Elementis, but it represents only a stepping stone towards greater achievement. Our future has never been brighter, due in large part to the hard work, ingenuity and unbounded energy of the global Elementis team. Every day, all year long, our people deliver the quality and service that builds customer loyalty and market strength. By continuing to embrace our long standing Company values and consistently affirming our commitment to innovation and operational excellence, I am confident in our ability to continue to deliver further profitable growth and create meaningful value for you, our shareholders, for the foreseeable future.



David Dutro
Group Chief Executive
28 February 2012

Group operating profit and margin

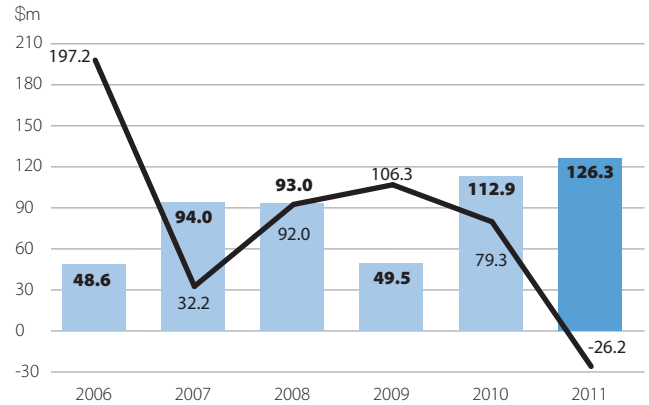


Key

Group operating profit* (\$m) ■
Operating margin* (%) —

* Before exceptional items.

Cash flow and net debt/(cash)



Key

Operating cash flow (\$m) ■
Net debt/(cash) (\$m) —

OUR STRATEGY

The strategy of the Group is to profitably grow the Specialty Products business by delivering product and technological innovation in order to make our customers more successful, utilising cash flow from the Chromium and Surfactants businesses.



HOW WE WILL EXECUTE OUR STRATEGY



1. Preferentially growing the Specialty Products business through a combination of organic growth from new products, markets, applications or geographies, and selective acquisitions in rheology or complementary additives, with the aim of growing revenue and market share whilst maintaining margins.
2. Consistently delivering a relatively stable and sustainable level of earnings from the Chromium business by serving higher margin markets and customers, optimising operational performance from the business's flexible and low cost manufacturing footprint, and sustaining margins through maintaining pricing discipline, managing energy and raw material costs and creating a more efficient supply chain.
3. Steadily upgrading the product portfolio in Surfactants by focussing on higher margin applications, while at the same time transitioning the manufacturing facility to produce more higher margin coatings additives for Specialty Products.
4. Continually improving the quality of the Group's balance sheet by generating strong free cash flow and reducing the proportion of non-business items, such as legacy pension funds.

Effective execution will enable the Group to deliver superior, sustainable returns to shareholders, and assist in generating and preserving value over the longer term.

**WE WILL GENERATE AND PRESERVE VALUE
OVER THE LONGER TERM FROM OUR
BUSINESS MODEL THROUGH EXECUTING
OUR BUSINESS STRATEGIES:**



Specialty Products

To grow in rheology products and complementary additives through new product innovation, expansion into new geographies and bolt on acquisitions.



Chromium

To produce stable earnings and cash flow by serving higher value markets, providing high quality, higher margin products, such as chromic acid and chromic oxide, to its customers, and utilising its flexible manufacturing base to adjust to changes in demand.



Surfactants

To focus on higher margin markets, such as agro-chemicals, animal feed, plastic and resins, to balance the base-load activity in high volume commodity applications.



AREAS OF FOCUS:

Excellent customer service and understanding.

Technical expertise and support, and product innovation.

Operational excellence to maintain margins and improve procurement and supply chain efficiencies.



AREAS OF FOCUS:

Operational discipline to maintain price and cost competitiveness and margins.

Improve cost base by securing supply of raw materials and energy.

Superior customer service and technical support applications.



AREAS OF FOCUS:

Offer innovative products to the market and to customers.

Improve productivity, operational efficiencies and sales focus.

Target growth in higher margin segments to improve profitability.



Our business strategies are underpinned by an enduring culture of customer service and innovation, and supported by a strong balance sheet with a robust risk management and internal control system.

Policies and standards are set by the Board to ensure all Group activities: comply with laws and regulations; conform to accepted ethical and business practices; and pay due regard to social responsibility, including in employment, health and safety, environment and sustainability, and supply chain matters.

Proven, experienced and appropriately incentivised management team, with strong governance from the Board, is key to delivering strong, sustainable financial performance, without excessive risk taking.

BUSINESS COMMENTARIES

REVENUE

	Revenue 2010 \$million	Effect of exchange rates \$million	Increase/ (decrease) 2011 \$million	Revenue 2011 \$million
Specialty Products	410.8	12.6	26.5	449.9
Chromium	209.7	–	21.3	231.0
Surfactants	88.1	5.0	1.2	94.3
Inter-segment	(11.2)	–	(3.5)	(14.7)
	697.4	17.6	45.5	760.5

OPERATING PROFIT*

	Operating profit 2010 \$million	Effect of exchange rates \$million	Increase/ (decrease) 2011 \$million	Operating profit 2011 \$million
Specialty Products	71.8	3.8	14.1	89.7
Chromium	35.8	–	20.3	56.1
Surfactants	6.1	0.3	(1.0)	5.4
Central costs	(11.4)	(0.4)	(2.3)	(14.1)
	102.3	3.7	31.1	137.1

* Before exceptional items.

ELEMENTIS SPECIALTY PRODUCTS

Greg McClatchy
President of Elementis Specialty
Products and Elementis Surfactants



	2011 \$million	2010 \$million
Sales	449.9	410.8
Operating profit*	89.7	71.8
Operating margin*	19.9%	17.5%
ROCE**	42.6%	35.5%

* Before exceptional items.

** Before tax and excluding goodwill.

MEASURING PERFORMANCE AGAINST
OUR STATED OBJECTIVES

Sales and operating profit* up ten per cent and 25 per cent respectively.

Operating margin* increased to 19.9 per cent.

Pricing discipline: offsetting input inflation by selective price increases.

12 month average working capital to sales ratio reduced by 90 basis points to 18.8 per cent.

Return on operating capital employed before tax and excluding goodwill improved to 42.6 per cent.

On-time, in full delivery performance up 200 basis points to 92 per cent.

2012 FOCUS

Organic growth through R&D and increasing the percentage of sales attributed to new products and customers.

Selective complementary and bolt on acquisitions, if available.

Investing in capacity to support further growth.

Elementis Specialty Products is a leading manufacturer of rheology control additives that are used to enhance the performance of our customers' products. It is the global leader in organoclay technology, with a unique position in hectorite clay, owning the only rheology grade hectorite mine in the world. Best in class technical support and customer service are critical core competencies of the business and provide the platform to deliver added value in the coatings, oilfield drilling and personal care markets. The strategy of the business is to grow in high value rheology products and complementary additives through new product innovation, expansion into new geographies and bolt on acquisitions. In coatings, the largest of its markets, Elementis has a unique global position, providing technical service and a broad product offering to both multinational and regional coatings companies. The rheology solutions of Elementis are critical to the performance of our coating customers' products. In personal care, Elementis is a significant player in additives for cosmetic products based on its expertise in hectorite rheology and other complementary technologies. In oilfield drilling, Elementis is the preferred supplier to oil service companies for high performance rheological additives used in oil and gas drilling. The business's unique technologies and strong alignment with key industry players have allowed it to benefit from the recent increase in drilling activity for shale gas in North America. When combined with the continuing global trend of exploiting oil and gas reserves in more extreme environments, which require greater and more sophisticated rheological solutions, these dynamics are enabling Elementis to rapidly grow in this high value segment.

Sales in Specialty Products for 2011 were \$449.9 million compared to \$410.8 million in the previous year, an increase of ten per cent, or six per cent on a constant currency basis. In 2011 the business benefited from improved pricing, continuing market share gains and a positive shift in the product portfolio. For example, sales of high value oilfield products increased from 13 per cent of total sales in 2010 to 16 per cent in 2011. Average pricing in 2011 was five per cent higher than the previous year as the business raised prices, mostly during the first half of the year, in response to an environment of raw material inflationary pressures throughout the coatings industry supply chain.

In the coatings market, sales in North America increased by 15 per cent over the previous year due to market share gains, value added pricing and a general recovery in the decorative coatings market, albeit from relatively low levels. Sales to Latin America grew strongly, increasing by 20 per cent in 2011, as the business continued

to explore new opportunities in this fast growing and attractive market. In Europe, coatings sales improved by ten per cent, or five per cent on a constant currency basis. Sales volumes slowed during the second half of the year due to the economic challenges in Europe, particularly in the southern region. For the year as a whole, European volumes were lower by seven per cent, but were offset by better pricing and a more favourable product mix. In Asia Pacific, sales of coatings products were at a similar level to the previous year due to a planned programme of product mix optimisation, which impacted overall sales volumes but improved margins over the previous year.

In oilfield, sales in 2011 were 34 per cent higher than the previous year as demand from shale drilling and other unconventional drilling applications continued to show rapid growth. Sales of drilling additives for shale represented 32 per cent of total oilfield sales in 2011 and grew by 58 per cent over the previous year, due to sustained drilling activity in North America. Unconventional drilling applications, such as deep water, high pressure and extreme temperatures, represented 37 per cent of sales and grew by 49 per cent.

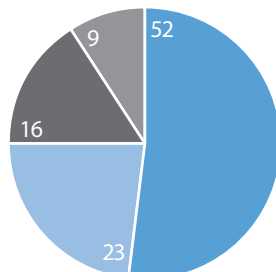
In personal care, sales improved by ten per cent in Europe and 14 per cent in Asia Pacific, as demand for hectorite based rheology additives remained robust, complemented by the demand for natural oil based additives which were acquired with Fancor at the end of 2009. In North America the year on year comparison of sales was impacted by the restructuring of the lowest margin Fancor products but, excluding this, underlying sales improved by four per cent.

Operating profit before exceptional items for the year improved by 25 per cent to \$89.7 million, compared to 2010, or 20 per cent on a constant currency basis. Operating margin before exceptional items improved from 17.5 per cent in 2010 to 19.9 per cent due to a positive shift in the product portfolio towards higher value products, such as oilfield additives, as well as selective price increases to sustain margins in an inflationary raw material environment. A strong focus on cost control and operational excellence also played a significant role, such that total fixed costs were only two per cent higher in 2011 than the previous year.

REVENUE SPLIT (%)

Key

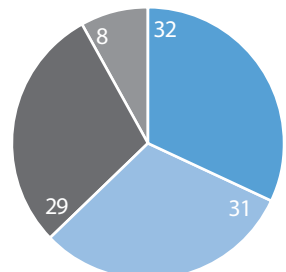
- Industrial coatings
- Architectural coatings
- Oilfield
- Personal care



GEOGRAPHIC SALES (%)

Key

- North America
- Europe
- Asia Pacific
- Rest of the world



ELEMENTIS CHROMIUM

Dennis Valentino
President of Elementis Chromium



	2011 \$million	2010 \$million
Sales	231.0	209.7
Operating profit	56.1	35.8
Operating margin	24.3%	17.1%
ROCE*	67.0%	44.8%

* Before tax and excluding goodwill.

MEASURING PERFORMANCE AGAINST OUR STATED OBJECTIVES

Sales and operating profit up ten per cent and 57 per cent respectively.

Operating margin increased to 24.3 per cent.

12 month average working capital to sales ratio increased by 20 basis points to 20.0 per cent.

Return on capital employed before tax and excluding goodwill improved to 67.0 per cent.

Manufacturing operating at high capacity utilisation.

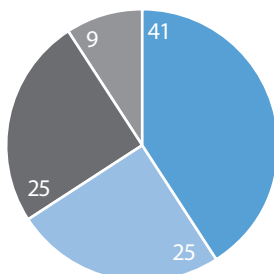
2012 FOCUS

Improving yields through operating efficiencies and de-bottlenecking.

Maintaining level of earnings and cash flow through optimising product mix, controlling raw material and energy costs, broadening the supplier base and managing working capital.

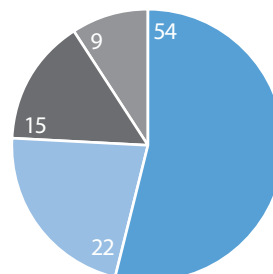
REVENUE SPLIT (%)

- Key**
- Chromic acid
 - Chromic oxide
 - Sodium dichromate
 - Liquid chrome sulphate



GEOGRAPHIC SALES (%)

- Key**
- North America
 - Asia Pacific
 - Europe
 - Rest of the world



Elementis Chromium is one of the world's largest suppliers of chrome chemicals, which are used in a variety of end markets including metal alloys, metal finishing, leather tanning and refractory applications. Elementis Chromium seeks to produce stable earnings and cash flow by serving higher value markets, leveraging its skills in operational excellence and by utilising its flexible manufacturing base to adjust to changes in demand. As the only global producer with its manufacturing base located in the United States, Elementis Chromium is uniquely positioned to serve this market with value added products, offering just in time service via custom designed delivery systems.

Chromium sales in 2011 were \$231.0 million compared to \$209.7 million in 2010, an increase of ten per cent. Currency had no material impact on year on year sales. Sales volumes were six per cent lower than the previous year, largely due to a planned plant shutdown in the early part of the year to convert the Castle Hayne facility to a flexible fuel system. The new system allowed the business to switch over to natural gas, instead of fuel oil, but also allows it to switch back again should future energy economics dictate. Otherwise, the manufacturing facilities operated at high capacity rates for most of the year. In North America sales volumes were stable with solid demand for chromic acid from both the timber treatment and auto industries, and also for chrome sulphate from the leather tanning industry. Sales volumes of chrome oxide to the coatings, construction and refractory sectors were lower than the previous year, largely due to weaker demand from the US residential market. In Europe, sales volumes in the first half of 2011 were consistent with the previous year, but declined in the second half as the general economic concerns in Europe began to impact on customer demand. Sales volumes to Asia Pacific were also at a similar level to the previous year. Average selling prices increased by 16 per cent in response to rising raw material prices.

Operating profit improved by 57 per cent to \$56.1 million in 2011, compared to the previous year and operating margin increased to 24.3 per cent from 17.1 per cent. Lower energy costs contributed \$3.0 million to the operating profit improvement and were largely a result of the conversion of Castle Hayne to natural gas during the first quarter of 2011. The conversion contributed \$5.0 million in energy savings for the year, more than offsetting cost increases in fuel oil, which was previously the primary energy source at the facility. Otherwise operating margins improved due to flexing the manufacturing facilities in order to favour higher value applications while, at the same time, addressing the changes in demand highlighted above, combined with disciplined cost control. The current year also benefited from an insurance settlement totalling \$2.4 million relating to the recovery of past legal costs.

ELEMENTIS SURFACTANTS

	2011 \$million	2010 \$million
Sales	94.3	88.1
Operating profit*	5.4	6.1
ROCE**	21.7%	24.5%

* Before exceptional items.

** Before tax and excluding goodwill.

MEASURING PERFORMANCE AGAINST OUR STATED OBJECTIVES

Sales up seven per cent and operating profit* improved, excluding one-time items.

12 month average working capital to sales ratio reduced by 40 basis points to 12.3 per cent.

Return on capital employed before tax and excluding goodwill improved to 21.7 per cent, excluding one-time items.

2012 FOCUS

Continuing the transition of product portfolio to higher margin niche markets and sectors.

Maintaining sales and commercial focus to improve the level of earnings and tight management of operating costs.

Elementis Surfactants is a specialty surfactant manufacturer offering innovative products to markets, such as oilfield chemicals, textile and leather, construction and household products, which it produces at its facility in the Netherlands. Its strategy is to focus on higher margin markets, such as agro-chemicals, animal feed, plastic and resins, and transition its manufacturing facility over time to primarily produce coatings additives for the Specialty Products business, which currently shares the facility. At the same time, the business seeks to improve margins through superior customer service and by continually enhancing the productivity of its manufacturing operations.

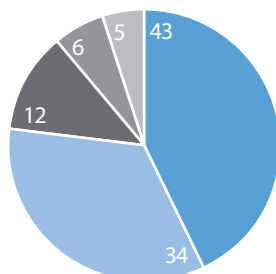
Sales in Surfactants for 2011 were \$94.3 million compared to \$88.1 million in the previous year, an increase of seven per cent, or one per cent on a constant currency basis. The majority of sales in this business is denominated in Euros. In line with the business's strategy to transition its manufacturing assets to producing more coatings products for Specialty Products, sales volumes in Surfactants declined by 16 per cent compared to the previous year. As part of that process the business continues to improve the sales portfolio by increasing the proportion of higher value products and this was evident in the 2011 sales mix. Average selling prices improved by 15 per cent in response to raw material price inflation.

Operating profit before exceptional items in 2011 was \$5.4 million compared to \$6.1 million in the previous year. However, the 2010 result benefited from a one-time legal settlement of \$2.7 million and therefore, after adjusting for this item, operating margin improved from 3.9 per cent in 2010 to 5.7 per cent in 2011. Improved selling prices largely compensated for increases in raw material costs and the increase in operating margin was a result of portfolio optimisation and strict cost control.

REVENUE SPLIT (%)

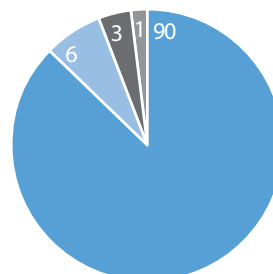
Key

- Oilfield chemicals
- Other
- Textiles and leather
- Water treatment
- Resins



GEOGRAPHIC SALES (%)

- Europe
- Rest of the world
- Asia Pacific
- North America



FINANCE REPORT

Brian Taylorson
Finance Director



REVENUE

	2011 \$million	2010 \$million
Specialty Products	449.9	410.8
Chromium	231.0	209.7
Surfactants	94.3	88.1
Inter-segment	(14.7)	(11.2)
	760.5	697.4

OPERATING PROFIT

	Operating profit \$million	Exceptional items \$million	2011 Adjusted operating profit \$million	Operating profit \$million	Exceptional items \$million	2010 Adjusted operating profit \$million
Specialty Products	87.9	1.8	89.7	71.8	–	71.8
Chromium	56.1	–	56.1	35.8	–	35.8
Surfactants	0.2	5.2	5.4	6.1	–	6.1
Central costs	20.4	(34.5)	(14.1)	(11.4)	–	(11.4)
	164.6	(27.5)	137.1	102.3	–	102.3

GROUP RESULTS

Group sales in 2011 were \$760.5 million compared to \$697.4 million in the previous year, an increase of nine per cent, or seven per cent on a constant currency basis. All three Group businesses recorded higher sales for the year driven by improved pricing, in response to raw material inflation, and an overall shift towards higher value products. The general demand trend for the year saw more robust demand from customers during the first half of the year, with the financial turmoil in Europe impacting demand during the second half. Sales volumes for the Group were lower than the previous year by six per cent, partly due to these trends in demand, but also due to strategic actions taken in each business to improve product portfolios and increase margins.

Group operating profit before exceptional items increased by 34 per cent in 2011 to \$137.1 million, or 30 per cent on a constant currency basis. Operating margin improved from 14.7 per cent in 2010 to 18.0 per cent in the current year, as each Group business took important steps to upgrade their product portfolio, adjust their pricing to address raw material cost inflation and leverage their operating capabilities to optimise their cost structures.

CURRENCY HEDGING

Although a large proportion of the Group's business is transacted in US dollars, the Group also transacts in other currencies, in particular euros and pounds sterling. In order to reduce earnings volatility from these currency exposures, the Group takes out cash flow hedges in these currencies each year. In 2011 a cost of \$0.3 million (2010: \$0.3 million credit) was incurred from these hedge transactions and reported in the Specialty Products results.

CENTRAL COSTS

Central costs are costs that are not identifiable as expenses of a particular business and comprise expenditures of the Board of Directors and the corporate office. In 2011 central costs increased by \$2.7 million to \$14.1 million, or \$2.3 million on a constant currency basis. The increase was largely due to changes in a number of central Group provisions and increases in the value of the Group's long term incentive plans.

EXCEPTIONAL ITEMS

Two items have been recorded in 2011 under "Exceptional items". The first item is in relation to the recovery of \$34.5 million from the European Commission, in August 2011, reported in the 2011 Interim results announcement. The recovery of these funds came about after the Commission repealed its decision of November 2009 to impose fines on Elementis. The second item is a provision of \$7.0 million relating to the Group's pension arrangements in the Netherlands. Further details of this item are included in Note 5 to the Financial Statements.

NET FINANCE COSTS

	2011 \$million	2010 \$million
Finance income	0.7	0.4
Finance cost of borrowings	(4.0)	(3.7)
	(3.3)	(3.3)
Net pension finance income/(expense)	1.9	(1.9)
Discount on provisions	(1.2)	(1.1)
	(2.6)	(6.3)

Finance income increased by \$0.3 million in the year to \$0.7 million due to an increase in the amount of cash on deposit held by the Group. Finance cost of borrowings was largely unchanged compared to the previous year, despite the Group ending the year in a net cash position. This was because a significant part of the Group's borrowing costs are fixed and relate to arrangement and commitment fees on the Group's borrowing facilities. There was a net pension finance credit of \$1.9 million in 2011 (2010: \$1.9 million debit) due to a \$4.8 million increase in expected return on pension scheme assets which exceeded a \$1.0 million increase in interest on pension scheme liabilities. The discount on provisions of \$1.2 million (2010: \$1.1 million) relates to environmental provisions, which are evaluated on a discounted basis and hence the cost of the discount is recognised each year as an interest charge.

TAXATION

Tax charge

	2011		2010	
	\$million	Effective rate per cent	\$million	Effective rate per cent
Before exceptional items	39.7	29.5	27.7	28.9
Exceptional items	(1.8)	(1.3)	(5.8)	(6.1)
Total	37.9	28.2	21.9	22.8

The pre-exceptional tax charge of \$39.7 million (2010: \$27.7 million) represents an effective tax rate of 29.5 per cent (2010: 28.9 per cent) with the slight increase in tax rate resulting from a change in the geographical split of underlying profits offset somewhat by reduced rates of taxation in some jurisdictions. The exceptional tax credit of \$1.8 million relates to deferred tax on the reversal in the year of a curtailment gain on the Dutch pension scheme that originally occurred in 2005. Further details on this can be found in the commentary on Pensions and other post retirement benefits. The exceptional tax credit of \$5.8 million in 2010 was a consequence of recognising a UK deferred tax asset in respect of UK losses and other timing differences that are now considered recoverable.

EARNINGS PER SHARE

Note 9 to the Financial Statements sets out a number of calculations of earnings per share. To better understand the underlying performance of the Group, earnings per share reported under IFRS is adjusted for items classified as exceptional.

Diluted earnings per share, before exceptional items, was 20.8 cents compared to 15.2 cents in the previous year and the improvement was mainly due to the operating profit performance noted above.

Basic earnings per share including exceptional items was 27.8 cents compared to 16.7 cents in 2010. The impact of the exceptional items was to increase basic earnings per share by 6.6 cents (2010: 1.3 cents).

DISTRIBUTION TO SHAREHOLDERS

During 2011 the Group paid a final dividend in respect of the year ended 31 December 2010 of 2.60 cents per share. An interim dividend of 2.34 cents per share was paid on 7 October 2011 and the Board is recommending a final dividend of 4.66 cents per share which will be paid on 1 June 2012.

CASH FLOW

The cash flow is summarised below:

	2011 \$million	2010 \$million
EBITDA*	157.0	123.7
Change in working capital	(9.3)	1.9
Capital expenditure	(20.8)	(14.0)
Other	(0.6)	1.3
Operating cash flow	126.3	112.9
Pension deficit payments	(22.0)	(18.4)
Interest and tax	(11.3)	(8.8)
Exceptional items	31.8	(40.7)
Other	1.7	(1.8)
Free cash flow	126.5	43.2
Dividends paid	(21.9)	(20.0)
Receipt of unclaimed dividends	-	0.8
Acquisitions and disposals	-	1.1
Currency fluctuations	0.9	1.9
Movement in net borrowings	105.5	27.0
Net borrowings at start of year	(79.3)	(106.3)
Net cash/(borrowings) at end of year	26.2	(79.3)

* EBITDA – earnings before interest, tax, exceptional items, depreciation and amortisation.

The Group delivered a strong cash flow performance in 2011 and, as a result, moved from a net borrowing position of \$79.3 million at the end of 2010 to a net cash position of \$26.2 million at the end of 2011. Good growth in operating cash flow was at the core of this result, assisted by the one-time recovery of \$34.5 million from the European Commission. Operating cash flow improved by 12 per cent in 2011 to \$126.3 million, with EBITDA improving by 27 per cent to \$157.0 million on the back of good progress in operating profit. Cash flow relating to working capital was an outflow of \$9.3 million compared to an inflow of \$1.9 million in 2010. In 2010 the Group made significant reductions in the levels of working capital utilised by the businesses and these initiatives continued into 2011. This is evidenced by the fact that average working capital ratios improved during the year, as discussed later in this report. Capital expenditure in 2011 increased by \$6.8 million to \$20.8 million as the Group made investments to expand three of its manufacturing facilities in the Specialty Products business, in support of its continuing growth. The investments will facilitate further expansion in coatings, oilfield drilling, personal care and hectorite production. Contributions to pension deficit funding increased by \$3.6 million in 2011, largely due to an increase in contributions to the UK plan of approximately \$5 million, in line with the current funding agreement. Cash flows related to exceptional items in both 2010 and 2011 are mostly associated with the European Commission fine, which was paid in 2010 (\$33.5 million) and subsequently recovered, with interest, in 2011 (\$34.5 million). Other cash flows in this category mostly relate to spending on the closure of the Eaglescliffe, UK site, for which a provision was made in 2009.

Working capital management continued to be a key priority in 2011 and there was a positive change in the gap between creditor and debtor days, which went from ten days in 2010 to 13 days in 2011. In Chromium, a strategic decision was taken to hold higher levels of chrome ore inventories during the year, in the light of strong customer demand, and this led to inventory days for the Group increasing from 75 days at the end of 2010 to 84 days at the end of 2011. However, overall for the Group, average levels of working capital improved in the year, as evidenced by the measure of average working capital to sales which progressed from 18.0 per cent in 2010 to 17.2 per cent in 2011.

BALANCE SHEET

	2011 \$million	2010 \$million
Intangible fixed assets	335.1	338.1
Other net assets	87.9	120.9
Net cash	26.2	-
	449.2	459.0
Equity	449.2	379.7
Net debt	-	79.3
	449.2	459.0

Group equity increased by \$69.5 million in 2011 (2010: \$93.4 million) mainly due to a current year profit after tax of \$124.1 million (2010: \$74.1 million), an increase in Group liabilities for retirement benefits, adjusted for deficit contributions paid, of \$44.7 million (2010: decrease of \$25.3 million) and dividends paid of \$21.9 million (2010: \$20.0 million). Other net assets decreased by \$33.0 million in 2011 (2010: increased by \$67.8 million) mainly due to an increase in retirement benefit liabilities of \$27.4 million (2010: decrease of \$44.3 million), an increase in working capital of \$11.8 million, in line with the increase in Group sales (2010: decrease of \$5.2 million), and an increase in net deferred tax liabilities of \$21.5 million (2010: \$16.1 million). Comments on the changes in retirement benefit liabilities, working capital and deferred tax are included elsewhere in this report.

The main dollar exchange rates relevant to the Group are set out below:

	Year end	2011 Average	Year end	2010 Average
Pounds sterling	0.64	0.62	0.64	0.65
Euro	0.77	0.71	0.75	0.75

PROVISIONS

A provision is recognised in the balance sheet when the Group has a present obligation as a result of past events, which is expected to result in an outflow of economic benefits in order to settle the obligation. At the end of 2011 the Group held provisions of \$43.6 million (2010: \$48.5 million).

Out of the total provision balance of \$43.6 million (2010: \$48.5 million), \$41.3 million (2010: \$46.2 million) relates to environmental matters, including the closure of the Eaglescliffe facility. The Group's environmental provision has been calculated using a methodology consistent with previous years. Approximately \$28.8 million relates to sites maintained by the Group (2010: \$31.2 million) with the remainder relating to sites no longer under Group control. \$2.7 million was spent on the Eaglescliffe closure programme in 2011 with an anticipated spend in 2012 of approximately \$4 million.

PENSIONS AND OTHER POST RETIREMENT BENEFITS

	2011 \$million	2010 \$million
Net liabilities:		
UK	35.0	28.9
US	49.6	34.4
Other	10.2	4.1
	94.8	67.4

The largest of these is the UK defined benefit pension scheme ("UK Scheme") which had a deficit under IAS 19 of \$35.0 million at the end of 2011, compared to \$28.9 million at the end of 2010. The UK Scheme is relatively mature, with approximately 66 per cent of its gross liabilities represented by pensions in payment. The most recent triennial valuation was completed as of 30 September 2008 and resulted in an agreed deficit with the Trustees of the UK scheme, for funding purposes, of £101.7 million. Under the related funding agreement, the Group then agreed to make deficit contributions of £7.1 million in 2010 and, thereafter, an annual amount of either £8.0 million or £10.0 million, depending on whether an EBITDA threshold amount of £53.2 million was achieved by the Group in the previous financial year, with the higher amount being paid for any year in which the threshold was exceeded. The higher amount of £10.0 million was paid by the Group in 2011. The agreement also includes a commitment to increase the annual deficit contribution by the same percentage as any increase in shareholder return, once the total distribution to shareholders in any year exceeds the equivalent of 3.5 pence per share. No payments were made under this commitment in 2011. However, it is likely that a payment will be made in 2012. For example, if the interim dividend for 2012 is the same as that paid in 2011 (2.34 cents per share), then when combined with the payment of the recommended final dividend for 2011 (4.66 cents per share), it would result in an additional deficit contribution of approximately £3 million, payable in the second half of 2012. The next triennial valuation will be conducted based on a valuation date of 30 September 2011 and, together with the related funding discussions with the Trustees, should be concluded by the end of 2012.

In 2011 the UK Scheme deficit, under IAS 19, increased to \$35.0 million (2010: \$28.9 million) as a result of an increase in scheme assets of \$29.0 million (2010: \$26.0 million), offset by an increase in scheme liabilities of \$35.1 million (2010: decrease of \$14.5 million). The scheme assets increased due to a nine per cent return on investments for the year (2010: 12 per cent), contributions from the Company of approximately \$16.3 million, less benefit payments to members of approximately \$40.0 million. The scheme liabilities increased due mainly to a decline in real corporate bond yields of approximately 30 basis points. With the support of the Company, the Trustees have developed an investment strategy that broadly includes 50 per cent of the assets being invested in a "liability matching fund" and 50 per cent in an "investment fund". The liability matching fund consists of bonds, gilts and liquid assets, plus a portfolio of interest and inflation swaps, constructed in such a way as to match the interest and inflation risks inherent in a similar percentage of the scheme liabilities. The purpose of this fund is to finance a portion of the liabilities without creating significant volatility in the reported deficit. The investment fund, on the other hand, consists of a portfolio of "return seeking" assets, largely equities, with the aim of funding part of the liabilities by generating higher returns with an acceptable risk, while also contributing to reducing the deficit over time.

The US liabilities in 2011 comprised of a defined benefit pension plan, with a deficit value of \$41.4 million (2010: \$26.2 million), and a post retirement medical plan with a value of \$8.2 million (2010: \$8.2 million). The US pension plan is smaller than the UK Scheme and is closed to future accruals. The deficit in the plan increased by \$15.2 million (2010: declined by \$5.1 million) during the year, due to a decrease in the scheme assets of \$2.8 million (2010: increase of \$11.2 million) and an increase in the scheme liabilities of \$12.4 million (2010: \$6.1 million). The scheme assets were 74 per cent invested in equities and generated a return of minus one per cent in the year (2010: plus 15 per cent), which was the main contributor to the decrease in value. The scheme liabilities increased mainly due to a fall in real corporate bond yields during the year of approximately 100 basis points.

In the Netherlands, the Group operates an insured defined benefits plan as is customary in that country. At the end of 2011 the deficit value for this plan was \$7.5 million, compared to \$1.4 million in the previous year. In 2005 a number of changes were made to the benefits provided by the plan, as well as other non-pension benefits, as part of a negotiation with labour unions. As a result of those changes, the liability under the plan was reduced by \$10.9 million and reported as a curtailment gain in that year. In 2009 a group of pensioners challenged the benefit changes in court, on the basis that they should not be applied to them, and in 2010 the court ruled in favour of Elementis. The pensioner group challenged the court decision in an appellate court, and in 2011 the appellate court overturned the original decision. Elementis has appealed that court's decision to the Supreme Court of the Netherlands, which will review the case sometime in the next two years. In view of the uncertainty that has now been generated around the timing and outcome of this issue, the Group has taken a prudent approach and reversed that part of the 2005 curtailment gain that relates to this issue, in the amount of \$7.0 million. This reversal is the main reason for the increase in deficit value in 2011.

Other liabilities amounted to \$2.7 million (2010: \$2.7 million) and relate to pension arrangements for a relatively small number of people in Germany.

KEY PERFORMANCE INDICATORS

The Group's key performance indicators are a standard set of measures against which each business reports on a monthly basis. Incentive plans include targets against the annual operating plan for operating profit and average trade working capital to sales ratio.

1. OPERATING PROFIT/OPERATING MARGIN

Operating profit is the profit derived from the normal operations of the business. Operating margin is the ratio of operating profit or loss, before exceptional items, to sales. The Group achieved an operating profit of \$137.1 million for the year ended 31 December 2011 (2010: \$102.3 million before exceptional items). The Group's operating margin was 18.0 per cent compared to 14.7 per cent in 2010.

2. AVERAGE TRADE WORKING CAPITAL TO SALES RATIO

The trade working capital to sales ratio is defined as the 12 month average trade working capital divided by sales, expressed as a percentage. Trade working capital comprises inventories, trade receivables and trade payables. It specifically excludes prepayments, capital or interest related receivables or payables, working capital related to acquisitions made in the year, changes due to currency movements and items classified as other receivables and other payables. The Group's 12 month average trade working capital to sales ratio at 31 December 2011 was 17.2 per cent (2010: 18.0 per cent).

3. RETURN ON OPERATING CAPITAL EMPLOYED

The return on operating capital employed ("ROCE") is defined as operating profit before exceptional items divided by operating capital employed, expressed as a percentage. Operating capital employed comprises fixed assets (excluding goodwill), working capital and operating provisions. Operating provisions include self insurance and environmental provisions but exclude restructuring provisions and retirement benefit obligations. The Group's ROCE was 52.6 per cent for the year ended 31 December 2011 (2010: 39.7 per cent).

ROCE for the Group including goodwill was 23.0 per cent in 2011 (2010: 17.2 per cent).

4. LOST TIME ACCIDENTS

A lost time accident ("LTA") is any work related injury or illness sustained by an employee or directly employed contractor whilst working at the Group's premises that results in greater than three days lost, excluding the day of accident. There were five LTAs in 2011 (2010: four).

5. CONTRIBUTION MARGIN

The Group's contribution margin, which is defined as sales less all variable costs, divided by sales and expressed as a percentage, in 2011 was 37.7 per cent (2010: 36.2 per cent).

6. OPERATING CASH FLOW

The operating cash flow is defined as the net cash flow from operating activities less net capital expenditure but excluding income taxes paid or received, interest paid or received, pension contributions net of current service cost and exceptional items. In 2011 the operating cash flow was \$126.3 million (2010: \$112.9 million).

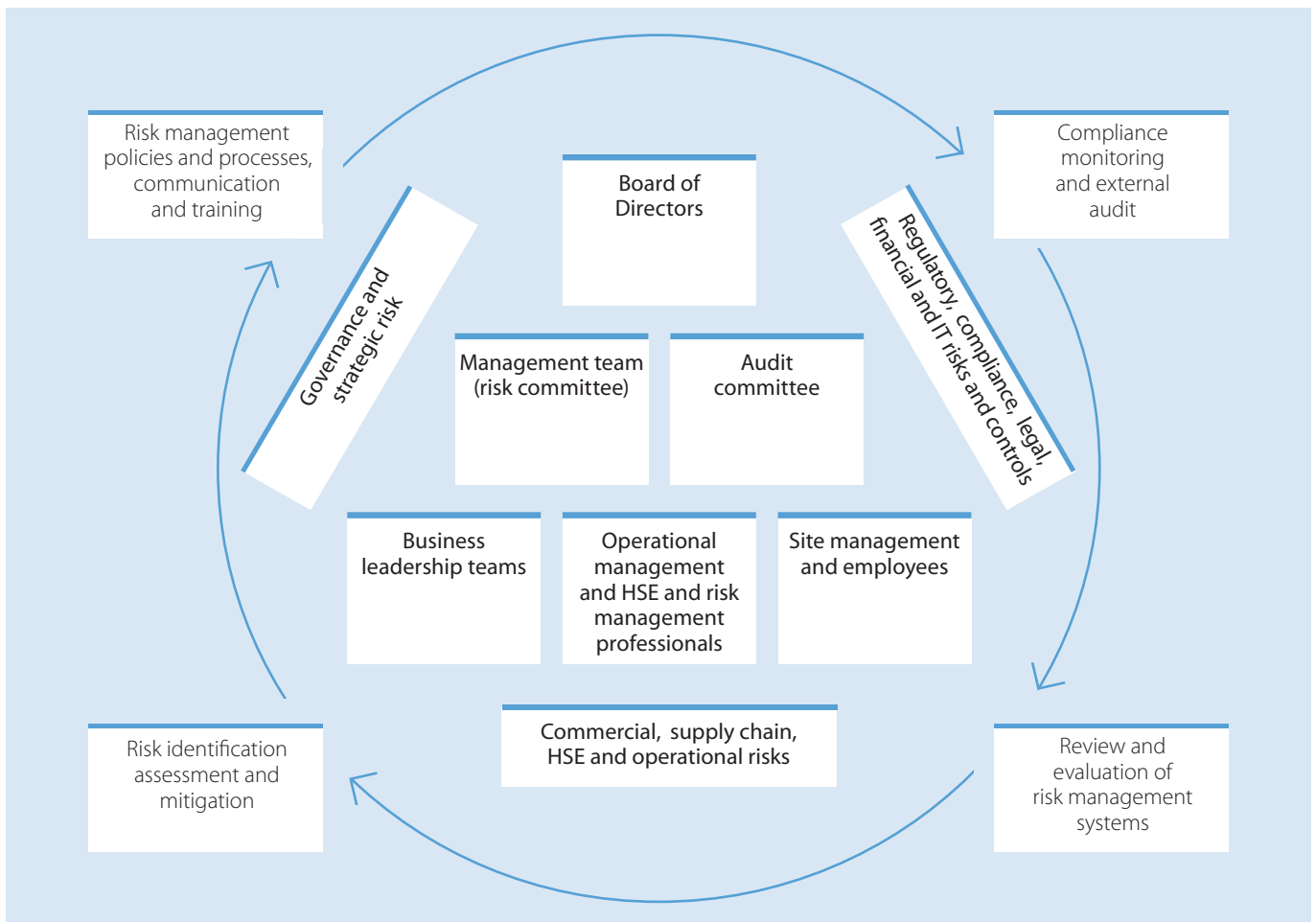
PRINCIPAL RISKS AND UNCERTAINTIES

RISK MANAGEMENT FRAMEWORK

Responsibility for the management of risk in the Group lies with the Board. It sets the tone for the Group's policies on risk, appetite for risk and levels of risk tolerance. The day to day management of risk, however, is delegated to the executive directors and the management team, who have specific responsibility for ensuring compliance with and implementing policies at corporate, divisional and business unit level. The Board retains an oversight role and has a schedule of matters specifically reserved to it for decision, with strict delegation of authority limits. The Board is supported by the Audit Committee, with assistance from the internal and external auditors, which has an important role monitoring our risk management and internal control system. In addition to these formal structures, the Board considers and reviews many different types of risks regularly in its annual programme of meetings and examples of these are given on the next page.

The table below shows the Elementis risk management framework. It illustrates that the management of risk is embedded at every level throughout the Group, and involves a continuous and active process of risk evaluation and review of policies, processes and compliance. This holistic approach to risk management is supported by specific roles and activities that are undertaken during the year, and these are summarised as the "principal features of our risk management system", which can be found on our website at: www.elementisplc.com/governance-responsibility/risk-management/

ELEMENTIS RISK MANAGEMENT FRAMEWORK



Although a key emphasis of any system of risk management concerns the prevention of material financial loss and fraud, safeguarding the value of assets (including reputation) and controls to ensure compliance with laws, regulations and Group policies, the Board's duty to generate and preserve value over the longer term means it has to strike the right balance between being too risk tolerant and being too risk averse. Since risk, as a concept, is prevalent in everything the Company does, risk management is much more than having structures and processes in place, important though they are. An important aspect of risk management is the risk culture within an organisation. For Elementis, this means not just having appropriate policies and processes in place, but involving all our people and knowing that policies and processes have been communicated and are understood at every level within the Group. This risk prevalence and culture is best illustrated in the Elementis governance framework on page 32 in the Corporate governance report. The message in our governance framework is that risk management is inherent in everything we do at every level and how we view, embrace and manage risk in all its forms is central to how we seek to generate and preserve value over the longer term.

RISK MANAGEMENT REVIEW

The management team meets on a monthly basis to review business performance, which also includes reviewing business risks. Twice a year, the management team also has a more in-depth review of business and corporate risks when it considers its business continuity

plans and carries out an annual risk review. The annual risk review process involves business sites and functions producing a risk map or risk register. These are then consolidated into business or corporate risk registers. The business risk registers are discussed at the Specialty Products and Chromium leadership meetings and the output is presented, together with the corporate risks, in a Group risk register which is discussed by the management team prior to submission to the Board for review and approval.

Key risks that are identified in management team meetings are also reported to the Board in the Group Chief Executive's and Finance Director's Board reports. The Board considers a wide range of risks in presentations from different parts of the business during the year. The following is a selection of the topics in which the associated risks were discussed during the year: geo-political/macroeconomic events and developments; M&A activity; litigation; supply chain issues; major capital investment projects; treasury management; IT strategy; internal audit; legal and compliance controls (including anti-bribery and corruption matters); safety and business continuity matters; and environmental, social and governance issues.

PRINCIPAL RISKS AND UNCERTAINTIES

In the table below is a summary of the principal risks agreed by the Board, together with a description of how the risks are mitigated.

RISK AND IMPACT

1. ECONOMIC DOWNTURN

- Poor trading conditions or slower than forecast GDP growth rates mean lower volumes, which can lead to lower output and capacity utilisation levels.
- Erosion of operating margins.
- Reduced productivity and profitability.
- Lower earnings and cash flow can potentially lead to bank covenant breach.

2. GROWTH OPPORTUNITIES

- Failure to exploit growth opportunities through making an acquisition.
- Integration of an acquisition runs into difficulties.
- Failure of the Specialty Products business to develop or launch new products.

3. RAW MATERIALS

- Shortage of key raw materials owing to supply difficulties, transportation strikes or increased prices (including energy prices), could disrupt operations, leading to lower output and capacity utilisation levels, erosion of operating margins, and reduced productivity and profitability.

MITIGATION

- Financial performance (including monthly sales, profit and cash flows) is closely monitored with full year forecasts updated three times a year and variances explained and investigated.
- Contingency and cost reduction plans can be implemented in the event of an economic downturn to reduce operating costs, including freezing salaries and non-essential capital expenditure items.
- Company was in a net cash position at the year end so risk of a covenant breach is small but an appropriate headroom will be maintained to ensure this remains the case.

- Organic and acquisitive growth is a priority for the Board and a key area of focus for the management team.
- Experienced Board and management team, robust due diligence processes and support of professional advisers will ensure costly mistakes are avoided.
- Capacity expansion programmes are being implemented to ensure the business can supply to growth markets.
- Regular Board reports on new product pipeline and progress on R&D projects.

- Source from a broad and diverse supplier base.
- Strategic holding of key raw materials.
- Transport and carrier mitigation plans and insurance.
- Energy and raw material costs are hedged where possible.

RISK AND IMPACT

4. LITIGATION AND OTHER CLAIMS FROM PRODUCTS AND HISTORICAL AND ONGOING OPERATIONS

- Costs of defending claims or regulatory actions, or obligations to pay damages or fines could reduce profitability.
- Negative press coverage could damage business reputation and value.

5. UK PENSION FUND

- Changes to assumptions used in valuing UK pension fund deficit can lead to an increase in funding costs.
- Size of pension deficit can impact the Company's share price and value.

6. REGULATION/TECHNOLOGICAL ADVANCES

- Tighter regulation on use of certain chemicals, e.g. solvents or aerosol antiperspirants, could shift demand away from our products.
- Moratorium on shale gas drilling could impact drilling activity and demand for our products.
- Technological advances in dry drilling processes may require less dispersing agents, impacting demand for our products.
- Greater focus of regulatory agencies in the US, e.g. on safety or environmental matters, could lead to higher operating and or compliance costs.

7. MAJOR EVENT OR CATASTROPHE

- A major catastrophe, such as a fire, hurricane or flood, could cause significant disruption and lead to temporary plant closures or a suspension of operations and production, impacting sales and profitability.

MITIGATION

- Active compliance and risk management programme in place (including policies, procedures and training).
- Insurance programme and risk transfer strategy in place to mitigate financial costs.
- Experienced General Counsel supported by in-house and external legal teams.
- Role of the Audit Committee, as well as the internal audit programme.

- Pension investment strategy includes significant element of liability matching.
- Options for pension de-risking periodically reviewed.
- Long term funding plan agreed with pension trustees, which will be reviewed as part of the triennial valuation as at 30 September 2011.

- One R&D focus is to develop products for low solvent and water based applications.
- The Oilfield business unit is diversified into a number of segments and applications, including shale gas, deep water, high pressure/high temperature (deep well) drilling and well stimulation additives. Products for shale development represent 32 per cent of our revenues in this business unit or five per cent of total revenues in Specialty Products in 2011.
- R&D team continues to look to find ways of developing new products and technologies for use in an evolving market to meet the changing needs of our sophisticated customers.
- Continuing focus on high safety and operating standards, good housekeeping, and risk and hazard assessment programmes, supported by policies, clear communication and employee training, help to mitigate any impact from this risk.

- Good housekeeping, preventative maintenance and other safety procedures help to mitigate any impact from this risk.
- Reliance on hectorite mine and flood risk mitigated by the installation of drainage pumps at the mine in 2011.
- Insurance programme and business continuity plans that are tested regularly help to mitigate any impact from this risk.

These principal risks and uncertainties should be read in conjunction with the note on contingent liabilities on page 86.



Brian Taylorson
Finance Director
28 February 2012

INTRODUCTION

Elementis takes its corporate social responsibilities (“CSR”) seriously. From public and employee safety to environmental awareness, supply chain responsibility to business ethics, the Company recognises that how it performs in this important area of our business activities is critical to the long term success of the Company, which is why the Chief Executive is responsible for CSR matters at Board level.



FTSE4Good Elementis joined the FTSE4Good index in September 2009

The Company is a member of the FTSE4Good index, a leading global responsible investment index, and its CSR activities are centred on four core areas: people, community, environment and business relationships.

PEOPLE

A key differentiator between Elementis and its competitors is our people, who remain our most valuable asset. The long term success of the Group depends on the passion, attitude, commitment and work ethic of all our employees around the world. This Elementis “can do” mentality is encouraged by a strong culture of performance, leadership and success, with a focus on innovation and customer service, and is supported by Group policies, training and guidelines.

We have a global workforce (including contractors and temporary workers) of over 1,300 spread across three continents (42 per cent in North America, 27 per cent in Europe and 31 per cent in Asia). A summary of our employment policies is set out in the Directors’ report on page 28. Gender diversity in the workplace is a current focus of governance in UK public companies. Elementis is committed to equality of opportunity and firmly believes that women contribute equally in the workplace. However, it does not consider targets or quotas to be appropriate for increasing the percentage of women in management positions. Further information on this is in the Corporate governance report. Our HR policies seek to ensure that people from any background or gender have equal access to employment, training and promotion opportunities and we base our decisions on objective criteria and merit so that the best qualified person is the one who is selected.

Business ethics and Anti-bribery and corruption (“ABC”)

In June 2011, the Elementis Code of Business Conduct and Ethics (the “Code”) was updated to reflect evolving standards articulated by US regulators and courts in various documents and contexts, including in the US Sentencing Guidelines provisions regarding the elements of “an effective compliance programme”, and our anti-corruption policy was updated to reflect the requirements of the UK Bribery Act 2010 and the guidance issued by the Ministry of Justice. The Code, which includes appropriate anti-harassment, anti-retaliation and whistleblowing policies, helps employees understand the standards of ethical business practices that are expected from them at work and to be aware of ethical and legal issues that they may encounter in the course of carrying out their duties and responsibilities.

The Elementis compliance programme, which incorporates compliance as to ABC risks, includes top level commitment by the Board and senior management as to compliance, communication and training programmes in multiple languages, risk assessments, due diligence procedures and monitoring and review processes. Elementis employees are required to complete training on the Code and then self-certify that they understand and agree to be bound by its provisions. In addition, Elementis businesses require independent contractors, consultants, agents and sales representatives who represent the Group to agree to the same high standards as the Group’s employees while working on Group business.

A summary of the key features of the Code is on our website at: www.elementisplc.com/governance-responsibility/

Health and safety

The health and safety of Elementis employees is paramount as is overseeing the safety of contractors and visitors on our premises. The Group’s policies, practices and performance are reviewed routinely by senior operations management. Our activities in this area are supported by guidance and training from both internal and external subject experts. A programme of health and safety compliance audits is undertaken on a three year rolling cycle. An incident notification and reporting system is in place to ensure that all recordable safety incidents are reported to the Board and management team. Investigations are carried out following any incidents, including near misses, and appropriate corrective action is taken to mitigate the risk of their recurrence. Safety incidents and improvements are highlighted in bulletins that are shared throughout Group sites to raise awareness of safety issues among employees in all operating and office sites.

A summary of the Group’s policy on health, safety and environmental matters can be found on the Group’s website at: www.elementisplc.com/governance-responsibility/

IFC – 01

COMPANY OVERVIEW

02 – 25

BUSINESS REVIEW

26 – 49

CORPORATE GOVERNANCE

50 – 91

FINANCIAL STATEMENTS

92 – 93

SHAREHOLDER INFORMATION

Safety performance

The Company continually strives to eliminate accidents and injuries within the workplace. We seek to achieve this through maintaining our strong focus on, and commitment to, safety design, a safe environment, setting and communicating safety standards, training, encouraging safe behaviour and developing a company culture that emphasises and supports all of these.

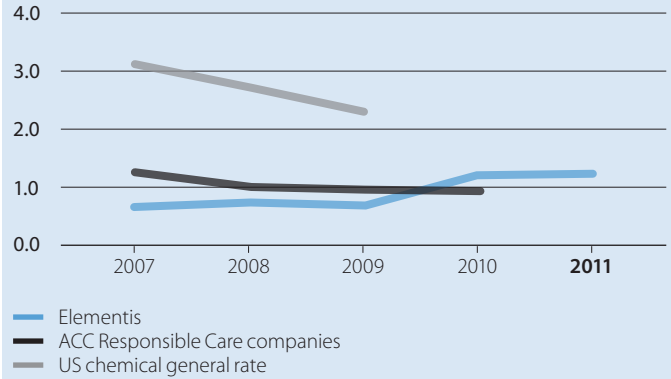
The Group uses recordable incidents as its principal measure of safety performance. Recordable incidents, as defined by the US Occupational Safety & Health Administration, are work related injuries and illnesses that require medical treatment beyond first aid. To monitor performance and trends among more serious injuries and illnesses, the Group also records lost time accidents ("LTAs"), as defined by the UK Health & Safety Executive – greater than three days lost, not including day of incident.

The number of recordable incidents across the Group in 2011 was 15 (2010: 14). Despite the slight increase in the number of recordable incidents over the past two years, the majority of the incidents both in 2011 and the preceding year are due to slips and trips, sprains and unsafe acts or behaviours that were avoidable. Nevertheless, the Board and management team are determined to reverse the trend. As a result, new safety initiatives were introduced to strengthen safety behaviour and management (see below). Senior management support is given to operations managers to ensure that sufficient priority is given to safety. Key safety initiatives and performance are built into each operations manager's objectives. Incidents, including near misses, are investigated thoroughly to establish root causes and identify appropriate corrective actions. The Board takes a close interest in safety performance and is committed to continual improvement in safety performance.

As well as the total number of recordable incidents, the Board monitors the overall trend, or the recordable incident rate, which for 2011 was 1.20 per 200,000 hours worked (2010: 1.10). Notwithstanding the slight increase in recordable incidents last year, in industry terms, our performance is comparable with companies that are generally viewed as having good safety performance (based on American Chemistry Council – Responsible Care® statistics). For comparison, the recordable incident rate for the general chemical industry in the US is 2.3 per 200,000 hours (2009, latest data available).

Recordable incident rate

Recordable incidents per 200,000 hours worked



(Comparator group trend is shown only for periods where data is available.)

In terms of LTAs, five of the recordable incidents were classed as LTAs in 2011 (2010: four), which equates to a rate of 0.20 LTAs per 100,000 hours worked (2010: 0.16).

To ensure comprehensive monitoring of our safety performance, Elementis also records and reports separately the recordable injury rate for contractors working at our sites. Contractors are closely supervised and are subject to compliance with Elementis safe systems of work. As a result, the safety performance of contractors is generally comparable to that for Elementis employees. A solid year for contractor safety led to zero recordable injuries to contractors on Elementis sites. The contractor recordable injury rate in 2011 was therefore 0 per 200,000 hours worked (2010: 1.50).

Safety improvement initiatives started in 2011

A comprehensive review of our basic safety processes was undertaken in 2011 and relaunched at sites on a prioritised basis. This is a structured approach that emphasises safety leadership starting with the site leader and cascading throughout the organisation. This leadership brings together safety policies and procedures, behavioural safety, active communication (including shift changeover and safety toolbox talks) and safety inspections.

Safety training is recognised as a key aspect to working safely. A significant improvement has been made in the way safety training is conducted to make sure all training requirements are recognised, conducted in a timely way and then audited to ensure comprehension and completeness.

Keeping track of safety related actions and reporting can be a complex task. To help manage this, a new compliance calendar database has been introduced to ensure that all safety related actions are completed in a timely manner. In addition, corporate policies have been strengthened with a revised policy on personal protective equipment and a comprehensive electrical safety procedure to increase the emphasis on arc flash safety, expanded work permit requirements where energy sources are present and improved labelling of electrical components.

Training provision

The Group provides a wide range of training courses to its employees, some of which are mandatory for all employees, such as training on the Code or on ABC compliance, whereas others are mandatory depending on the job, role or position. These courses include topics such as: "Global mutual respect", "Human rights", "Environmental stewardship", "Anti-trust", "Privacy and data protection" and "Financial integrity". A number of new courses were introduced in 2011: "Preventing workplace violence", "Global substance abuse", and "UK Bribery Act". Employees in professional or managerial roles may also undertake additional training or professional development activities at the expense of the Company and there is great emphasis at sites on health and safety training.

Fundamental human rights

Elementis supports the wider fundamental human rights of all its employees and all those who may be affected by our business activities. These include, for example, the right to the freedom of speech, thought, movement, association, a right to privacy and to make decisions and contracts, and a right to equality of treatment, protection and non-discrimination. While the application of some of these principles have centred on employment practices, such as child or forced labour, these concepts can have daily application in many different aspects of our activities. Employees can expect to be treated fairly, with dignity and respect. Anti-harassment and anti-retaliation policies and grievance procedures all allow employees to speak freely and openly. Our employment policies recognise the right of employees to join a union and to be treated equally without discrimination.

The Company further recognises that its contractors, customers and suppliers (where relevant) also have a right to expect the Group to respect their wider fundamental human rights and is supportive of this view. This may mean we respect the right of our customers or suppliers to take their business elsewhere or to negotiate their terms of business. This extends to taking customer complaints seriously. These are just a few examples of how our support for fundamental human rights can translate into action and good business practices.

An important caveat to all of this, however, is that the Group can strive to uphold the fundamental rights of its employees worldwide and support the rights of its contractors, customers, suppliers and wider stakeholders (where relevant), but only insofar as the rights of the individual do not conflict with those of the Company or its duties or legal and other obligations. In this respect, the Code sets standards and provides guidance to ensure that all relevant and applicable laws and regulations are fully complied with and, wherever relevant or practicable, consideration is taken in business decisions of the wider fundamental human rights of all employees, contractors, customers and suppliers.

Employee social events

Throughout the year, social activities are held at various site locations for employees and often their families. As examples in 2011, these have included: the annual Elementis Cup football tournament in Delden, Netherlands which 100 employees participated in; our Hightstown and Jersey City locations in New Jersey invited "Santa" to a Saturday brunch just before the holiday season which was attended by over 150 employees and their families; at both the Songjiang and Hsinchu plants, in Shanghai, China and Taiwan respectively, employees were recognised for five year service milestones in celebratory presentations; and also at the Hsinchu plant, a sports day was held in April with over 100 participants and a family day was held in October with nearly 200 employees and their families.

COMMUNITY

Elementis understands the need to work with local communities to provide information on its activities and be a responsible neighbour. The Group continues to be a sponsoring partner of the Mojave Environmental Education Consortium ("MEEC"), a partnership programme between businesses and state departments and agencies, which provides many environmental education programmes and resources for teachers and students.

Our community programme remains centred on encouraging and supporting employees to be active in their communities through volunteer work or fundraising. The Company has guidelines for charitable giving but does not dictate any specific areas or priority for corporate support. This approach is designed to encourage management and employees at individual sites to focus on local issues and to take the initiative. Their efforts are often rewarded by either a Company donation or programme that matches amounts raised by employees.

Our employees have continued to develop the relationships that have been cultivated over the past few years, such as the Cape Fear Area United Way in Wilmington, North Carolina and United Way of Greater Milwaukee. United Way is a network of volunteer-driven, non-profit organisations that work with many other partners and programmes to address many different areas of need in local communities, such as homelessness, poverty, unemployment, education or health related needs. Elementis continues to sponsor a child from Belarus through the work of the Friends of Chernobyl's Children, a UK registered charity. We made a five year commitment in 2010 to this charity and the child, Sasha, who is now eight. Our sponsorship means Sasha can spend a month in the UK every Summer for five years and stay with a host family to experience a wide range of educational and sports related activities that many children in the UK take for granted but which Sasha and other children like him can only dream of.

In 2011, the Group made charitable donations of \$51,113 (2010: \$56,040) to a wide range of groups and organisations supporting many different causes. As well as the examples given, organisations and groups supported last year include local youth and sports clubs, schools, arts groups, hospice and other welfare related groups and medical research/health related charities.

ENVIRONMENT

Elementis operates its facilities in an environmentally responsible manner. We view compliance with all applicable regulatory requirements and other codes of practice as our minimum standard. Our sustainable development strategy requires that we work proactively to reduce emissions, minimise waste from our processes, conserve valuable natural resources and ensure responsible product stewardship throughout the supply chain.

In addition to complying with environmental regulatory reporting requirements, Elementis records and categorises incidents into tiers based on the severity of the incident on the environment or actions taken by regulatory authorities. Tier 3 incidents are those that have an impact on the environment and require reporting to an external authority, who are likely to take action, or where the clean-up costs exceed a self-imposed threshold of \$25,000. Tier 2 incidents have a minor impact and require notification but are likely to result in minimal or no action by the authorities. Tier 1 incidents require no external reporting and are recorded internally and investigated so that continual improvements can be made to reduce the likelihood of future Tier 2 and Tier 3 incidents.

Environmental performance

Our target is to comply with all environmental regulations and permits, with zero environmental incidents classed as Elementis Tiers 2 and 3.

In 2011 Elementis experienced one Tier 3 incident (2010: zero Tier 2 or Tier 3). This incident involved an over-filled residual oil tank, resulting in a spill in a local containment area that was remediated and fully restored. The incident involved no injury and, while the regulatory authorities were notified, no regulatory action was taken against Elementis. The Tier 3 classification was solely due to the remediation costs exceeding an Elementis defined threshold of \$25,000.

Emissions to air, discharges to water and waste disposal are regulated by external authorities and controlled carefully within Elementis. Table 1 shows our performance in this area as well as our water and energy usage over the past three years.

Some of the data presented in Table 1 is influenced by production levels, so an increase or decrease does not necessarily mean our performance in these areas has improved or deteriorated. The impact on levels of production as a result of the economic recovery in 2010, the recession and the closure of the Eaglescliffe facility in 2009 are reflected in the data for these years. The columns showing per tonne of production are affected by changes in the product mix and plant efficiencies. As is standard practice in the chemical industry, some emission values may be calculated from energy use or based on samples rather than continuous monitoring. However, environmental emissions, discharges and solid waste data are subject to periodic internal audits to ensure accuracy and consistency of reporting.

Table 1 – Environmental performance

	Absolute (000s)	2011 Per tonne of production	Absolute (000s)	2010 Per tonne of production	Absolute (000s)	2009 Per tonne of production
CO ₂ emissions (tonnes)	200	0.74	261	0.99	206	1.01
Water consumed (m ³)	1,889	6.97	1,848	6.99	1,263	6.21
Energy consumed (GJ)	4,862	12.1	4,926	12.1	4,306	13.5
	Absolute (000s)	Per 1,000 tonnes of production	Absolute (000s)	Per 1,000 tonnes of production	Absolute (000s)	Per 1,000 tonnes of production
Hazardous waste disposed (tonnes)	1.54	5.67	1.20	4.54	3.02	14.86
Non-hazardous waste disposed (tonnes)	116	431	114	433	87	426

Emissions to air

As reported in previous annual reports, Elementis is aware that greenhouse gas ("GHG") emissions, such as carbon dioxide ("CO₂"), are linked to global warming and climate change. The Group is committed to reducing, wherever it can, its emissions of GHGs and complies with relevant national CO₂ reduction schemes, such as the UK Carbon Reduction Commitment energy efficiency scheme. Elementis made a significant reduction in CO₂ emissions from April 2011 when the chromate kilns in the chromium plant at Castle Hayne were converted from using oil to natural gas. This led to a 35 per cent reduction in the volume of CO₂ emissions at this facility against the previous year. Our overall emission levels also benefited from the

installation of a new and more energy efficient spray drier at our Newberry facility where production levels in 2011 increased by seven per cent but CO₂ emissions fell by 14 per cent. These projects have helped to improve our performance in 2011.

The Group's operations also result in some emissions of the oxides of sulphur and nitrogen, which can cause acid rain. Volatile organic compounds, where emitted, can damage soil and ground water or combine with nitrogen oxide to cause smog. However, all these emissions are controlled to comply with regulatory permits and, as the volumes are not considered to be significant, they are not reported here.

Discharges to water

Maintaining the water quality of the areas in which we operate is vital to protect the ecosystems and communities in which we operate. The Group's production activity generates process effluent with low concentrations of organic material that are discharged to water. This is measured as chemical and biological oxygen demand. These are regulated by external authorities and managed carefully by Elementis. However, the volumes of these discharges are not considered to be significant and are not reported here.

There were no emissions to air or discharges to water above regulatory permitted levels in 2011 (2010: zero) which would classify as a Tier 2 or Tier 3 incident. These incidents will continue to be reported each year under environmental incidents.

Water consumption

Generally, the Company does not operate in areas of extreme water shortage and recognises that water is a valuable resource which needs to be conserved. Water consumption is therefore minimised where possible by treatment and recycling.

Water consumption is related to production output, product mix and plant utilisation, and this is reflected in Table 1.

Energy consumption

As the Group uses a range of fuel sources purchased conventionally in a variety of units, we report usage in gigajoules ("GJ") to provide consistent energy units.

The Group is committed to reducing, wherever it can, its consumption of energy because the use of fossil fuels in energy production can contribute to global warming in the form of GHG. An example of this commitment is the action taken by the Group to move towards cleaner energy sources, such as replacing our use of oil with greater use of natural gas. In 2011, natural gas represented 69 per cent of our consumption of fossil fuels (gas, oil and coal – measured in consistent energy (GJ) units). The comparative level in 2010 for gas was 28 per cent. This result is largely attributable to the project described previously at our Castle Hayne facility. There is also the added incentive that energy is an expensive resource and its efficient use has a significant effect on the cost of production.

Solid waste

As part of our commitment to sustainable development, Elementis seeks to minimise the quantity of all types of waste. The quantity of hazardous waste resulting from our operations has reduced significantly over the last decade. The increase in hazardous waste in 2011 is attributable to a number of factors including: timing of licensed disposal of hazardous waste generated as part of our operations that is carried out periodically at the Delden and Jersey City sites; decommissioning of the Eaglescliffe UK chromium site; and disposal of kiln bricks at Castle Hayne to licensed disposal sites. Non-hazardous waste is minimised and recycled as far as possible. Non-hazardous waste is predominantly the inert residue from the chromate kiln operations, which is deposited in our own permitted impoundments and licensed landfill sites adjacent to the manufacturing facilities.

The Group encourages the re-use, reduction and recycling of general office waste and recycling schemes are in place at various office locations. The amount of general office waste is not reported separately from non-hazardous waste, as the volumes are not considered to be significant.

Product stewardship

Elementis recognises its responsibility to ensure that its products are safe for human health and the environment. Each employee takes responsibility to ensure health, safety and environmental protection are a part of their daily activities.

Safe product use is guided by our extensive experience with our products, third party studies and meeting global regulatory requirements. Safe handling, transport and disposal information are communicated to our employees, customers and the general public via technical bulletins, safety data sheets ("SDS") and labelling. These communications are further enhanced by product safety discussions with our employees, suppliers, distributors and customers. To illustrate how extensive our interactions with wider stakeholders are, each year our product stewardship team manages responses to several thousand product safety and compliance questions from our customers and regulatory authorities. These questions have in the past concerned how we address wider CSR issues, such as: climate change, animal testing, human rights and supply chain responsibility, environmental management, safety and quality systems and sustainable development matters.

We practice a consistent and coordinated approach to regulatory compliance at a state, national, regional and global level. We support voluntary industry efforts and engage stakeholders in both industry and government authorities to enable regulations based upon established scientific risk assessment and risk management principles. Our goal is to ensure regulations that are predictable, flexible and capable of responsibly addressing society's economic, environmental and safety requirements.

Through our product stewardship team, Elementis continues to be fully engaged in the European REACH programme and began a robust and comprehensive programme in 2011 to fulfil its 2013 Tier 2 REACH obligations. We continue to support our global customers and markets through our "Only Representative" services under REACH covering imports into Europe by Elementis entities and key customers. The product stewardship team continues to be actively involved in many consortia coordinating the REACH registration of our most important product categories. We continue providing active support to consortia and organisations such as CEFIC (European Chemical Industry Council) and SIEF (Substance Information Exchange Forum).

In addition to complying with the REACH regulatory requirements for our products during 2011, Elementis continued to focus on compliance with the United Nations GHS ("Globally Harmonized System") hazard communications standard as it is implemented around the world. Elementis is very pleased to report that the necessary GHS safety data sheets and labels were available for its products in China, when that country's new GHS regulation went into effect towards the end of 2011. Further, as many countries in Asia and Latin America are implementing new, or revising existing, chemical control regulations, Elementis is actively meeting these new regulations in our global markets.

Elementis also continues to work with non-governmental organisations and expert panels, such as the Centre for Environment, Fisheries & Aquaculture Science (Cefas) and the Cosmetic Ingredient Review (CIR), by providing data and comment that supports their safety reviews of our products in a broad range of applications from oil production to cosmetics.

Finally, at Elementis we have a robust and innovative global product stewardship programme to evaluate, review and monitor all stages of a product's life cycle and ensure continuous improvement in how we assess hazards, risks, and regulatory compliance for each product.

R&D and sustainable development

Among others, our R&D projects continue to be driven by the specific objectives of:

- reduction in the use of materials that contribute to greenhouse gases;
- development of new biodegradable products for use in aqueous environments; and
- expanded use of bio-based materials in our products.

Following a collaborative project, many global coatings producers have adopted our new zero-VOC (volatile organic compounds) rheological additives to replace additives that contain high levels of VOC. Our zero-VOC range of additives ensure the desired level of performance is maintained to enable a high quality coating.

Our recent efforts have also led to new products that are non-toxic to marine organisms and that are biodegradable, being introduced for use in oil and gas exploration and recovery.

We are also working closely with external agencies to speed up our development programmes that expand our portfolio of bio-based materials.

Our commitment to these and other environmentally friendly initiatives remains very high.

Biodiversity

Elementis takes care to ensure that its activities do not cause long term damage to the biodiversity in the areas where it has operations. In this regard, the Group has policies and systems in place to ensure full compliance with environmental requirements.

BUSINESS RELATIONSHIPS

Customers

Each of our business strategies has as its cornerstone superior customer service with a focus on offering value added high quality solutions that are supported by strong technical service. Best in class customer service and product innovation are critical elements in helping our customers be successful and in how we differentiate ourselves from competition. We monitor our performance with metrics such as OTIF (on-time, in full delivery) and new product introductions. We develop and nurture close customer relationships through our key account business process, our participation in trade shows and industry forums, as well as conducting numerous group workshops, training seminars and hosting collaborative laboratory sessions to work with customers one-on-one.

In terms of quality management systems, all ten of our global manufacturing facilities in the Specialty Products and Surfactants businesses are certified to the ISO 9001 standard. Our Chromium business uses unique product delivery systems that supply high quality products to its customers and which incorporate many of the elements of ISO 9000. Our sites also apply the 5S workplace organisation methodology which uses standardised work procedures to simplify the work environment, reducing waste and non-value adding activity while improving quality, efficiency and safety. Our quality systems utilise statistical process control and techniques to ensure product quality and consistency, and to drive process improvements.

Suppliers and supply chain

The Elementis global sourcing team continues to promote social responsibility, environmental awareness, trade compliance and anti-corruption within our worldwide supply base. Our purchasing code of practice was updated towards the end of the year to underline our commitment to address these issues throughout our worldwide supply chains. We continue to successfully participate in customer and supplier surveys and our supplier audit programme has been stepped up to focus on these topical issues.

On 1 January 2012 the California Transparency in Supply Chains Act of 2010 (SB 657) became law in the State of California. This legislation seeks to end slavery and human trafficking and requires companies to disclose their efforts to ensure that their supply chains are free from these activities.

Elementis supports international labour laws that seek to prohibit slavery and human trafficking. As a responsible corporate citizen, we seek to ensure that quality and safety standards are maintained throughout our supply chain by well treated, fairly compensated workers in accordance with all applicable laws. We have adopted a number of initiatives to ensure and verify the absence of slavery and human trafficking in our supply chain. These include: risk assessments and audits; acknowledgement of standards by suppliers and verification of compliance with our purchasing code of practice; sanctions for non-compliance/non-adherence; and training and communication.

Further information can be found on our website at: www.elementisplc.com/governance-responsibility/supply-chain-responsibility/

Elementis has also reviewed its supply chain to ensure that our products and supply chain are not impacted by international rules on "conflict minerals". Conflict minerals are absent from our supply chain.

Another area of focus has been our emphasis on materials and packaging recyclability or reuseability and we are expanding initiatives across our global network. For example, we have for a number of years been a member of the German "Repasack" paper bag recycling programme for organoclay products. The Repasack programme in Germany is responsible for recycling up to Euros 8 billion of packaging materials every year.

To demonstrate our continuing efforts to utilise sustainable sources, the value of plant-based materials used in our coatings additives and consumer products businesses at the end of 2011 was \$11.3 million, an increase of \$3.7 million or 48 per cent over the previous year.

IFC – 01

COMPANY
OVERVIEW

02 – 25

BUSINESS
REVIEW

26 – 49

CORPORATE
GOVERNANCE

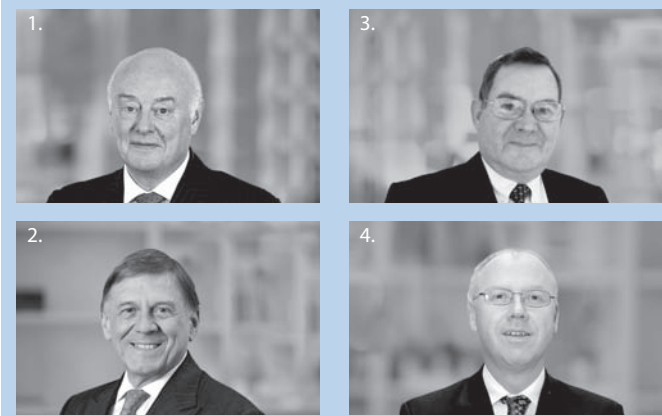
50 – 91

FINANCIAL
STATEMENTS

92 – 93

SHAREHOLDER
INFORMATION

NON-EXECUTIVE DIRECTORS

**1. ROBERT BEESTON** Chairman**Committee membership:** N (c)

Robert Beeston was appointed non-executive Chairman of Elementis and Chairman of the Nomination Committee in September 2006. He was non-executive chairman of Cookson Group plc from April 2003 to May 2010 and a non-executive director of DS Smith plc between December 2000 and December 2010, where he was the senior independent director and chairman of the remuneration committee from 2003 to 2009. From 1992 until 2002 he was chief executive officer of FKI plc. He spent 18 years with Dowty Group before joining John Brown Plastics Machinery (UK) Ltd as managing director. In 1985, he was appointed managing director of BTR Valve Group, a position he held for six years before joining FKI plc.

2. IAN BRINDLE Senior Independent Director**Committee membership:** A, N

Ian Brindle was appointed a non-executive director and Chairman of the Audit Committee in June 2005. He retired as Chairman of the Audit Committee in April 2008 and was appointed Senior Independent Director. He was senior partner of Price Waterhouse from 1991 to 1998 and UK chairman of PricewaterhouseCoopers until 2001. He was also a member of the Accounting Standards Board between 1992 and 2001 and the deputy chairman of the Financial Reporting Review Panel between 2001 and 2008. He is senior independent director and chairman of the audit committee of Spirent Communications plc, senior independent director also of 4imprint Group plc, a non-executive director of F&C Asset Management plc and non-executive chairman of Sherborne Investors (Guernsey) A Limited.

**3. CHRIS GIRLING** Non-executive Director**Committee membership:** A (c), N, R

Chris Girling was appointed a non-executive director in April 2005 and Chairman of the Audit Committee in April 2008. He was group finance director of Carillion plc, a construction and support service group, from 1999 to 2007, and previous to that he was finance director of Vosper Thornycroft plc for ten years. He holds an MBA and is a Fellow of the Institute of Chartered Accountants in England and Wales. He is a non-executive director and the chairman of the audit committee of Keller Group plc, chairman of the board of trustees of the Slaughter and May pension scheme and a non-executive director of ARCO Limited.

4. KEVIN MATTHEWS Non-executive Director**Committee membership:** A, N, R (c)

Kevin Matthews was appointed a non-executive director in February 2005 and Chairman of the Remuneration Committee in April 2008. He is chief executive officer of Isogenica Limited, a private biotechnology business based in the UK and established in 2000. Prior to that, he was CEO of Oxonica plc, a UK-based nanotechnology company, a role he held from April 2001 to September 2009, and previous to that he held roles in Rhodia Consumer Specialties Limited, Albright & Wilson UK Limited and ICI Chemicals and Polymers. He is a non-executive director of Celectricon AB, a Swedish private biotechnology business, and holds a D.Phil in chemistry.

5. ANDREW CHRISTIE Non-executive Director**Committee membership:** A, N, R

Andrew Christie was appointed a non-executive director in August 2008 and has over 25 years of investment banking and international corporate finance experience. He is a partner of Smith Square Partners LLP, a corporate finance advisory firm, and before that was, until March 2008, a UK managing director in the European Investment Banking Group at Credit Suisse. In his prior role at Credit Suisse, he was head of Investment Banking, Asia Pacific, based in Hong Kong and, before that, held the same position with Barclays de Zoete Wedd. He was previously chairman and non-executive director of Ark Therapeutics Group plc and holds an MBA and a Bachelor of Science degree in engineering.

EXECUTIVE DIRECTORS



SENIOR EXECUTIVES



KEY

A - Audit Committee

N - Nominaton Committee

R - Remuneration Committee

(c) - Chairman of Committee

6. DAVID DUTRO **Group Chief Executive**

David Dutro was appointed Group Chief Executive in January 2007. He joined Elementis in November 1998 as President of Elementis Pigments then became President and Chief Operating Officer of Elementis Worldwide in October 2005. He was vice president and general manager of Universal Foods' Dairy and Food Ingredient businesses (now Sensient Technologies Corp), and also spent time with ICI in their colours, polymer additives and surfactants businesses. David Dutro was born and educated in the US and holds a Bachelor of Science degree in marketing.

7. BRIAN TAYLORSON **Finance Director**

Brian Taylorson was appointed Finance Director in April 2002. Before joining Elementis he was head of European chemicals M&A group at KPMG Corporate Finance. He joined KPMG in 2000 from the Dow Chemical Company where he held a number of positions in finance over a period of 17 years. He holds an MA from Cambridge University, is a member of the Institute of Chartered Accountants in England and Wales and a member of the Association of Corporate Treasurers. He is a non-executive director of Fiberweb plc.

8. GREG McCLATCHY **President of Elementis Specialties (comprised of Elementis Specialty Products and Elementis Surfactants)**

Greg McClatchy was appointed President of Elementis Specialties in January 2007. He joined Elementis Pigments in 1999, served as Managing Director of its Durham UK operations, was appointed President of Specialty Rubber in 2002 and President of Elementis Chromium in 2005. He was previously with Universal Foods (now Sensient Technologies Corp) and ICI's polymer additives business. Greg McClatchy completed his undergraduate studies in chemistry and economics at the University of Delaware.

9. DENNIS VALENTINO **President of Elementis Chromium**

Dennis Valentino re-joined Elementis as President of Elementis Chromium in April 2009. His previous positions at Elementis included Managing Director of Asia Pacific and President of Elementis Pigments until it was sold in August 2007 when he left the Group. Prior to Elementis, he joined Pfizer Pigments in 1975 and held various positions there including vice president of manufacturing and vice president of its North America Coatings business. Dennis Valentino completed his undergraduate study in chemical engineering at the University of Missouri - Rolla, and obtained his MBA from St. Louis University.

10. WALKER ALLEN **General Counsel and Chief Compliance Officer**

Walker Allen joined Elementis as General Counsel in 1999 and was appointed General Counsel and Chief Compliance Officer in 2006. Prior to joining Elementis, he was associate general counsel with GE Americom (a GE Capital company) and before that senior business counsel with GE Plastics (a division of General Electric Company). He began his legal career as a lawyer in private practice with two leading New York City law firms, where he specialised in corporate law, securities, and mergers and acquisitions. He is a member of the New York Bar and is admitted as in-house counsel in New Jersey.

11. JERRY HORTON **Vice President Worldwide Human Resources**

Jerry Horton was appointed Vice President Worldwide Human Resources in January 2008. He joined Elementis as Vice President Human Resources, Elementis Pigments in December 2000. Prior to joining Elementis, he was vice president labour relations for Earthgrains, now Sara Lee, and before that he was the director of human resources with Hussmann, now Ingersoll Rand. Jerry Horton obtained an MBA in 1996 and has worked for 30 years in the human resources field.

12. BRAD RECTOR **Chief Information Officer**

Brad Rector was appointed Chief Information Officer in September 2010. Prior to joining Elementis, he held senior IT positions in the US, Hong Kong and Germany for LyondellBasell Chemical and its predecessor companies. Before that, he was a management consultant with Price Waterhouse and an engineer with Texaco. Brad Rector holds an MBA from the University of Houston - Clear Lake and a Bachelor of Science in mechanical engineering from the University of Arizona.

13. WAI WONG **Company Secretary**

Wai Wong joined Elementis and was appointed Company Secretary in May 2007. He is a Fellow of the Institute of Chartered Secretaries and Administrators ("ICSA"). Prior to joining Elementis, he held a number of senior company secretarial positions including at John Menzies plc, ICSA and PricewaterhouseCoopers. Wai Wong has a Bachelor's degree in commerce and law from the University of Edinburgh and a Master's degree in corporate and commercial law from Queen Mary College, University of London.

REPORT AND FINANCIAL STATEMENTS

The directors submit their report and the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE DEVELOPMENT

For the purposes of this report, the expression "Company" or "Elementis" means Elementis plc and the expression "Group" means the Company and its subsidiaries.

The main activities of the Group are the manufacture and sale of specialty chemicals. The Business review forms part of this report and contains a fair review of, and likely future trends and factors that might affect, the development, performance and position of the Group. A review of the Group's risk management framework as well as principal risks and uncertainties is set out on pages 16 to 18, and policies on financial risk can be found in Note 21 to the Financial Statements on page 69. The Corporate social responsibility report on pages 19 to 25 summarises the Group's policy on business conduct and ethics, and sets out its approach to health and safety, the environment, social responsibility and community matters.

The Group undertakes, on a continuing basis, research and development activities for new products and to improve existing products.

CORPORATE GOVERNANCE

This Directors' report constitutes the management report for the purposes of the UK Listing Authority's Disclosure and Transparency Rules ("DTR"). In addition, the Corporate governance report on page 32, the Directors' responsibility statement on page 31 and the biographical information on the directors shown on pages 26 and 27 all form part of this Directors' report for the purposes of the DTR.

RESULTS

The Group profit for the year attributable to equity holders of the parent amounted to \$124.1 million (2010: \$74.1 million).

DIVIDEND

Details about the final dividend for the year are disclosed in the Chairman's statement on page 2.

DIRECTORS

The directors of the Company are Robert Beeston, Ian Brindle, Andrew Christie, David Dutro, Chris Girling, Kevin Matthews and Brian Taylorson. All of these directors served on the Board throughout the financial year. More information about the directors is provided in the Corporate governance report.

The interests of directors in the share capital of the Company are set out in the Report of the Remuneration Committee.

RE-ELECTION OF DIRECTORS

In compliance with the UK corporate governance code, all directors will retire and offer themselves for re-election by shareholders at the 2012 Annual General Meeting ("AGM"). A statement about Board evaluation and the contribution of directors is set out in the Report of the Nomination Committee.

EMPLOYMENT POLICIES

The Group Chief Executive is the Board member responsible for employee matters and human rights, and he is assisted by the Vice President of Global Human Resources. The Group employs HR specialists throughout its worldwide locations to advise on all HR matters, including training and development, and various HR performance indicators are maintained in order to monitor and evaluate the effectiveness of employment policies.

Elementis values the diverse backgrounds of all its people and works to create an open atmosphere of trust, honesty and respect. Harassment or discrimination of any kind based on race, colour, religion, gender, age, national origin, citizenship, mental or physical disabilities, sexual orientation, veteran status, or any other similarly protected status is unacceptable. This principle applies to all aspects of employment, including recruitment, hiring, placement, transfer, promotion, layoff, recall, termination and other terms and conditions of employment. The Group is committed to providing equal employment opportunities for all Elementis people and all applicants for employment, based on individual qualifications and without regard to the factors mentioned above. It is Group policy to comply with all applicable laws governing employment practices and not to discriminate on the basis of any unlawful criteria, and its practices include the prohibition on the use of child or forced labour. Employment policies are fair and equitable and consistent with the skills and abilities of the employee and the needs of the business. Elementis respects the rights of its employees to join a trade union or participate in collective bargaining arrangements and over 40 per cent of our global workforce are members of a trade union.

Were an employee to have or acquire a disability, the Group's policy is, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion as appropriate.

The Board expects the Group to conduct its operations based on sound ethical practices which are open and free from unlawful discrimination and harassment. Elementis supports the wider fundamental human rights of its employees worldwide and has taken steps to ensure that our standards are reflected and incorporated, wherever practicable, in our business relationships and dealings, particularly as they relate to our wider stakeholders including customers, suppliers and the local communities where we operate. Further information about the Group's policy on business conduct and ethics is set out in the Corporate social responsibility report.

EMPLOYEE COMMUNICATIONS AND INVOLVEMENT

It is Group policy to communicate with all employees on major matters to encourage them to take a wider interest in the affairs of their employing company and the Group and to make them aware of the financial and economic factors affecting the Company's performance. This is done in a variety of ways including informal consultations, bulletins and briefing sessions. There are well established procedures, including regular meetings with recognised unions, to ensure that the views of employees are taken into account in making decisions likely to affect their interests. Managers throughout the Group have a responsibility to keep their staff informed of developments and matters of interest. The Company operates savings-related share option schemes allowing UK and US employees the opportunity to become shareholders, details of which are set out in Note 24 to the Financial Statements on page 83.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future performance and development, are set out in the Business review on pages 2 to 25. The financial position of the Group and description of the principal risks and uncertainties are set out in the Finance report on pages 17 and 18. Note 21 details the Group's exposure to credit, liquidity and market risk and its mechanisms for dealing with these risks.

The Group's primary source of funding is a syndicated revolving credit facility for \$200 million which expires in July 2014. At the year end, the Group was in a net cash position but it still has to comply with covenants and report on these on a half yearly basis to the syndicate of banks. This involves covenant tests for net debt:EBITDA ratio, interest cover and net worth. No breaches in these covenant tests were reported during the year. The Group uses various short and medium term forecasts to monitor anticipated future compliance and these include stress testing assumptions to identify the headroom on the covenant tests.

After evaluating the covenant compliance modelling and the ongoing trading of the businesses, the directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future as going concerns. For this reason they continue to adopt the going concern basis in preparing these financial statements.

SHARE CAPITAL

The Company's share capital consists of ordinary shares, as set out in Note 7 to the Parent Company Financial Statements on page 90. All of the Company's issued ordinary shares are fully paid up and rank equally in all respects. The rights attached to them, in addition to those conferred on their holders by law, are set out in the Company's articles of association (the "Articles"). Other than those specific provisions set out in the Articles, there are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them. From time to time the Elementis Employee Share Ownership Trust ("ESOT") holds shares in the Company for the purposes of various share incentive plans and the rights attaching to them are exercised by independent trustees, who may take into account any recommendation by the Company. As at 31 December 2011 the ESOT held 1,165,719 (2010: 5,578,169) ordinary shares of 5 pence each in the Company. A dividend waiver is in place in respect of all shares held by the ESOT.

DIRECTORS, ARTICLES AND PURCHASE OF SHARES

Rules about the appointment and replacement of directors are set out in the Articles. Changes to the Articles must be approved by shareholders passing a special resolution. The directors' powers are conferred on them by UK legislation and by the Articles. The Board has the power conferred on it by shareholders to purchase its own shares and is seeking renewal of that power at the forthcoming Annual General Meeting within the limits set out in the Notice of Meeting.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

Other than as set out in this paragraph, there are no significant agreements to which the Company is a party which take effect, alter or terminate in the event of a change of control of the Company. The Company is a guarantor under the Group's \$200 million revolving credit facility which runs until July 2014. Under the terms of that facility, in the event of a change of control, any lender among the facility syndicate, of which there are six with commitments ranging from \$20 million to \$45 million, may withdraw from the facility and that lender's participation in any loans drawn down are required to be repaid.

Under David Dutro's service contract with the Company, compensation is payable to him equivalent to one year's basic salary if he terminates his contract upon a change of control provided that the Company has not first obtained a written agreement to be bound by his service contract from any successor in a change of control. There is no specific change of control provision in Brian Taylorson's service contract with the Company but the provisions on early termination set out on page 42 of the Directors' remuneration report apply and compensation equivalent to one year's basic salary and benefits would be payable if less than 12 months' notice of termination by the Company is given.

The rules of the Company's various share incentive schemes set out the consequences of a change of control of the Company on the rights of the participants under those schemes. Under the rules of the respective schemes, participants would generally be able to exercise their options on a change of control, provided that the relevant performance conditions have been satisfied and, where relevant, options are not exchanged for new options granted by an acquiring company.

SIGNIFICANT RELATIONSHIPS

The Group has in place a number of supply contracts for key raw materials that are essential to the business. In Specialty Products, supply contracts are for clays, quaternary amines and other chemical intermediates. The suppliers of these contracts are important and, although we have sought to develop a strategic long term relationship with them, we have taken steps to maintain a sufficiently broad base of suppliers to mitigate any supply chain risks. Specialty Products also owns and operates a hectorite clay mine in California which reduces our reliance on third party suppliers for raw materials. The Surfactants business sources a number of products from a reasonably wide base of third party suppliers for use in the manufacturing of its products. These include supplies for ethylene oxide, propylene oxide, nonylphenol ethoxylate and fatty alcohols. The Chromium division's key raw materials are chrome ore, soda ash and sulphuric acid. Chrome ore is sourced from a number of South African mining companies, while soda ash and sulphuric acid are sourced from suppliers in the US. The business is continually looking for new sources of supply to broaden its base of suppliers. All businesses purchase energy in the form of natural gas, fuel oil or electricity. It is the Group's practice to enter into agreements with suppliers to lock in the price of at least 50 per cent of its energy costs for each year. Information about individual suppliers is not disclosed as the Board considers that disclosure would be seriously prejudicial to the Group.

As its businesses are reasonably diverse in terms of the customers and sectors they serve, the Group is not dependent on any particular customer and therefore no further information is given. The Group supplies some of its products through approved distributors, who are able to provide or access technical support services, and has a joint venture in China at an organoclay plant and, whilst these relationships are an important part of our business, the Board does not consider any individual relationship to be material to the Group. The Group values all of its employees and, although some perform roles that are more important to the business than others, the Board does not consider that the Group's success is materially dependent on any single individual. Additionally, the Board is satisfied that the Company's incentive arrangements are appropriate to attract, retain and motivate key people within the organisation.

SUBSTANTIAL SHAREHOLDERS

As at 28 February 2012 the Company had been notified, in accordance with Rule 5 of the Disclosure and Transparency Rules, of the following interests in its issued ordinary capital:

	Ordinary shares	Percentage of issued ordinary share capital
Schroders plc	44,613,178	9.92
AXA Investment Managers SA	28,739,014	6.39
Ameriprise Financial, Inc. and its group	24,578,041	5.46
Norges Bank	22,839,063	5.08
Prudential Plc Group of Companies	22,627,563	5.03
Legal & General Group plc	22,544,252	5.01
BlackRock, Inc	22,444,591	4.99
Cazenove Capital Management Limited	22,171,163	4.93
JPMorgan Asset Management Holdings Inc.	20,565,772	4.57

AUDITOR

A resolution to re-appoint KPMG Audit Plc as auditors of the Company will be proposed at the forthcoming Annual General Meeting to be held on 26 April 2012.

Each director in office at the date of this Directors' report confirms that (a) so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and (b) he has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

POLITICAL AND CHARITABLE DONATIONS

During the year the Group donated \$51,113 (2010: \$56,040) for charitable purposes of which \$17,394 (2010: \$12,872) was made in the UK. The Group made no political donations during the year (2010: \$nil).

POLICY ON PAYMENT OF SUPPLIERS

The Company's and the Group's policies concerning the payment to suppliers are to agree terms of payment at the start of business with each supplier and to adhere to these, subject to satisfactory performance by the suppliers. The Company and the Group do not follow any code or statement on payment practice. Trade creditors for the Group at 31 December 2011 represented 55 days (2010: 60 days) of annual purchases, adjusted for currency and acquisitions and disposals. The Company has no trade creditors.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company maintains liability insurance for the directors and officers of the Company and its subsidiaries. In addition, in 2008, the directors of the Company were granted indemnities in respect of any liability or loss that may arise out of or in connection with the execution of their powers, duties and responsibilities as directors of the Company, or of any subsidiary, to the extent permitted under the Companies Act 2006. Copies of these indemnities, which continue to remain in place, are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Annual General Meeting.

DIRECTORS' CONFLICT OF INTEREST

The only director who was in receipt of a conflict authorisation during the year is Brian Taylorson, who is Finance Director and a Trustee of the UK pension scheme. The conflict authorisation enables him to continue to act as a Trustee notwithstanding that this role could give rise to a situation in which there is a conflict of interest. The conflict authorisation was first put in place in October 2008 and is subject to annual review. The Board has reviewed this and has agreed to extend the conflict authorisation for another year. Under the terms of the conflict resolution, reciprocal provisions have been put in place with a view to safeguarding information that is confidential to the Group as well as to the Trustees. Were a conflict of interest to arise, Brian Taylorson is required to excuse himself from reading the relevant pension papers and absent himself from participating in relevant Trustee discussions.

POST BALANCE SHEET EVENTS

There are no post balance sheet events.

ANNUAL GENERAL MEETING

The fifteenth Annual General Meeting of the Company will be held on Thursday 26 April 2012. The Notice of Meeting is included in a separate document sent to shareholders.

By order of the Board



Wai Wong
Company Secretary
28 February 2012

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company 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;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' report, Directors' remuneration report and Corporate governance statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors, all of whom are shown on pages 26 and 27, confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board



Brian Taylorson
Finance Director
28 February 2012

Chairman's address

In this introductory section, I report on how your Board has applied the principles in the UK corporate governance code (the "CG Code") relating to role and effectiveness.

Firstly, your Board considers that it has complied fully with all of the provisions of the CG Code and a fuller report on this is set out below.

Your Board has four principal functions:

- to determine the strategic direction and priorities of the Company as a whole;
- to provide leadership in setting the appropriate culture and standards in all aspects of our activities;
- to provide guidance to, and exercise oversight in respect of, executive management and the management of the businesses; and
- to report to shareholders on its stewardship of the Company.

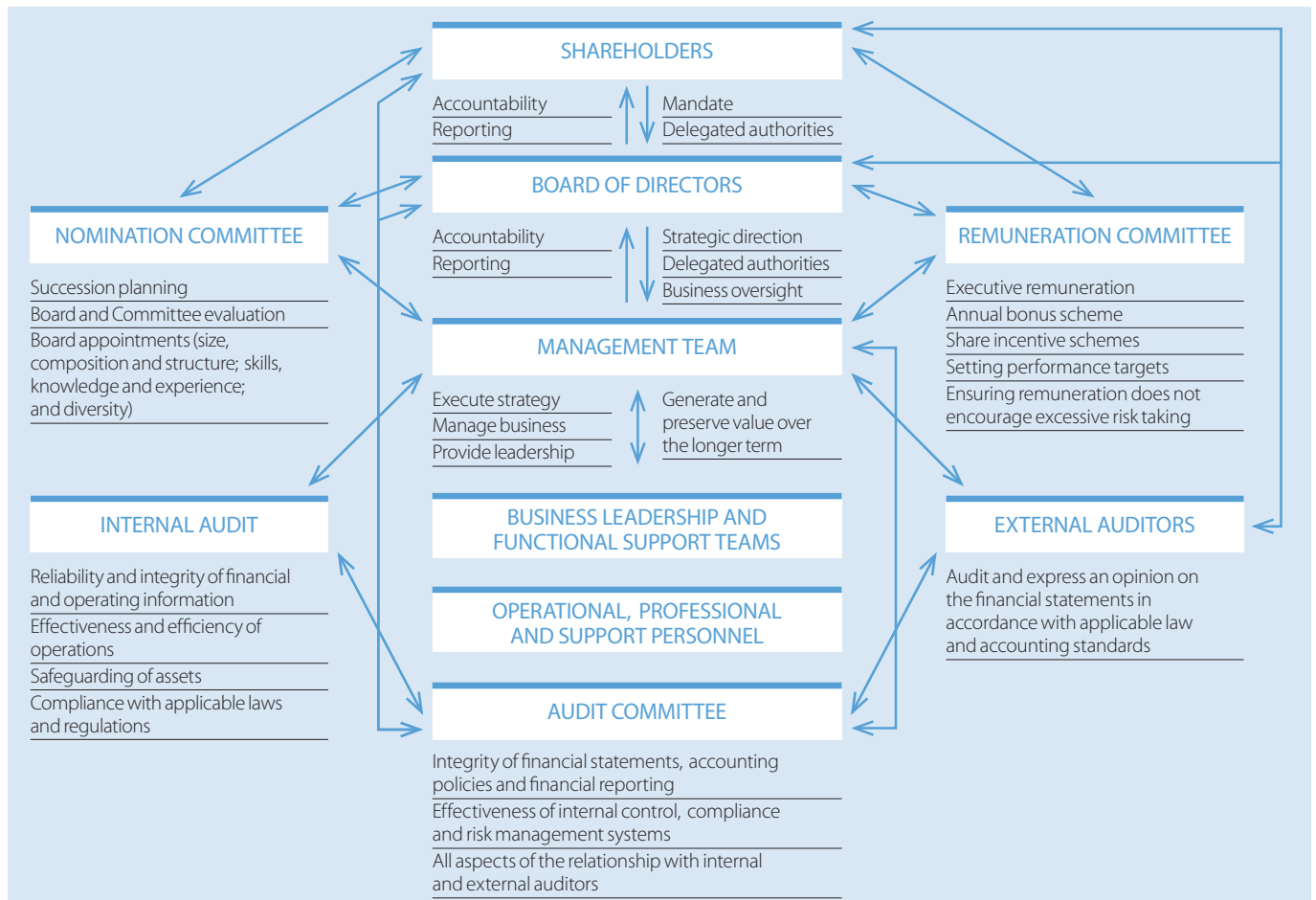
These key functions are carried out by the Board and its Committees and, while some aspects or activities may be delegated to the

executive directors and their management team, the Board is ultimately responsible to our shareholders, and in some cases wider stakeholders, for them collectively.

The diagram below illustrates the Elementis governance framework which helps to explain the principal roles and interactions that will enable shareholders to assess better how CG Code principles about effectiveness have been applied. Key to the role and effectiveness of the Board is how it has generated and preserved value over the longer term. In this regard, I am pleased to report that, despite the considerable challenges presented by global economies, 2011 has been a record year for Elementis. The Board has set a clear strategy for growth over the longer term and the financial performance in 2011 demonstrates that the Company is well positioned to deliver sustainable results that will generate significant shareholder value. In addition to growth and increasing profitability, the Company has taken important steps towards preserving long term value. The Company's balance sheet has continued to strengthen from positive cash flow generation and we have a proactive investor relations programme to ensure that the key value drivers of our businesses are well communicated. Another aspect is a proactive approach to managing legacy issues relating to businesses previously owned by the Group. The refund of €23.4 million from the EU Commission in the latter part of 2011 is a good example of this.

ELEMENTIS GOVERNANCE FRAMEWORK

This diagram shows the key constituents within the Elementis governance framework and their key roles and responsibilities.



In each of the areas of focus from execution of strategy to risk and internal control, central to our governance framework is the role of the Board and management team. Clear governance structures, such as a defined programme of Board and Committee meetings, delegation of authorities, Group policies and open lines of communication, have enabled the Company to operate in an open and transparent environment with certainty, thereby helping to create the conditions for achieving success. Underpinning the structures are, of course, the individuals on the Board, both executive and non-executive directors. The table below sets out information that shows the diversity of skills, background and experience on the Board. It is this level of diversity that leads your Board to conclude that its size and composition are appropriate to guide the Company at this stage of its development.

The diversity enables the Board to identify and address issues when and as they arise and, in the case of the non-executives, to constructively challenge executive management and exercise appropriate oversight on business performance and the levels of risk taking.

As part of any system, adequate controls are necessary and, within our governance framework (both within the formal channels, such as in Board meetings, and outside of these formal structures), the roles of the Chairman and Senior Independent Director are paramount in providing the executive directors with appropriate support and counsel, as well as a contact point for shareholders. The annual Board and committee evaluation on performance and effectiveness is another control mechanism and enables the Board to reflect on the leadership, commitment and contribution of individual Board members. The process allows the Board to take stock and consider what improvements need to be made or areas strengthened. The evaluation extends to the role of the company secretary who has an important supporting role to play in ensuring the governance system operates smoothly in terms of the information, support and resources that are made available to non-executive directors. However, although more formal processes have been put into place, for example in respect of the induction of new directors, the Board generally operates on the basis that individual directors should be proactive in their own development. Nonetheless, seminars, training and briefings are all part of the resources that are made available to all Board members, including access to external advisers where appropriate, and the Chairman meets with all directors individually, on a periodic basis, as part of their evaluation and development process.

BOARD DIVERSITY

NAME	ROLE	EXECUTIVE DIRECTOR	NON-EXECUTIVE DIRECTOR	BOARD ATTENDANCE IN 2011	MANUFACTURING/INDUSTRY EXPERIENCE	CHEMICAL SECTOR EXPERIENCE	INTERNATIONAL EXPERIENCE	PENSION TRUSTEE EXPERIENCE	FINANCIAL/ACCOUNTING EXPERTISE	CORPORATE FINANCE EXPERIENCE	TREASURY EXPERIENCE	SALES AND MARKETING EXPERTISE	RESEARCH/ACADEMIA EXPERIENCE	REGULATORY EXPERIENCE	FULL TIME EMPLOYMENT OUTSIDE OF ELEMENTIS	AGE	DATE JOINED THE BOARD
Robert Beeston	Chairman		x	8/8	x		x									70	21.09.06
David Dutro	Chief Executive	x		8/8	x	x	x					x				56	17.01.07
Brian Taylorson	Finance Director	x		8/8	x	x	x	x	x	x	x					56	02.04.02
Ian Brindle	Senior Independent Director		x	8/8			x		x					x		68	06.06.05
Andrew Christie			x	8/8			x			x					x	55	11.08.08
Chris Girling			x	8/8	x			x	x							58	29.04.05
Kevin Matthews			x	8/8		x							x		x	48	16.02.05

To demonstrate the Board's support of the principle, the Board opted to apply early the provisions in the CG Code concerning the annual re-election of directors when all Board members stood for re-election by shareholders at the 2011 Annual General Meeting.

Each of the sections in the CG Code relating to role and effectiveness is inter-related with one another and a current development within Elementis that will influence how our application of the CG Code provisions might change over the medium term concerns the Board's succession plans.

As identified in last year's Corporate governance report, the Board, through the work of the Nomination Committee, has started planning for Board succession, principally in response to the fact that three of our non-executives, including the Senior Independent Director, will cease to be considered independent under CG Code provisions in the first half of 2014. A succession plan will see additional non-executives being recruited in 2013, 2014 and 2015 in order to spread out these appointments, although in practice the refreshment process will be more flexible and fluid in order to ensure stability and continuity.

Towards the end of the year, the Board invited eight recruitment firms to submit proposals to assist the Board in its succession planning process. The Chairman and Senior Independent Director met with a number of the firms who will be presenting to the Board and it is expected that an appointment will be made in the second quarter. The appointed adviser will assist the Board in identifying and prioritising the skills and competencies that will be required beyond 2014, so that role specifications can be prepared and agreed before the end of 2012, and the search and recruitment process started early in 2013.

As a result of these plans, the Board has not embraced as a matter of priority the proposals of Lord Davies on gender diversity. The Board agrees that women can contribute a great deal in the boardroom, in executive and non-executive roles, and Elementis will seek to include women candidates in its succession planning process. However, the Board will appoint candidates on the basis of the best qualified person, rather than based on setting specific quotas.



Robert Beeston
Chairman
28 February 2012

The Board Composition

The composition of the Board and biographical information about its members are shown on pages 26 and 27 respectively.

Information about the executive directors' service contracts with the Company is set out in the Report of the Remuneration Committee on page 42. Non-executive directors are appointed for an initial term of three years, after which the appointment can be renewed for further three year periods by mutual agreement between the Board and the director concerned. In determining whether or not an appointment should be renewed, the Board will take into consideration the wishes, performance and commitment of the director, as well the requirements of the CG Code on directors' independence. All appointments are made subject to annual re-election by shareholders at the AGM.

Robert Beeston's appointment as Chairman will expire in September 2012 and it is anticipated that his appointment will be renewed for a third three year period. Further details about the non-executive directors' terms of appointment are set out in the Report of the Remuneration Committee on page 42.

Following its annual performance evaluation, the Board is satisfied that all our directors, both executives and non-executives, contribute effectively and demonstrate appropriate commitment to their role. Accordingly, it is the Board's recommendation to shareholders that all directors, each of whom will be submitting themselves for re-election at the 2012 Annual General Meeting, are re-elected.

The Board's position on gender diversity in the boardroom is discussed briefly in the Chairman's address and a further commentary appears in the Report of the Nomination Committee. In terms of a diversity policy more generally, a summary of our employment policies appears on page 28 in the Directors' report but the principal message is that we apply a policy of non-discrimination (except as it relates to a person's ability or potential in relation to the needs of a job) throughout the Group – to recruitment and promotion, layoffs and training or in grievance procedures. Out of our total workforce (excluding contractors or temporary workers), 25 per cent (over 300) are female. Of these female employees, 17 per cent or one in every six (just under 50) hold managerial positions and seven per cent or one in every 14 (just over 20) hold an executive management position (within the four tiers below Board level). Our most senior female executive is our Global Marketing Director for the Specialty Products business who, along with other members of the business leadership teams, have exposure to Board members in meetings and presentations at various times in the year.

Board independence

The Board considers all the non-executive directors to be independent in character and judgement. The Board is satisfied that each director exercises independent judgement and believes no individual or group dominates decision making.

Board operation

The Board has a formal schedule of matters specifically reserved to it for decision and this forms part of our risk management and internal control system. These matters reserved include strategic and annual operating plans, the approval of financial statements, acquisitions and disposals, risk compliance and management programmes including insurance arrangements, major non-recurring projects and major capital expenditures. The Board reviews business performance at each of its meetings and sets values and standards to ensure that its obligations to shareholders and wider stakeholders are understood and met. It also delegates specific responsibilities with written terms of reference to the Board committees detailed overleaf.

To assist the Board in carrying out its duties, information of an appropriate quality is issued in a timely manner ahead of Board and committee meetings. A programme exists to ensure new directors receive appropriate induction tailored to their needs. This includes visits to manufacturing facilities and meetings with members of the management team to assist them in developing an understanding of how the Group operates and key opportunities and risks. New directors are also advised of their legal and other duties and other obligations as directors of a listed company. All directors have access to the advice and services of the company secretary and may take independent professional advice, as appropriate, at the expense of the Company.

Each year the Board holds one of its meetings at one of the Group's overseas locations. During 2011, the Board visited Shanghai, where it held one of its meetings, and toured our facilities in Songjiang, Changxing and Anji in China. As part of the trip, the directors met with and received business presentations from the Asia Pacific management team, which included a video presentation of the R&D centre in Hsinchu, Taiwan. The directors also had the opportunity to meet other members of staff from different departments in a number of informal dinners during their visit. These activities help the directors develop their understanding of the business and the risks it faces, and gives them an opportunity to observe directly the more operational side of the business, ask questions of more junior levels of management and assess the quality of the resources within the Group. One finding from the annual Board evaluation programme is that directors used these site visits to improve their understanding of operational matters, particularly in relation to risk management and health, safety and environment matters, as well as the culture that exists and the enthusiasm and commitment of the wider workforce.

Board committees

The table below shows the members of each Board committee and their attendance records during 2011. A report of each committee is set out separately in this Annual Report. The Report of the Remuneration Committee constitutes the Directors' remuneration report.

Training and development

All directors are encouraged to take responsibility for their own training and development needs. Various in-house and external resources are made available, such as briefings, presentations or more formal seminars and training workshops. During 2011, our non-executive directors attended various workshops and conferences run by KPMG, PwC, BDO and the Association of British Insurers, which covered a diverse range of topics from executive remuneration to Board diversity, from accounting standards to the Bribery Act 2010. In addition, a number of technical briefings were given in-house at Audit Committee meetings on accounting for pensions and goodwill, which were attended by all directors.

On a periodic basis (usually every one or two years), the Chairman organises a more formal review meeting with each director and one of the items discussed is whether or not, in the case of non-executive directors, they consider information and resources, including training and development support, is appropriate to their needs.

Investor relations programme

Being a publicly listed company, a key role of the Board is to ensure an effective communication programme is maintained throughout the year with shareholders, analysts and the financial press. Our programme includes the following:

- preliminary and half year results announcements;
- annual report and accounts;
- interim management statements;
- other regulatory announcements;
- meetings with and presentations to institutional shareholders;
- attendance at investor conferences;
- holding of analyst and investor days;

- dissemination of information via the Group's website at www.elementisplc.com; and

- Annual General Meeting ("AGM").

Shareholders attending the AGM can ask questions during the meeting and can speak with the directors informally after the meeting. Both the chairmen of the Audit and Remuneration Committees are available to answer questions from shareholders.

Management's meetings with shareholders and analysts are reported to the Board on a regular basis, which includes feedback from investors following results roadshows. All directors receive copies of research notes published by analysts by email, as and when these are published, helping non-executive directors to develop a clear understanding of the views of major shareholders. The Chairman and Senior Independent Director are available for contact by shareholders at any time.

From time to time, where appropriate, the Chairman and, in connection with remuneration proposals, the chairman of the Remuneration Committee will organise a programme of meetings with major shareholders to update them on any developments in corporate governance matters or consult them over remuneration proposals.

During the year, the Board reviewed its relationship with RBS Hoare Govett ("RBS") as the Company's joint corporate broker and decided towards the end of the year to replace RBS with UBS Investment Bank ("UBS"). It was considered that UBS, working alongside N+1 Brewin (the other joint corporate broker) would be a more effective combination in assisting the Company in its equity market activities.

Share capital

The information on the structure of the Company's share capital, including any rights or restrictions of shares, required to be made in this Corporate governance report under the Financial Services Authority's Disclosure and Transparency Rules can be found in the Directors' report under the heading "Share capital".

By order of the Board



Wai Wong
Company Secretary
28 February 2012

MEMBERSHIP OF COMMITTEES

AUDIT COMMITTEE



Members (left to right)	Attendance record
Chris Girling (Chairman)	4/4
Ian Brindle	4/4
Andrew Christie	4/4
Kevin Matthews	4/4

NOMINATION COMMITTEE



Members (left to right)	Attendance record
Robert Beeston (Chairman)	4/4
Ian Brindle	4/4
Andrew Christie	4/4
Chris Girling	4/4
Kevin Matthews	4/4

REMUNERATION COMMITTEE



Members (left to right)	Attendance record
Kevin Matthews (Chairman)	4/4
Andrew Christie	4/4
Chris Girling	4/4

The Committee's composition and the attendance records of its members are shown in the table on page 36. All meetings were also attended by the Chairman of the Company and both executive directors, to ensure that all Board members are kept fully informed on the operation and work of the Committee. The biographical information of directors shown on page 26 shows that both Chris Girling and Ian Brindle have the necessary financial experience required by the CG Code.

A summary of the Committee's role appears in the Elementis governance framework on page 32. A full description and its terms of reference are available on the Company's website at: www.elementisplc.com/governance-responsibility/

The Committee's formal programme of work is carried out over four meetings each year – in February, June, July and December. During 2011, this programme of work covered the following:

- review of annual and interim reports and financial statements, and interim management statements;
- consideration of half yearly reports from the internal audit providers, PricewaterhouseCoopers ("PwC"), as well as representations from management;
- review of the effectiveness of PwC and the external auditors (KPMG);
- confirmation of the decision to continue to outsource the internal audit function to PwC;
- approval of the scope of work of, and the fees and engagement letters for, both internal and external auditors;
- review of reports from management and advisers on the Group's anti-bribery and corruption compliance programme, including updating the Group's Code of Business Conduct and Ethics and Anti-corruption policy, reviewing the effectiveness of the Group's whistleblowing procedures as well as other action taken to ensure compliance with the Bribery Act 2010;
- review of the objectivity and independence of the external auditors and the nature and extent of non-audit services they provide (see below);
- confirmation of the appointment of KPMG as external auditors; and
- review of reports from management on: litigation matters; tax planning; business continuity plans; accounting policies and new accounting standards; and risk management and internal control systems (e.g. IT strategy, treasury risks).

The Committee approved non-audit services of \$0.6 million from KPMG in 2011 (2010: \$0.4 million), most of which concerned tax advisory services in relation to the UK, US, Netherlands, Germany, China and Taiwan. KPMG's knowledge of the business meant they could provide these services more cost effectively. Other non-audit services relate to work on Bribery Act compliance. The Committee is satisfied that the provision of these services does not affect the independence of KPMG as external auditor.

INTERNAL CONTROL

As part of its role, the Committee is responsible for monitoring, and reviewing the effectiveness of, the Group's system of internal controls and risk management. This system comprises financial, operational and compliance risks and controls. Although the Committee has been delegated specific tasks in connection with this role, the Board is ultimately responsible for the effectiveness of such a system, which can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives. Our risk management and internal control system can therefore only provide reasonable, and not absolute, assurance against material mis-statement or loss.

The Board is of the view that an ongoing process for identifying, evaluating and managing significant risks faced by the Group was in place throughout the financial year under review and up to the date that this Annual Report was approved. This process is regularly reviewed by the Board and accords with the Financial Reporting Council's guidance to audit committees.

Set out below is a summary of the key features of the Group's internal control system:

Control environment

A key factor in the Group's approach to internal control is the recognition of the need for risk awareness and the ownership of risk management by executives at all levels.

The Group has policies and procedures that set out the responsibilities of divisional management, including authority levels, reporting disciplines and responsibility for risk management and internal control. Certain activities, including treasury, taxation, insurance, pension, compliance and legal matters are controlled centrally with reports reviewed by the Board as appropriate. Site level policies and procedures are set by divisional management as appropriate to the needs of each business unit.

An internal audit programme is agreed by the Finance Director and approved by the Committee each year, setting out a programme of audits over the course of the next 12 months. This focuses mainly on financial controls but also includes other operational or compliance controls e.g. IT security, HSE reporting and compliance with Group policies.

IFC – 01

COMPANY OVERVIEW

02 – 25

BUSINESS REVIEW

26 – 49

CORPORATE GOVERNANCE

50 – 91

FINANCIAL STATEMENTS

92 – 93

SHAREHOLDER INFORMATION

Risk identification and review

Key identified risks, both financial and non-financial, are reviewed by the Board as well as by divisional management on an ongoing basis, which is supported by the work of the Audit Committee and the internal audit service. A formal annual review of risks and controls is carried out by both the management team and the Board, and includes presentations from senior managers.

The management team, which comprises the executive directors, business presidents and functional business leaders, meets on a regular basis to review each division's and the Group's performance, strategy and risk management. Their work is supported by the internal audit programme which covers the monitoring of the effectiveness of internal controls and the design of processes to test the effectiveness of controls.

At an operating level, all divisions are required to have processes to identify risks and, so far as possible, take action to reduce those risks. In addition annual compliance statements on internal control are certified by each operating division.

A fuller description of the Group's risk management system is set out in the Business review on pages 16 to 18.

Financial reporting

There is a comprehensive Groupwide system of financial reporting. The Board reviews at each of its meetings reports from the Chief Executive and the Finance Director, as well as full management accounts, comprising monthly and year to date profit and loss statements, cash flows and balance sheet, with segmental and individual business performance analyses. In addition, capital expenditure and relevant performance indicators are reported. Actual monthly results are monitored against budget, forecasts and the previous year's results. Any significant variances are investigated and acted upon as appropriate. As well as monthly management accounts, each operating division prepares an annual and a three year operating plan which is approved by the Board. Thereafter a formal re-forecasting exercise is undertaken three times a year.

The Committee considers that the Group's systems of internal control and risk management (including those relating to the financial reporting process) are robust and effective. The Committee is responsible for ensuring the integrity of the Group's financial statements and other communications to the market about trading performance relative to market forecasts. The Committee approves and keeps under review significant accounting policies, particularly in areas where judgements and estimates are made.

Investment appraisal

There are clearly defined investment guidelines for capital expenditure. All investment expenditure is subject to formal authorisation procedures, with major proposals being considered by the Board.

Audit Committee

The role of the Audit Committee is critical within the Company's system of internal control and risk management.



Chris Girling
Chairman, Audit Committee

28 February 2012

The Committee's composition and the attendance records of its members are shown in the table on page 36. All meetings (except one which was attended by non-executive directors only) were also attended by both executive directors, to ensure that all Board members are kept fully informed on the operation and work of the Committee.

A summary of the Committee's role appears in the Elementis governance framework on page 32. A full description and its terms of reference are available on the Company's website at: www.elementisplc.com/governance-responsibility/

The Committee's formal programme of work in 2011 was carried out over four meetings – in June, July, October and December. This programme of work covered the following:

- consideration of Lord Davies' recommendations for increasing the number of women on the boards of listed companies;
- approval of a Board diversity policy to take into consideration CG Code requirements on Board diversity (see below);
- consideration of using external resources to help carry out its annual performance evaluation;
- consideration of the non-executive succession planning process;
- review of results of the annual Board performance evaluation;
- review of submissions from eight recruitment firms who had been asked to submit proposals for assisting the Board in implementing its succession plans; and
- review of the Chairman's performance.

BOARD DIVERSITY

Under the diversity policy agreed by the Board, the best candidate will be the one whose recruitment profile is considered to be the best fit for the vacant role. In determining best fit, the Board will take into consideration the following: the skills, knowledge and experience of the candidate measured against the requirements of the role and the existing knowledge, skills, experience, aptitudes and personalities represented on the Board, as well as the Group's international profile.

The diversity policy also stipulates, in relation to new appointments, that: (a) only recruitment advisers who are able to demonstrate a commitment to gender equality and the ability to identify suitably qualified female candidates for Board positions will be engaged; and (b) where two candidates are equally matched against a role specification, the Board will give preference to a female candidate.

The Board considers that this policy will help to ensure women are given every opportunity to be considered for appointment and, in the scenario described, will be given preference over a male candidate.

As the Board is currently engaged in a succession planning process that is likely only to be fully completed in 2014/2015, it does not consider that it would be appropriate to set targets for the number of women on the Elementis Board. However, a specific requirement of the appointed recruitment adviser will be to ensure any long list and short list of candidates presented to the Board for consideration is in line with the Davies recommendations – that is, at least 25 per cent should be women considered to have met the essential criteria for the role in question.

BOARD PERFORMANCE EVALUATION


The annual evaluation of the Board's performance includes a review of its committees and individual directors, as well as the company secretary. The process involves the use of a questionnaire, which has been designed internally, and the results are discussed by all the directors at one of the Committee's meetings held towards the end of the year. Prior to the process being agreed, the Committee discussed two proposals in June for an external evaluation to be conducted, but decided that the priority was to progress the Board's succession plans. It was agreed that some of the work involved, such as identifying certain skills and competencies, could overlap with an external evaluation review and, therefore, it would be more appropriate for the latter to be carried out mid-way through, or towards the end of, the Board's refreshment programme.

Some shareholders have asked for additional information about directors to help them understand the extent to which a director's background or experience helps shape or influence the contribution he makes to the operation and effectiveness of the Board. Although the Committee does not consider commenting on individual performance to be appropriate, the biographical information provided and the information in the table on Board diversity should assist shareholders to assess the skills and experience of the Board as a whole, when determining how to vote on certain resolutions at the AGM.

The general outcome of the process in 2011 was that the performance of the Board as a whole, the operation of its committees and the performance and contributions of individual directors (executive and non-executive), including the company secretary, were all considered to be effective. In terms of Board structures and operation, including information and resources, leadership, strategic direction and key priorities, these were considered to be appropriate and no particular concerns were raised. Key priorities that were discussed included: Board succession planning; proactive investor relations programme; general awareness around macroeconomic risks; maintaining balance sheet strength/optimising capital structure; and growing the Specialty Products business by a combination of organic growth, through new products and new markets/geographies, and making selective bolt on acquisitions in complementary technologies or markets.

Towards the end of the year, the Senior Independent Director chaired a meeting of the directors to review the performance of the Chairman without him being present. The conclusion was that the Chairman remains effective in his role in terms of his leadership and commitment, the operation and priorities of the Board, and his support to management.

The Committee also met without the executive directors being present and complimented them for the openness and transparency in their dealings with the Board, which were appreciated.



Robert Beeston
Chairman
28 February 2012

INTRODUCTION

The Committee's composition and the attendance records of its members are shown in the table on page 36. All meetings were also attended by the Chairman of the Company and the Senior Independent Director, to ensure that all non-executive Board members are kept fully informed on the operation and work of the Committee. Both executive directors also attend meetings by invitation as appropriate, although they are not present when their own remuneration arrangements are discussed.

A summary of the Committee's role appears in the Elementis governance framework on page 32. A full description and its terms of reference are available on the Company's website at: www.elementisplc.com/governance-responsibility/

A resolution to approve this report will be tabled at the AGM and the chairman of the Committee will be available to answer questions from shareholders on the decisions of the Committee.

During 2011, two of the three Committee members (including the chairman) attended separate external seminars on executive remuneration and all Board members received briefings from the company secretary or the Committee's remuneration advisers throughout the year, to keep them updated on topical matters and developments relating to executive remuneration.

Following comprehensive reviews in recent years of the three essential elements of executive remuneration (basic salary, annual bonus scheme and long term incentive plan ("LTIP")), the Committee considers that the general structure of these elements remains appropriately designed to incentivise the executive team to deliver sustainable results that do not encourage excessive risk taking. However, two changes have been made for 2012. The Committee has decided to introduce a bonus claw-back mechanism that would enable the Company to recover bonuses that are paid from 2012 onwards which are later found to be undeserved. The mechanism is based on internal guidelines and modelled on the relevant provisions in the CG Code and the advice in the Association of British Insurers' Principles of Remuneration (September 2011).

The other change concerns the weighting of the two performance conditions that are applied to the annual bonus scheme. In 2011, these conditions were split 50:50 between corporate earnings per share ("EPS") and a Group average trade working capital ("AWC") metric for the executive directors, and a 50:50 split between divisional operating profit ("DOP") and a divisional average trade working capital metric for the business presidents. (The term "business president" is used synonymously with "business managing director".) In 2012, the performance metrics will remain the same, but the split will be 75:25 between EPS/DOP and AWC. The reason for this change is to ensure the structural improvements that have been made to working capital in recent years are maintained at a level which is competitive within the chemical industry, and to focus greater attention on the principal strategic objective of generating value over the longer term by growing earnings at a sustainable rate.

Following this change, the Committee considers that the performance targets that apply to the annual bonus scheme and long term incentive plan (the latter remaining unchanged) remain aligned to the Group's longer term strategy and with shareholders' interests, as well as reflecting the risk appetite of the Board. These targets are discussed further in the context of each scheme below.

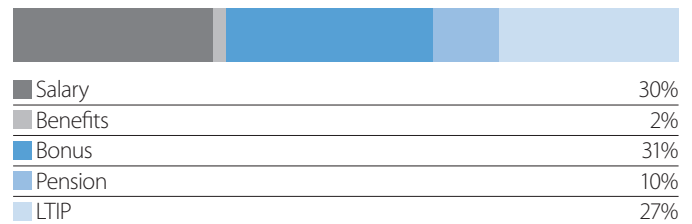
The Committee's external advisers are New Bridge Street ("NBS") who were appointed after a tender in 2008. NBS provided guidance to the Committee in its review of bonus claw-back provisions, the choice and relative weights of the performance conditions in the annual bonus scheme and in the proposals to adopt a new Executive Share Option Scheme 2012 (discussed later). The Committee is satisfied that there is no over-reliance on NBS, who have no connection with the Company other than as remuneration advisers.

REMUNERATION POLICY AND PRACTICE

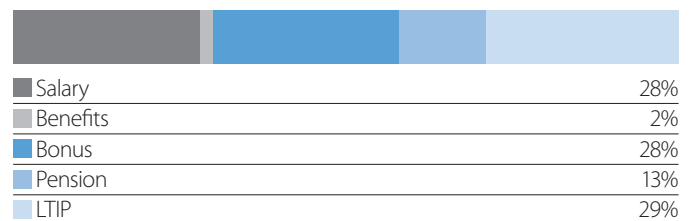
The policy of the Committee is to set remuneration at a level which is competitive with that of comparable businesses, enabling the Company to attract and retain people with relevant ability, experience and skills. To ensure that executive directors align their interests with those of shareholders, a substantial proportion of the overall remuneration package is linked to corporate performance through participation in short term and long term incentive schemes. The charts below illustrate the split of total remuneration in 2011 for the executive directors and demonstrate that the split between fixed and variable (or performance related) remuneration is firmly weighted towards pay for performance.

Total remuneration breakdown for the executive directors in 2011

David Dutro – \$2.4 million



Brian Taylorson – \$1.7 million



Notes:

Pension – For D Dutro, this is a cash supplement of 20 per cent of his basic salary and matched contributions by his employer into a defined contribution plan; for B Taylorson, this is 1/30th accrual up to the notional earnings cap plus a salary supplement.

LTIP – Based on 60 per cent of the face value of the award (number of shares times market price) at date of grant.

The Committee's policy is not to include targets for corporate performance on environmental, social and corporate governance issues when considering the remuneration of executive directors. The safety and environmental performance of Group businesses is accorded high importance and the Committee considers that management should aspire to achieving high standards in both safety and environmental performance without the need for incentives. Corporate governance standards are set by the Board as a whole.

LINKING REMUNERATION TO STRATEGIC OBJECTIVES AND RISK MANAGEMENT

On a basic level, salary, benefits and pension (as illustrated in the charts left) are a feature in attracting and retaining the best qualified candidate for the given role. There is therefore greater scope in the design and structure of the short and long term incentive programmes to ensure that these are appropriately aligned with strategic objectives for generating and preserving shareholder value over the longer term, without encouraging excessive risk taking.

The short term incentive is the annual bonus scheme, which was reviewed in 2009 and changes were made in 2010. The amount of bonus payment that can be received in cash under typical schemes is driven by various factors, such as the size of the award (or the maximum payment as a percentage of basic salary), performance conditions, and deferral and claw-back mechanisms. The Committee considers that, in respect of our scheme, the current design and structure are appropriate to incentivise management to achieve our principal strategic objective of sustainable year on year earnings growth, without encouraging excessive levels of risk taking. The priority of this objective is reflected in the higher weighting in favour of EPS. The AWC metric encourages operational discipline and maintains a focus on cash management and the Committee keeps both EPS and AWC metrics under review on an annual basis to ensure they continue to remain appropriate.

The long term incentive scheme is the award of shares (structured as nil cost options) under the LTIP. The combination of EPS and total shareholder return ("TSR") targets are intended to ensure that there is a financial underpin to any growth in value generated over each three yearly period and to provide a meaningful measure of share price performance against other companies. The combination of incentives and targets is considered appropriate to incentivise the executives to deliver year on year earnings growth and, in the case of the TSR condition in the LTIP, to deliver share price performance on a consistent basis within the range of median to upper quartile performance relative to a broad based stock market index.

With the strategic focus on sustainable growth as stated, the Board sets out how this will be achieved in the Business review – through a combination of selective acquisitions, organic growth (new products, new applications, new customers and new geographies/segments) and operational and commercial excellence. Each of these areas of focus, including the associated risks, is something the Board reviews regularly in its programme of meetings and site visits. Strategy, risk management and remuneration are therefore all interwoven into performance and this is why the Committee considers that executive remuneration is appropriately aligned with shareholder interests.

SALARIES, FEES AND BENEFITS

The Committee's policy is that there should be a formal salary review for executive directors every three years, where benchmarking analysis would be utilised for reference purposes, taking into consideration the following factors: corporate performance, the performance of the executive, market practice, and changes in responsibility, complexity and size of role over the previous three year period. In between formal reviews, the policy is that executive directors should receive an annual salary increase equivalent to the average for the local workforce. This annual inflationary increase would still have to be approved by the Committee, taking into consideration whether the performance of the business and the executive director merits the award. This policy, however, is subject to the structure of the business or role of the executive director remaining substantively unchanged and, when this is not the case, the Committee has the discretion to conduct a formal review (with or without benchmarking) whenever appropriate. The next formal salary review will take place in 2013 and any changes would be effective from 2014.

The Committee approved an inflationary pay increase to both David Dutro and Brian Taylorson of three per cent (effective from 1 January 2012), after taking into consideration their performance, the pay and employment conditions of employees elsewhere in the Group and the requirements of their role as Group Chief Executive and Finance Director, respectively, and agreeing that the increase was deserved and based on merit. The level of increase is similar to the average awarded to the general workforce in the US and UK where they are respectively based.

Executive directors also receive benefits, which relate to the provision of a car, life assurance and medical cover. Additionally, as is standard in the US, David Dutro receives benefits covering dental costs, accidental death and disablement, and long term disability. These benefits are generally considered to be standard for managerial staff, with variances depending on country or local market practice.

NON-EXECUTIVE DIRECTORS' FEES

Fees for non-executive directors are determined by the Chairman and the executive directors, having regard to fees paid to non-executive directors in other UK quoted companies, the time commitment and responsibilities of the role. The basic fee is currently £40,000 per annum and is reviewed every three years. A separate fee is payable for additional responsibilities and these are set out in the remuneration table on page 45. The Chairman's fee is currently £137,150 per annum and the amount is also reviewed every three years by the Committee. The next review date will be in December 2013, with changes being effective from 2014.

Non-executive directors are not eligible to participate in any bonus or share incentive schemes. No individual is allowed to vote on their own remuneration.

SERVICE CONTRACTS

It is the Company's policy that executive directors should have service contracts with the Company that contain a termination notice period not exceeding 12 months, as is the case with the service agreements of David Dutro and Brian Taylorson.

Termination payments in relation to departing executive directors are not agreed in advance and are determined in accordance with the directors' contractual rights. It is the Committee's policy to ensure that a director's duty to mitigate his loss is taken into account in the calculation of any termination payments.

The total amount that would be payable to David Dutro for early termination by the Company of his service agreement is between 50 per cent and 100 per cent of the aggregate of (i) his basic annual salary and (ii) any bonus which he may be eligible to receive. The total amount that would be payable to Brian Taylorson for early termination by the Company of his service agreement is between 50 per cent and 100 per cent of the aggregate of (i) his basic annual salary, (ii) the sums that would have become payable to him or on his behalf, had 12 months' notice of termination been given, by way of pension accruals and any pension cash salary supplement, (iii) the cost of providing private medical insurance for him and his spouse for the 12 months following termination, and (iv) his monthly car allowance for a 12 month period.

The above terms for both executive directors were agreed at the time the contracts were made and the Committee is aware that governance guidelines ask remuneration committees generally to commit to a policy that precludes the inclusion of any payment (benefits or bonus) other than basic salary in the calculation of termination payments. As stated above, the Committee's position is to ensure a director mitigates his loss, but the Committee does not consider that it would be in the best interests of the Company, or likely to promote its success, to adopt a policy in public that might otherwise restrict its flexibility in future contract negotiations.

As new executive directors are appointed, their service contracts will reflect best practice at that time.

The non-executive directors during the year held letters of appointment with the Company as follows:

Name	Date of appointment	Date of last re-appointment	Date of expiry
R Beeston	21/09/06	21/09/09	20/09/12
I Brindle	06/06/05	06/06/11	05/06/14
A Christie	11/08/08	11/08/11	10/08/14
C Girling	29/04/05	29/04/11	28/04/14
K Matthews	16/02/05	16/02/11	15/02/14

Robert Beeston's appointment as Chairman will expire in September 2012 and it is anticipated that his appointment will be renewed for a third three year period.

Each letter provides that the director's appointment can be terminated by the Company on six months' notice on any grounds without claim for compensation. Copies of all letters of appointment of non-executive directors, as well as the executive directors' service contracts, are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the AGM.

SHORT TERM INCENTIVE ARRANGEMENTS

Annual Bonus Scheme

The structure of the annual bonus scheme for 2012 for executive directors and business presidents remains largely unchanged from the previous year (except as previously described), and the key features are:

- maximum bonus opportunity of one times basic salary;
- two performance conditions: earnings per share ("EPS") and average trade working capital to sales ratio expressed as a percentage ("AWC") split 75:25 (for the business presidents, the measures are divisional operating profit and AWC); and
- internal guidelines will operate to allow the Committee to claw-back bonuses paid that are later found to have been based on performance that was unknowingly mis-stated or incorrect.

The EPS/operating profit and AWC conditions were selected because they are considered to be the most appropriate measures of the Group's strategic, operational and financial performance, and targets are set at levels which the Committee considers to be appropriately challenging (taking into consideration the Company's operating and strategic plans, and assumptions about global macroeconomic conditions). EPS targets are set to ensure that maximum bonuses are only payable for exceptional performance.

As discussed in previous reports, changes were made in 2010 to the structure of the annual bonus scheme and LTIP that were approved by shareholders, which the Committee considers sufficient for the purposes of addressing the issue of bonus deferral.

Performance targets

2011 annual bonus scheme

EPS targets were set at Threshold, Plan and Stretch levels (15.2 cents, 15.7 cents and 17.5 cents, respectively, with the Stretch target representing a growth over prior year of 15 per cent). The rate of bonus accrual as a percentage of basic salary was fixed at 0 per cent at Threshold and 50 per cent at Stretch (straight line accrual in between). At Plan, under the accrual scale described, less than 11 per cent of salary could be earned.

The AWC targets set at Threshold, Plan and Stretch levels were 19.1 per cent, 18.6 per cent and 18.1 per cent, with bonus accruing at 0 per cent at Threshold, 25 per cent at Plan and 50 per cent at Stretch (straight line in between). The 2011 result under this metric was 17.2 per cent (2010: 18.0 per cent) which was achieved due to a strong operational focus on working capital and cash flow management, to ensure the structural improvements made in 2010 were maintained. The 2011 AWC targets were set on a consistent basis with the previous year, although with some variations to allow for strategic decisions to be taken affecting the level of working capital, such as the strategic holding of key raw materials.

The bonus targets for the business presidents are based on divisional performance at a level that is consistent with those for the executive directors in terms of the level of challenge. To achieve the maximum of 100 per cent of base pay, EPS and AWC performance would both have to be at Stretch level.

Based upon the performance of the Group and its operating divisions in 2011, both the executive directors and the president of Elementis Chromium will each receive the maximum bonus allowed under the annual bonus scheme, equivalent to 100 per cent of their respective base salaries. Based on the performance of the business, the president of Elementis Specialties will receive the maximum bonus under the operating profit component and around 47.5 per cent of the AWC component, resulting in a total bonus equivalent to 97.5 per cent of his basic salary in 2011. All bonuses, as in previous years, are not pensionable.

2012 annual bonus scheme

EPS targets have again been set at Threshold, Plan and Stretch levels, with the rate of bonus accrual as a percentage of basic salary fixed at 0 per cent at Threshold, 37.5 per cent at Plan and 75 per cent at Stretch (straight line accrual in between). The Threshold target has been set at the 2011 result (20.8 cents) and the targets at Plan and Stretch are set at levels consistent with consensus estimates and further material growth in earnings. The actual targets are not disclosed here due to commercial sensitivity but will be disclosed in next year's Remuneration report.

In respect of the AWC condition, the targets at Threshold, Plan and Stretch levels are 19.9 per cent, 19.4 per cent and 18.9 per cent, with bonus accruing at 0 per cent at Threshold, 12.5 per cent at Plan and 25 per cent at Stretch (straight line in between). These targets, whilst still considered to be sufficiently challenging, reflect the decision to increase the level of inventory held in 2012 for key raw materials used in the businesses, which was taken to mitigate supply chain risks, such as shipment delays or disruptions from industrial action. As was the case in 2011, an over-riding condition will apply such that the bonus opportunity subject to this AWC condition would vest only if the AWC target at Plan is met and provided that the EPS condition at Plan is also achieved.

LONG TERM INCENTIVE ARRANGEMENTS

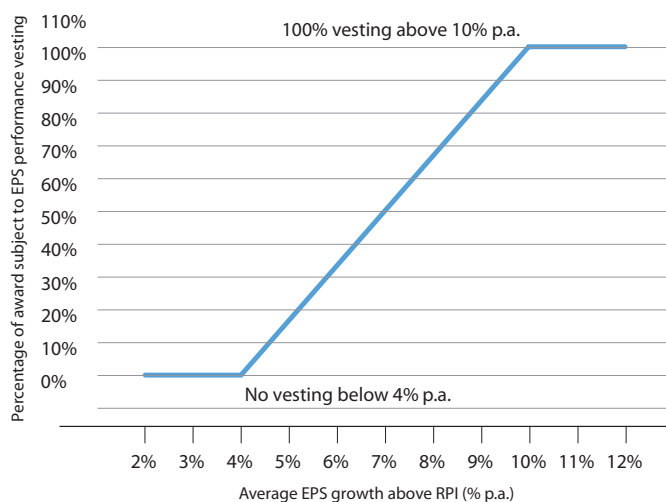
Since 2010, the Company has operated a Long Term Incentive Plan for the executive directors and other senior executives (including both business presidents). Under the 2008 Long Term Incentive Plan, which was amended in 2010 ("2010 LTIP" or "Plan"), awards of nil cost options are made annually (within 42 days of the preliminary results announcement), which may become exercisable after three years and within ten years of the date of award, subject to the achievement of performance conditions. The maximum value of any award under the Plan is calculated by reference to one times an individual's own base salary plus up to 50 per cent of the Chief Executive's base salary (fixed at its 2010 level but this base level is revalued annually by the same percentage increase each participant receives on his own base salary in each subsequent year). In the case of the Chief Executive, the maximum award is limited to 1.5 times his base salary at the time of the award. The additional component of above one times basic salary was implemented in 2010 to ensure that incentives were appropriately weighted towards the long term success of the Company and to ensure that individuals were not negatively impacted by the corresponding reduction in the annual bonus scheme made in that year.

Proposed awards in 2012

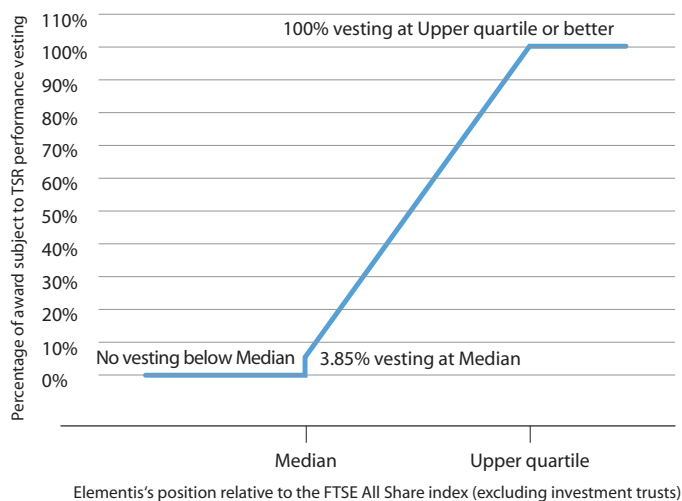
No change has been made to the structure, operation or performance conditions of the Plan, as described above, for grants that will be made in 2012. Since 2011, five senior executives (the Chief Executive, Finance Director, both business presidents and General Counsel) participate in the 2010 LTIP and there are no plans to increase the number of participants in this Plan.

Awards to be made in 2012 under the Plan will be subject to the same EPS and TSR performance conditions (split 50:50) as in the previous year and these are shown in the charts below.

Vesting schedule – EPS performance condition



Vesting schedule – TSR performance condition



For the EPS condition, the chart shows that awards will vest on a linear scale from 0 per cent to 100 per cent for average annual EPS growth of RPI + four per cent to RPI + ten per cent, respectively. The Committee considers that these targets are appropriately challenging after taking into consideration the Company's strategic and operating plans. The performance period for both EPS and TSR conditions will correspond to the three financial years ending 31 December 2014.

For the TSR condition, the chart shows that awards will vest on a linear scale from 3.85 per cent to 100 per cent for median to upper quartile performance, respectively. The TSR condition will be measured against the companies comprising the FTSE All Share index (excluding investment trusts). This index was selected as it provides a better indication of relative performance rather than the FTSE 250 index which is heavily weighted towards cyclical sectors.

Details of outstanding awards and the performance conditions are set out in the table on page 47.

Participants in the 2010 LTIP would not also participate in any other discretionary share incentive scheme. The Company still operates a 2003 Executive Share Option Scheme ("2003 ESOS") for other executives and details of the 2003 scheme are described on page 83. As this scheme is approaching its expiry date, the Board is recommending the adoption of a new 2012 Executive Share Option Scheme to replace the 2003 ESOS for awards from 2013 onwards, full details of which are set out in the Notice of Meeting document sent to all shareholders.

SHARE OWNERSHIP GUIDELINES

Shareholding guidelines introduced previously require executive directors to build up a stake in the Company over a period of time that is equal in value to one times their basic annual salaries. David Dutro and Brian Taylorson are considered to have met this requirement during 2011.

SAVINGS-RELATED SHARE OPTION SCHEMES

Both executive directors, like other senior executives, also participate in non-discretionary savings-based share plans and information about these can be found on page 83.

SOURCING SHARES FOR OUR SHARE PLANS

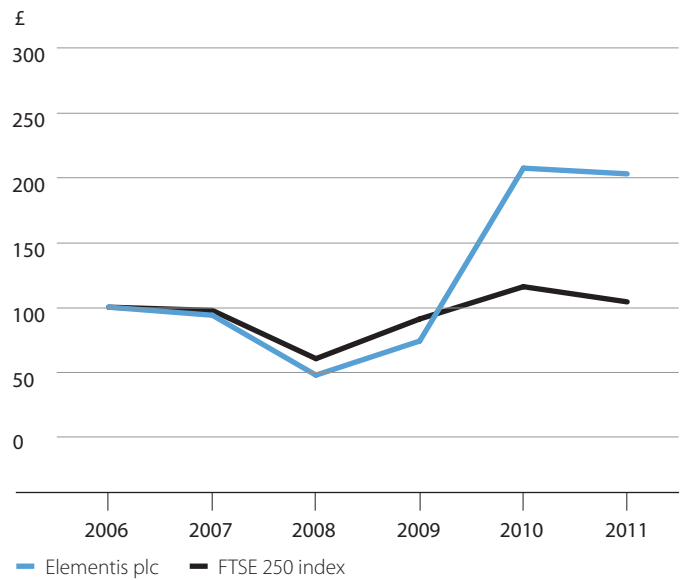
Elementis share plans comply with the current ABI guidelines on headroom which provide that overall dilution under all plans should not exceed ten per cent over any ten year period in relation to the Company's issued share capital, with a further limitation of five per cent in any ten year period on discretionary plans. Based on the number of awards that remain outstanding as at the year end and having included all exercised awards and awards that have lapsed, the Company's headroom for all plans is 6.3 per cent and for discretionary plans 3.9 per cent.

The costs of operating all of the Company's share incentive schemes and the total number of options granted to all directors and employees that remain outstanding as at the year end are disclosed in Note 24 to the Financial Statements on pages 83 and 84.

TOTAL SHAREHOLDER RETURN PERFORMANCE

The following graph illustrates the Company's total shareholder return for the five years ending 31 December 2011, relative to the FTSE 250 index.

As the Company's shares are denominated and listed in pence, the graph below looks at the total return, to the end of 2011, of £100 invested in Elementis on 31 December 2006 compared with that of the total return of £100 invested in the FTSE 250 index. This index was selected for the purpose of providing a relative comparison of performance because the Company is a member of it.



DIRECTORS' REMUNERATION TABLE

Although the Company reports its results in US dollars, the remainder of this report on remuneration is presented in pounds sterling because the majority of the directors are UK based and paid in pounds sterling.

Directors' emoluments for the year ended 31 December 2011 were:

	Date of appointment ⁽¹⁾	Salary/fees		Benefits ⁽²⁾		Bonus		Total excluding pensions	
		2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Chairman									
Robert Beeston	21.04.11	137	120	–	–	–	–	137	120
Executive directors									
David Dutro ⁽³⁾	17.01.07	449	432	32	24	458	454	939	910
Brian Taylorson ⁽⁴⁾⁽⁵⁾	02.04.02	301	292	17	17	306	297	624	606
Non-executive directors									
Ian Brindle	06.06.11	45	40	–	–	–	–	45	40
Andrew Christie	11.08.11	40	35	–	–	–	–	40	35
Chris Girling	29.04.11	45	40	–	–	–	–	45	40
Kevin Matthews	21.04.11	45	40	–	–	–	–	45	40
		1,062	999	49	41	764	751	1,875	1,791

Each non-executive director receives a basic fee of £40,000 per annum plus an additional £5,000 should he chair either the Audit or Remuneration Committee. Ian Brindle as Senior Independent Director receives an additional £5,000 per annum to the basic fee.

Notes

- For executive directors, this is their date of appointment and for non-executive directors, the later of the date of appointment, re-appointment or latest date of re-election to the Board.
- The benefit package mainly comprises of a car allowance or company car, life assurance and medical cover. The increase in benefits for David Dutro reflects a change in company car during 2011.
- David Dutro as Group Chief Executive, who is based and spends most of his time in the US and receives his salary in US dollars, received a salary of \$723,078 per annum (2010: \$669,500 per annum). His emoluments exclude salary supplements paid as compensation for the closing to future accruals of the US defined benefit scheme – see below. His basic salary in 2012 was increased by three per cent.
- Emoluments for Brian Taylorson also exclude salary supplements paid as compensation for the limitation of pension rights to the former HM Revenue and Customs' earnings cap. These are shown in the Directors' retirement benefits table overleaf. His basic salary in 2012 was increased by three per cent.
- The Company has released Brian Taylorson to serve on the Board of Fiberweb plc and fees of £32,000 (2010: £32,000) were paid to him during the year, which he retained.

RETIREMENT BENEFITS

David Dutro, as a US salaried executive director, participates in the Elementis Career Reward Retirement Plan ("ECRRP") for US employees. On 1 May 2006, the plan was frozen (closed to future accruals). The ECRRP is a cash balance retirement plan, which falls under the category of defined benefit pension plans in the US. As the plan is closed to future accruals, participants' account balances are no longer credited with contributions, however, interest is credited each year at the US Treasury 30 year bond rate. David Dutro's accrued benefits under this plan are shown in the table overleaf. The normal pensionable retirement age for David Dutro under the ECRRP is 65.

The US pension plans also include a US 401(k) Plan, which is similar to a money purchase scheme, and a Non-Qualified Deferred Compensation Plan (the "Defined Contribution plans"). The latter plan mirrors the 401(k) Plan except it allows for contributions in respect of earnings over an annual compensation limit set by the US Internal Revenue Service (2011: \$245,000). To partially compensate for the freezing of the ECRRP, the employer match under the Defined Contribution plans was enhanced (effective from 1 May 2006) for participants by introducing a supplemental match of up to four per cent, based on their age and length of service, in addition to the existing or regular match of up to four per cent of total pensionable remuneration. David Dutro participates in the Defined Contribution plans and total employer contributions made in respect of his participation in 2011 were £53,893 (2010: £34,988). The amount paid can vary from year to year as it is based on matching an employee's contributions. The amounts paid by Elementis to David Dutro under these plans were equivalent to six per cent of his total pensionable remuneration (comprising basic salary and bonus payments) in 2011.

Brian Taylorson, as a UK salaried executive director, participates in the Company's HM Revenue & Customs' approved funded occupational pension scheme ("UK Plan"), and he is subject to the former HM Revenue & Customs' earnings cap on the amount of salary which may be treated as pensionable.

The main benefits under this scheme to him as a UK salaried executive director, who contributes a percentage of his salary to the scheme each year, are:

- an accrual rate of 1/30 for each year of pensionable service;
- life assurance cover of four times pensionable salary; and
- pensions to spouse and dependent children payable on death.

The normal pensionable retirement age for Brian Taylorson is 60.

The table below shows the retirement benefits of the directors, comprising employer contributions to the Defined Contribution schemes, benefits under defined benefit schemes ("DB schemes") and salary supplements paid in cash. In the case of the DB schemes, the transfer values for David Dutro (under the ECRRP) and Brian Taylorson (under the UK Plan) have been calculated in accordance with pension regulations. The transfer value of the increase in accrued benefits discloses the current value of the increase in accrued benefits that the director has earned in the year, whereas the increase in transfer value less directors' contributions discloses the absolute change in transfer value and includes the change in value of the accrued benefits resulting from changes in market rates affecting the transfer value at the start of the year as well as the additional value earned in the year.

Non-executive directors are not entitled to retirement benefits.

DIRECTORS' RETIREMENT BENEFITS TABLE

	Defined contribution schemes		Salary supplements		Defined benefit schemes						
	2011 £'000	2010 £'000	2011 £'000	2010 £'000	Accrued benefits 31.12.11 £'000	Increase in accrued benefits 2011 £'000	Increase in accrued benefits (net of Inflation) 2011 £'000	Transfer value of increases in accrued benefits less directors' contributions 2011 £'000	Total transfer value at 31.12.10 £'000	Total transfer value at 31.12.11 £'000	Increase in transfer value less directors' contributions 2011 £'000
David Dutro	54	35	90	86	9	–	–	–	64	66	3
Brian Taylorson	0	0	136	125	43	7	4	80	947	1,221	268

DIRECTORS' SHAREHOLDINGS

As at 31 December 2011 the interests of the persons who were then directors in the issued shares of the Company (excluding any interests under the Group's employee share schemes) were:

	Ordinary shares 31.12.11	Ordinary shares 31.12.10
Robert Beeston	50,000	50,000
Ian Brindle	31,172	31,172
Andrew Christie	10,000	10,000
David Dutro	264,224	37,695
Chris Girling	5,000	5,000
Kevin Matthews	11,633	11,633
Brian Taylorson	381,096	381,096

In March 2011, David Dutro acquired direct beneficial interests over 212,626 shares under the Elementis unitised stock fund, which is an investment option under the US 401(k) pension plan. He also retained during the year 13,903 (2010: 1,850) shares following the exercise of 13,903 (2010: 1,850) savings-based share options in 2011.

As at 28 February 2012, the Trustee of the Company's Employee Share Ownership Trust ("ESOT") held 1,165,719 (2010: 5,578,169) shares and, as executive directors, David Dutro and Brian Taylorson, as potential beneficiaries under the ESOT, are deemed to have an interest in any shares that become held in the ESOT.

As at 28 February 2012, no person who was then a director had any interest in any derivative or other financial instrument relating to the Company's shares and, so far as the Company is aware, none of their connected persons had such an interest. Between 31 December 2011 and 28 February 2012 there was no change in the relevant interests of any such directors nor, so far as the Company is aware, in the relevant interests of any of their connected persons.

DIRECTORS' SHARE OPTIONS/LTIP AWARDS

	Option type	01.01.11	Granted during 2011	Exercised during 2011	Lapsed during 2011	31.12.11	Option price (p)	Earliest exercise date/ Date of vesting	Expiry date	Price on exercise (p)	Gain on exercise (£)
David Dutro	A	13,942	–	13,903	39	–	42.5	27.08.2011	27.11.2011	1.35	12,874
	A	32,351	–	–	–	32,351	76.7	27.08.2012	27.11.2012	–	–
	A	–	4,929	–	–	4,929	119.3	26.08.2013	26.11.2013	–	–
	B	197,133	–	197,133	–	–	51.3	30.03.2008	30.03.2015	1.55	204,525
	B	250,000	–	250,000	–	–	64.5	02.11.2008	02.11.2015	1.55	226,250
	B	193,844	–	193,844	–	–	85.5	04.04.2009	04.04.2016	1.55	134,722
	C	–	–	1,133,341	–	–	–	28.04.2011	28.04.2018	1.55	1,756,679
	D	988,149	–	–	–	988,149	–	22.04.2013	22.04.2020	–	–
	D	–	451,350	–	–	451,350	–	04.04.2014	04.04.2021	–	–
Brian Taylorson	A	43,778	–	–	–	43,778	35.5	01.10.2012	01.04.2013	–	–
	B	468,293	–	468,293	–	–	51.3	30.03.2008	30.03.2015	1.55	485,854
	B	379,532	–	379,532	–	–	85.5	04.04.2009	04.04.2016	1.55	263,775
	C	–	–	906,673	–	–	–	28.04.2011	28.04.2018	1.55	1,405,343
	D	768,103	–	–	–	768,103	–	22.04.2013	22.04.2020	–	–
	D	–	343,951	–	–	343,951	–	04.04.2014	04.04.2021	–	–

A Savings-related share option scheme.

B Executive Share Option Schemes 2003 (Unapproved).

C 2008 Long term incentive plan. These awards were made in April 2008 and vested in April 2011. At 31 December 2010, the awards were a percentage share of a pool where the actual number of shares that would vest was indeterminable until the date of vesting and performance conditions were tested. The numbers shown under the "exercised" column represent the actual number of shares that vested in respect of the individual's percentage share. These awards were made after consultation with major shareholders and were approved by shareholders at the 2008 AGM. The one-off nature of these awards was designed to incentivise management to deliver performance that would lead to a significant increase in the value of the Company. Under the performance condition selected, the market value of the Company (measured by share price growth plus dividends paid over a three year period) had to increase by a minimum of 31 per cent before vesting would start. In the event, the level of increase achieved was 51 per cent and 2.15 per cent of the net increase formed the basis of a pool which participants would share in. The value of this pool was approximately £5 million, or just under three million shares. One other senior executive shared in the pool. These awards vested in full as a result of the excellent performance, as reflected in the share price which increased from 66.5 pence on the date of award to 158 pence on the date of vesting. Holders of these awards did not receive any discretionary share incentive awards in 2009.

D 2010 Long term incentive plan. The two sets of awards for each individual shown in the table above are in respect of awards made in 2010 and 2011. The former has a date of vesting in 2013 and the latter in 2014.

The EPS and TSR performance conditions attaching to 50 per cent each of the 2011 awards are the same as those for the awards that will be made in 2012, as shown in the charts on page 43. The TSR performance condition applying to 50 per cent of the 2010 award is entirely the same in all respects as the 2011 and 2012 awards, but the EPS condition, applying to the remaining 50 per cent, is different. Owing to the EPS result in 2009 (EPS of 2.8 pence), which reflected challenging general economic conditions at the time, the EPS condition required EPS in the financial year ended 2013 of between 6.5 pence and 7.5 pence, for between 0 per cent and 100 per cent of this part of the award to vest. These conditions were reported in last year's Remuneration report which was approved by shareholders at the 2011 AGM.

Based on the excellent financial and share price performance of the Company since January 2010, both the 2010 and 2011 awards are currently tracking at above the maximum performance thresholds set for each award and if this level of performance was to be maintained, these awards would vest in full in 2013 and 2014.

The market price of ordinary shares at 31 December 2011 was 137.2 pence (2010: 143.0 pence) and the range during 2011 was 107.5 pence to 187.4 pence (2010: 50.5 pence to 143.0 pence).

Other than their service contracts, letters of appointment and letters of indemnity with the Company, none of the directors had an interest in any contract of significance in relation to the business of the Company or its subsidiaries at any time during the financial year.

AUDITABLE SECTION OF THE REPORT ON REMUNERATION

The following sections and tables constitute the auditable part of this report as defined in the Companies Act 2006: Sections relating to "Short term incentive arrangements", "Long term incentive arrangements", "Savings-Related Share Option Schemes", tables headed "Directors' remuneration", "Directors' retirement benefits", "Directors' shareholdings" and "Directors' share options/LTIP awards".

This Report of the Remuneration Committee is prepared on behalf of the Board and has been approved by the Committee and signed on its behalf by:



Kevin Matthews
Chairman, Remuneration Committee
28 February 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELEMENTIS PLC

We have audited the financial statements of Elementis plc for the year ended 31 December 2011 set out on pages 50 to 90. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 explained more fully in the Directors' Responsibilities Statement set out on page 31, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on page 37 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

UNDER THE LISTING RULES WE ARE REQUIRED TO REVIEW:

- the directors' statement, set out on page 29 in relation to going concern;
- the part of the Corporate Governance Statement on page 32 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

M H Thompson (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
28 February 2012

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2011

	Note	Before exceptional items \$million	Exceptional items (note 5) \$million	2011 After exceptional items \$million	Before exceptional items \$million	Exceptional items (note 5) \$million	2010 After exceptional items \$million
Revenue	2	760.5	–	760.5	697.4	–	697.4
Cost of sales		(473.6)	–	(473.6)	(445.0)	–	(445.0)
Gross profit		286.9	–	286.9	252.4	–	252.4
Distribution costs		(82.7)	–	(82.7)	(82.8)	–	(82.8)
Administrative expenses		(67.1)	27.5	(39.6)	(67.3)	–	(67.3)
Operating profit	2	137.1	27.5	164.6	102.3	–	102.3
Finance income	3	2.6	–	2.6	0.4	–	0.4
Finance costs	4	(5.2)	–	(5.2)	(6.7)	–	(6.7)
Profit before income tax		134.5	27.5	162.0	96.0	–	96.0
Tax	6	(39.7)	1.8	(37.9)	(27.7)	5.8	(21.9)
Profit for the year		94.8	29.3	124.1	68.3	5.8	74.1
Attributable to:							
Equity holders of the parent		94.8	29.3	124.1	68.3	5.8	74.1
Non-controlling interests		–	–	–	–	–	–
		94.8	29.3	124.1	68.3	5.8	74.1
Earnings per share							
Basic (cents)	9			27.8			16.7
Diluted (cents)	9			27.2			16.5

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

	2011 \$million	2010 \$million
Profit for the year	124.1	74.1
Other comprehensive income:		
Exchange differences on translation of foreign operations	1.3	8.6
Actuarial (loss)/gain on pension and other post retirement schemes	(44.7)	25.3
Effective portion of changes in fair value of cash flow hedges	(0.8)	0.9
Fair value of cash flow hedges transferred to income statement	(0.9)	0.5
Deferred tax associated with pension and other post retirement schemes	8.1	3.4
Other comprehensive income	(37.0)	38.7
Total comprehensive income for the year	87.1	112.8
Attributable to:		
Equity holders of the parent	87.1	112.8
Non-controlling interests	–	–
Total comprehensive income for the year	87.1	112.8

CONSOLIDATED BALANCE SHEET

at 31 December 2011

	Note	2011 31 December \$million	2010 31 December \$million
Non-current assets			
Goodwill and other intangible assets	10	335.1	338.1
Property, plant and equipment	11	163.8	163.1
Deferred tax assets	16	7.4	6.7
Total non-current assets		506.3	507.9
Current assets			
Inventories	12	119.8	102.3
Trade and other receivables	13	99.1	111.8
Derivatives		0.8	0.9
Cash and cash equivalents	20	48.2	40.8
Total current assets		267.9	255.8
Total assets		774.2	763.7
Current liabilities			
Bank overdrafts and loans	19	(6.2)	(7.0)
Trade and other payables	14	(88.3)	(95.3)
Derivatives		(1.0)	-
Current tax liabilities		(4.6)	(4.2)
Provisions	15	(7.9)	(10.3)
Total current liabilities		(108.0)	(116.8)
Non-current liabilities			
Loans and borrowings	19	(15.8)	(113.1)
Derivatives		(0.4)	-
Retirement benefit obligations	23	(94.8)	(67.4)
Deferred tax liabilities	16	(67.7)	(45.5)
Provisions	15	(35.7)	(38.2)
Government grants		(1.0)	(1.4)
Total non-current liabilities		(215.4)	(265.6)
Total liabilities		(323.4)	(382.4)
Net assets		450.8	381.3
Equity			
Share capital	17	43.4	43.2
Share premium	18	12.7	11.6
Other reserves	18	125.8	126.7
Retained earnings	18	267.3	198.2
Total equity attributable to equity holders of the parent		449.2	379.7
Non-controlling interests		1.6	1.6
Total equity		450.8	381.3

The financial statements on pages 50 to 86 were approved by the Board on 28 February 2012 and signed on its behalf by:



David Dutro
Group Chief Executive



Brian Taylorson
Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital \$million	Share premium \$million	Translation reserve \$million	Hedging reserve \$million	Other reserves \$million	Retained earnings \$million	Total \$million	Non-controlling interests \$million	Total equity \$million
Balance at 1 January 2010	43.2	11.0	(38.9)	(7.5)	162.4	116.1	286.3	1.6	287.9
Comprehensive income									
Profit for the year	-	-	-	-	-	74.1	74.1	-	74.1
Other comprehensive income									
Exchange differences	-	-	8.6	-	-	-	8.6	-	8.6
Fair value of cash flow hedges transferred to the income statement	-	-	-	0.5	-	-	0.5	-	0.5
Effective portion of changes in fair value of cash flow hedges	-	-	-	0.9	-	-	0.9	-	0.9
Actuarial gain on pension scheme	-	-	-	-	-	25.3	25.3	-	25.3
Tax credit on actuarial loss on pension scheme	-	-	-	-	-	3.4	3.4	-	3.4
Transfer	-	-	-	-	(1.2)	1.2	-	-	-
Total other comprehensive income	-	-	8.6	1.4	(1.2)	29.9	38.7	-	38.7
Total comprehensive income	-	-	8.6	1.4	(1.2)	104.0	112.8	-	112.8
Transactions with owners									
Purchase of shares by the ESOT	-	-	-	-	-	(2.4)	(2.4)	-	(2.4)
Issue of shares by the Company and the ESOT	-	0.6	-	-	-	-	0.6	-	0.6
Share based payments	-	-	-	-	1.9	-	1.9	-	1.9
Dividends paid	-	-	-	-	-	(19.5)	(19.5)	-	(19.5)
Total transactions with owners	-	0.6	-	-	1.9	(21.9)	(19.4)	-	(19.4)
Balance at 31 December 2010	43.2	11.6	(30.3)	(6.1)	163.1	198.2	379.7	1.6	381.3
Balance at 1 January 2011	43.2	11.6	(30.3)	(6.1)	163.1	198.2	379.7	1.6	381.3
Comprehensive income									
Profit for the year	-	-	-	-	-	124.1	124.1	-	124.1
Other comprehensive income									
Exchange differences	-	-	1.3	-	-	-	1.3	-	1.3
Fair value of cash flow hedges transferred to the income statement	-	-	-	(0.9)	-	-	(0.9)	-	(0.9)
Effective portion of changes in fair value of cash flow hedges	-	-	-	(0.8)	-	-	(0.8)	-	(0.8)
Actuarial loss on pension scheme	-	-	-	-	-	(44.7)	(44.7)	-	(44.7)
Tax credit on actuarial loss on pension scheme	-	-	-	-	-	8.1	8.1	-	8.1
Transfer	-	-	-	-	(3.1)	3.1	-	-	-
Total other comprehensive income	-	-	1.3	(1.7)	(3.1)	(33.5)	(37.0)	-	(37.0)
Total comprehensive income	-	-	1.3	(1.7)	(3.1)	90.6	87.1	-	87.1
Transactions with owners									
Purchase of shares by the ESOT	-	-	-	-	-	(2.2)	(2.2)	-	(2.2)
Issue of shares by the Company and the ESOT	0.2	1.1	-	-	-	2.6	3.9	-	3.9
Share based payments	-	-	-	-	2.6	-	2.6	-	2.6
Dividends paid	-	-	-	-	-	(21.9)	(21.9)	-	(21.9)
Total transactions with owners	0.2	1.1	-	-	2.6	(21.5)	(17.6)	-	(17.6)
Balance at 31 December 2011	43.4	12.7	(29.0)	(7.8)	162.6	267.3	449.2	1.6	450.8

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2011

	Note	2011 \$million	2010 \$million
Operating activities:			
Profit for the year		124.1	74.1
Adjustments for:			
Finance income		(2.6)	(0.4)
Finance costs		5.1	6.7
Tax charge		37.9	21.9
Depreciation and amortisation		19.9	21.4
Decrease in provisions		(3.2)	(0.7)
Pension contributions net of current service cost		(22.0)	(18.4)
Share based payments		2.6	2.0
Exceptional items		(27.5)	-
Cash flow in respect of exceptional items		31.8	(40.7)
Operating cash flow before movement in working capital		166.1	65.9
(Increase)/decrease in inventories		(17.8)	1.7
Decrease/(increase) in trade and other receivables		12.8	(7.7)
(Decrease)/increase in trade and other payables		(4.2)	7.9
Cash generated by operations		156.9	67.8
Income taxes paid		(8.0)	(5.6)
Interest paid		(4.2)	(3.9)
Net cash flow from operating activities		144.7	58.3
Investing activities:			
Interest received		0.9	0.7
Disposal of property, plant and equipment		2.1	2.1
Purchase of property, plant and equipment		(22.5)	(15.7)
Purchase of business		-	1.1
Acquisition of intangible assets		(0.4)	(0.4)
Net cash flow from investing activities		(19.9)	(12.2)
Financing activities:			
Issue of shares by the Company and the ESOT		3.9	0.6
Dividends paid		(21.9)	(20.0)
Receipt of unclaimed dividends		-	0.8
Purchase of shares by the ESOT		(2.2)	(2.4)
Decrease in borrowings		(97.9)	(15.7)
Net cash used in financing activities		(118.1)	(36.7)
Net increase in cash and cash equivalents		6.7	9.4
Cash and cash equivalents at 1 January		40.8	28.8
Foreign exchange on cash and cash equivalents		0.7	2.6
Cash and cash equivalents at 31 December	20	48.2	40.8

IFC - 01

COMPANY
OVERVIEW

02 - 25

BUSINESS
REVIEW

26 - 49

CORPORATE
GOVERNANCE

50 - 91

FINANCIAL
STATEMENTS

92 - 93

SHAREHOLDER
INFORMATION

1 ACCOUNTING POLICIES

Elementis plc is a company incorporated in the UK. The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS"). The Company has elected to prepare its parent company financial statements in accordance with the UK GAAP. These are presented on pages 87 to 90.

Basis of preparation The financial statements have been prepared on the historical cost basis except that derivative financial instruments and financial instruments held for trading or available for sale are stated at their fair value. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. The preparation of financial statements requires the application of estimates and judgements that affect the reported amounts of assets and liabilities, revenues and costs and related disclosures at the balance sheet date. The accounting policies set out below have been consistently applied across Group companies to all periods presented in these consolidated financial statements.

The financial statements have been prepared on a going concern basis. The rationale for adopting this basis is discussed in the Directors' report on page 29.

Reporting currency As a consequence of the majority of the Group's sales and earnings originating in US dollars or US dollar linked currencies, the Group has chosen the US dollar as its reporting currency. This aligns the Group's external reporting with the profile of the Group, as well as with internal management reporting.

Critical accounting policies Critical accounting policies are those that require significant judgements or estimates and potentially result in materially different results under different assumptions or conditions. It is considered that the Group's critical accounting policies are limited to those described below. The development of the estimates and disclosures related to each of these matters has been discussed by the Audit Committee.

(a) Provisions A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated. Provisions for environmental issues are judgemental by their nature and more difficult to estimate when they relate to sites no longer directly controlled by the Group. Elementis has taken a consistent approach to estimating environmental provisions.

(b) Pension and other post retirement benefits In respect of the Group's defined benefit schemes, the Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. Pension and post retirement liabilities are calculated by qualified actuaries using the projected unit credit method. The expected increase in the present value of scheme liabilities and the long term expected return on assets based on the fair value of the scheme assets at the start of the period, are included in the income statement under finance income.

Any difference between the expected return on assets and that achieved is recognised in the statement of comprehensive income together with the difference from experience or assumption changes. The Group recognises all such actuarial gains and losses in the period in which they occur through the statement of comprehensive income. The Group also operates a small number of defined contribution schemes and the contributions payable during the year are recognised as incurred. Due to the size of the pension scheme assets and liabilities, relatively small changes in the assumptions can have a significant impact on the expense recorded in the income statement and on the pension liability recorded in the balance sheet.

(c) Intangible assets

(i) Goodwill All business combinations since the transition to IFRS on 1 January 2004 are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since the transition date, goodwill represents the difference between the cost of the consideration given and the fair value of net identifiable assets, liabilities and contingent liabilities acquired. In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. Goodwill is allocated to cash generating units and tested annually for impairment. Changes to the assumptions used in impairment testing could have a material impact on the financial position of the Group and of the result for the year.

(ii) Research and development Expenditure on research is recognised in the income statement as an expense as incurred. Expenditure on development where research findings are applied to a plan or design for the production of new or substantially improved products and processes is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. Expenditure capitalised is stated as the cost of materials, direct labour and an appropriate proportion of overheads less accumulated amortisation. Other development expenditure is recognised in the income statement as an expense as incurred.

(iii) Other intangible assets Other intangible assets are stated at cost or when arising in a business combination, estimated fair value, less accumulated amortisation.

(iv) Amortisation Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite. On this basis there is no amortisation of intangible assets relating to brand. Goodwill is systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Patents and trademarks	10 – 20 years
Other intangible assets	1 – 5 years

(d) Derivative financial instruments The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks. The Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Due to the requirement to measure the effectiveness of hedging instruments, changes in market conditions can result in the recognition of unrealised gains or losses on hedging instruments in the income statement.

Derivative financial instruments are recognised initially at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Cash flow hedges Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

Fair value hedges Where a derivative financial instrument is designated as a hedge of the variability in a fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

(e) Exceptional items The Group presents certain items separately as “exceptional”. These are items which in management’s judgement, need to be disclosed by virtue of their size and incidence in order for the user to obtain a proper understanding of the financial information. The determination of which items are separately disclosed as exceptional items requires a significant degree of judgement.

(f) Income tax Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Group is required to estimate the income tax in each of the jurisdictions in which it operates. This requires an estimation of current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. The Group operates in a number of countries in the world and is subject to many tax jurisdictions and rules. As a consequence the Group is subject to tax audits, which by their nature are often complex and can require several years to conclude. Management’s judgement is required to determine the total provision for income tax. Amounts are accrued based on management’s interpretation of country specific tax law and likelihood of settlement. However, the actual tax liabilities could differ from the position and in such events an adjustment would be required in the subsequent period which could have a material impact. Tax benefits are not recognised unless it is probable that the tax positions are sustainable. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation. This evaluation requires judgements to be made including the forecast of future taxable income.

1 ACCOUNTING POLICIES (CONTINUED)

(g) Property, plant and equipment Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Freehold land is not depreciated. Leasehold property is depreciated over the period of the lease. Freehold buildings, plant and machinery, vehicles, fixtures, fittings and equipment are depreciated over their estimated useful lives on a straight line basis. Depreciation methods, useful lives and residual values are assessed at the reporting date. No depreciation is charged on assets under construction until the asset is brought into use.

Estimates of useful lives of these assets are:

Buildings	10 – 50 years
Plant and machinery	2 – 20 years
Fixtures, fittings and equipment	2 – 20 years

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within it will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Management regularly considers whether there are any indications of impairment to carrying values of property, plant and equipment. Impairment reviews are based on risk adjusted discounted cash flow projections. Significant judgement is applied to the assumptions underlying these projections which include estimated discount rates, growth rates, future selling prices and direct costs. Changes to these assumptions could have a material impact on the financial position of the Group and on the result for the year.

Basis of consolidation The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period. A subsidiary is an entity that is controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during a period are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group has adopted IFRS 3 (revised), Business Combinations, prospectively for business combinations where the acquisition date is on or after 1 January 2010. This measures goodwill at the acquisition date as the fair value of the consideration transferred, the recognised amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less the fair value of the identifiable assets acquired and liabilities assumed. For acquisitions made by the Group since its initial adoption of IFRS in 2005 and 31 December 2009 goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

In accordance with the transitional rules of IFRS 1, the Company has not restated business combinations that took place prior to the date of transition to IFRS of 1 January 2004. As a consequence the Scheme of Arrangement entered into in 1998 whereby the Company acquired Elementis Holdings Limited and applied the true and fair override to account for the transaction as a merger has not been restated under IFRS.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Associates Associates are those entities in which the Group has significant influence, but not control over the financial and operating policies. The consolidated financial statements include the Group's share of the post acquisition total recognised gains and losses and the net assets of associates on an equity accounted basis. Where the Group's share of losses exceeds its investment in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred a legal or constructive obligation.

Foreign currency

(a) Foreign currency transactions Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at exchange rates ruling at the dates the fair value was determined.

(b) Financial statements of foreign operations The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at the average rates of exchange ruling for the relevant period. Exchange differences arising since 1 January 2004 on translation are taken to the translation reserve. They are recognised in the income statement upon disposal of the foreign operation. The Group may hedge a portion of the translation of its overseas net assets through pounds sterling and Euro borrowings. From 1 January 2005, the Group has elected to apply net investment hedge accounting for these transactions where possible. Where hedging is applied, the effective portion of the gain or loss on an instrument used to hedge a net investment is recognised in equity. Any ineffective portion of the hedge is recognised in the income statement.

Leased assets Leases which result in the Group receiving substantially all of the risks and rewards of ownership of an asset are treated as finance leases. An asset held under a finance lease is recorded in the balance sheet and depreciated over the shorter of its estimated useful life and the lease term. Future instalments net of finance charges are included within borrowings. Minimum lease payments are apportioned between the finance charge, which is allocated to each period to produce a constant periodic rate of interest on the remaining liability and charged to the income statement and reduction of the outstanding liability. Rental costs arising from operating leases are charged on a straight line basis over the period of the lease.

Inventories Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price, less estimated costs of completion and selling expenses. Cost, which is based on a weighted average, includes expenditure incurred in acquiring stock and bringing it to its existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads attributable to manufacture, based on normal operating capacity.

Trade receivables Trade receivables are non interest bearing and are stated at their nominal amount which is the original invoiced amount less provision made for bad and doubtful receivables. Estimated irrecoverable amounts are based on the ageing of receivables and historical experience. Individual trade receivables are written off when management deem them no longer to be collectable.

Cash and cash equivalents Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Borrowings Borrowings are initially measured at cost (which is equal to the fair value at inception), and are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds, net of transaction costs and the settlement or redemption of borrowings is recognised over the terms of the borrowings using the effective interest rate method.

Trade payables Trade payables are non interest bearing borrowings and are initially measured at fair value and subsequently carried at amortised cost.

Share capital Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity. When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares by the Company are classified as treasury shares and are presented as a deduction from total equity.

Impairment The carrying amount of non-current assets other than deferred tax is compared to the asset's recoverable amount at each balance sheet date where there is an indication of impairment. For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Revenue Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and rebates. Revenue is recognised in the income statement only where there is evidence, usually in the form of a sales agreement, that the significant risks and rewards of ownership have been transferred to the customer and where the collectability of revenue is reasonably assured.

Finance income and finance costs Finance income comprises interest income on funds invested and changes in the fair value of financial assets at fair value taken to the income statement. Interest income is recognised as it accrues, using the effective interest method. Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses and changes in the fair value of financial assets at fair value taken to the income statement. All borrowing costs are recognised in the income statement using the effective interest method.

Share based payments The fair value of equity settled share options, cash settled shadow options and LTIP awards granted to employees is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options/awards. The fair value of the options/awards granted is measured using a binomial model, taking into account the terms and conditions upon which the options/awards were granted. The amount recognised as an employee expense is adjusted to reflect the actual number of share options/awards that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

1 ACCOUNTING POLICIES (CONTINUED)

Own shares held by Employee Share Ownership Trust ("ESOT")

Transactions of the Group sponsored ESOT are included in the consolidated financial statements. In particular, the ESOT's purchases of shares in the Company are charged directly to equity.

Investments Investments comprising loans and receivables are stated at amortised cost.

Government grants Grants against capital expenditure from government and other bodies are shown separately in the balance sheet. Such grants are released to the profit and loss account over the same period for which the relevant assets are depreciated.

Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets containing a non-current asset (a disposal group), is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and is highly probable within one year. On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Termination benefits Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

New standards and interpretations not yet adopted New standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2011, have not been applied in preparing these consolidated financial statements, or that become mandatory for the Group's 2012 financial statements, are as follows:

Amendment to IFRS 7 financial instruments: Disclosures

The Group has not yet determined the potential impact of these standards and interpretations on the 2012 financial statements.

2 OPERATING SEGMENTS

Business segments

The Group has determined its operating segments on the basis of those used for management, internal reporting purposes and the allocation of strategic resources. The three reportable segments, Specialty Products, Surfactants and Chromium, each have distinct product groupings and, with the exception of Surfactants which shares a common management structure with Specialty Products, separate management structures. There is no material inter-segmental trading. Segment results, assets and liabilities include items directly attributable to a segment and those that may be reasonably allocated from corporate activities. Presentation of the segmental results is on a basis consistent with those used for reporting Group results. Principal activities of the reportable segments are as follows:

Specialty Products	– production of rheological additives, compounded products and colourants.
Surfactants	– production of surface active ingredients.
Chromium	– production of chromium chemicals.

The inter-segment revenue identified overleaf represents the sale of these products from the Chromium to Specialty Products business. Inter-segment pricing is set at a level that equates to the manufacturing cost of the product plus a commercially appropriate mark up.

Unallocated items and those relating to corporate functions, such as tax and treasury, are presented in the tables overleaf as central costs.

Segmental analysis for the year ended 31 December 2011

	2011					
	Specialty Products \$million	Surfactants \$million	Chromium \$million	Segment totals \$million	Central costs \$million	Total \$million
Revenue	449.9	94.3	231.0	775.2	-	775.2
Internal revenue	-	-	(14.7)	(14.7)	-	(14.7)
Revenue from external customers	449.9	94.3	216.3	760.5	-	760.5
Operating profit before exceptionals	91.4	5.7	56.9	154.0	(16.9)	137.1
Head office cost allocations	(1.7)	(0.3)	(0.8)	(2.8)	2.8	-
Exceptionals	(1.8)	(5.2)	-	(7.0)	34.5	27.5
Profit before interest	87.9	0.2	56.1	144.2	20.4	164.6
Finance income	-	-	-	-	2.6	2.6
Finance expense	-	-	-	-	(5.2)	(5.2)
Taxation – pre-exceptional	-	-	-	-	(39.7)	(39.7)
Taxation – exceptional	-	-	-	-	1.8	1.8
Profit/(loss) for the period	87.9	0.2	56.1	144.2	(20.1)	124.1
Fixed assets	430.5	17.3	65.8	513.6	(14.7)	498.9
Inventories	61.3	7.7	50.8	119.8	-	119.8
Trade and other receivables	58.7	7.2	23.5	89.4	9.7	99.1
Deferred tax assets	-	-	-	-	7.4	7.4
Derivatives	-	-	-	-	0.8	0.8
Cash and cash equivalents	-	-	-	-	48.2	48.2
Segment assets	550.5	32.2	140.1	722.8	51.4	774.2
Trade and other payables	(46.4)	(9.8)	(19.2)	(75.4)	(12.9)	(88.3)
Operating provisions	-	-	-	-	(28.6)	(28.6)
Other liabilities	-	-	(15.0)	(15.0)	-	(15.0)
Bank overdrafts and loans	-	-	-	-	(22.0)	(22.0)
Derivatives	-	-	-	-	(1.4)	(1.4)
Current tax liabilities	-	-	-	-	(4.6)	(4.6)
Retirement benefit obligations	-	-	-	-	(94.8)	(94.8)
Deferred tax liabilities	-	-	-	-	(67.7)	(67.7)
Government grants	-	-	-	-	(1.0)	(1.0)
Segment liabilities	(46.4)	(9.8)	(34.2)	(90.4)	(233.0)	(323.4)
Net assets	504.1	22.4	105.9	632.4	(181.6)	450.8
Capital additions	11.9	0.7	9.1	21.7	1.2	22.9
Depreciation and amortisation	(10.9)	(2.3)	(6.4)	(19.6)	(0.3)	(19.9)

Information by geographical area	2011				Total \$million
	North America \$million	United Kingdom \$million	Rest of Europe \$million	Rest of the World \$million	
Revenue from external customers	270.8	23.1	226.7	239.9	760.5
Non-current assets	377.0	40.6	31.9	49.4	498.9
Capital additions	18.7	1.9	1.1	1.2	22.9
Depreciation and amortisation	(12.7)	(0.5)	(3.3)	(3.4)	(19.9)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2011 continued

2 OPERATING SEGMENTS (CONTINUED)

Segmental analysis for the year ended 31 December 2010

	2010					Total \$million
	Specialty Products \$million	Surfactants \$million	Chromium \$million	Segment totals \$million	Central costs \$million	
Revenue	410.8	88.1	209.7	708.6	–	708.6
Internal revenue	–	–	(11.2)	(11.2)	–	(11.2)
Revenue from external customers	410.8	88.1	198.5	697.4	–	697.4
Operating profit	73.1	6.5	36.6	116.2	(13.9)	102.3
Head office cost allocations	(1.3)	(0.4)	(0.8)	(2.5)	2.5	–
Profit/(loss) before interest	71.8	6.1	35.8	113.7	(11.4)	102.3
Finance income	–	–	–	–	0.4	0.4
Finance expense	–	–	–	–	(6.7)	(6.7)
Taxation – pre-exceptional	–	–	–	–	(27.7)	(27.7)
Taxation – exceptional	–	–	–	–	5.8	5.8
Profit/(loss) for the period	71.8	6.1	35.8	113.7	(39.6)	74.1
Fixed assets	432.6	19.7	64.4	516.7	(15.5)	501.2
Inventories	60.0	8.9	33.4	102.3	–	102.3
Trade and other receivables	58.5	16.5	24.0	99.0	12.8	111.8
Deferred tax assets	–	–	–	–	6.7	6.7
Derivatives	–	–	–	–	0.9	0.9
Cash and cash equivalents	–	–	–	–	40.8	40.8
Segment assets	551.1	45.1	121.8	718.0	45.7	763.7
Trade and other payables	(43.4)	(10.7)	(23.3)	(77.4)	(17.9)	(95.3)
Operating provisions	–	–	–	–	(30.8)	(30.8)
Other liabilities	–	–	(17.7)	(17.7)	–	(17.7)
Bank overdrafts and loans	–	–	–	–	(120.1)	(120.1)
Current tax liabilities	–	–	–	–	(4.2)	(4.2)
Retirement benefit obligations	–	–	–	–	(67.4)	(67.4)
Deferred tax liabilities	–	–	–	–	(45.5)	(45.5)
Government grants	–	–	–	–	(1.4)	(1.4)
Segment liabilities	(43.4)	(10.7)	(41.0)	(95.1)	(287.3)	(382.4)
Net assets	507.7	34.4	80.8	622.9	(241.6)	381.3
Capital additions	7.4	1.1	6.8	15.3	0.4	15.7
Depreciation and amortisation	(12.5)	(2.5)	(6.1)	(21.1)	(0.3)	(21.4)

Information by geographical area	2010				Total \$million
	North America \$million	United Kingdom \$million	Rest of Europe \$million	Rest of the World \$million	
Revenue from external customers	237.4	20.2	207.5	232.3	697.4
Non-current assets	372.7	39.9	35.3	53.2	501.1
Capital additions	13.2	0.4	1.6	0.5	15.7
Depreciation	(13.5)	(1.3)	(3.3)	(3.3)	(21.4)

3 FINANCE INCOME

	2011 \$million	2010 \$million
Interest on bank deposits	0.7	0.4
Expected return on pension scheme assets	47.7	–
Interest on pension scheme liabilities	(45.8)	–
Pension and other post retirement liabilities	1.9	–
	2.6	0.4

4 FINANCE COSTS

	2011 \$million	2010 \$million
Interest on bank loans	4.0	3.7
Expected return on pension scheme assets	-	(42.9)
Interest on pension scheme liabilities	-	44.8
Pension and other post retirement liabilities	-	1.9
Unwind of discount on provisions	1.2	1.1
	5.2	6.7

5 EXCEPTIONAL ITEMS

	2011 \$million	2010 \$million
Refund of EU Commission fine	34.5	-
Curtailment losses on pension schemes	(7.0)	-
	27.5	-
Deferred tax asset	1.8	5.8
	29.3	5.8

The Group has continued its separate presentation of certain items as exceptional. These are items which, in management's judgement, need to be disclosed separately by virtue of their size or incidence in order for the reader to obtain a proper understanding of the financial information.

Following a repeal of the earlier decision, the European Commission repaid a total of \$34.5 million to the Group in respect of fines imposed in 2009, plus associated interest. A charge of \$7.0 million has been booked in respect of curtailment losses in respect of the Dutch pension scheme, along with an associated deferred tax credit of \$1.8 million. Further details are included in the Finance report on page 14. An exceptional deferred tax credit of \$5.8 million was recorded in 2010 to recognise the value of historic losses and other tax attributes that are now believed to be of value following an increase in the profitability of the UK based specialties business.

6 INCOMETAX EXPENSE

	2011 \$million	2010 \$million
Current tax:		
Overseas corporation tax	9.8	5.8
Adjustments in respect of prior years:		
United Kingdom	-	-
Overseas	0.5	(2.4)
Total current tax	10.3	3.4
Deferred tax:		
United Kingdom	2.1	2.2
Adjustment in respect of prior year	(1.8)	(5.8)
Overseas	27.7	21.1
Adjustments in respect of prior years	(0.4)	1.0
Total deferred tax	27.6	18.5
Income tax expense for the year	37.9	21.9
Comprising:		
Before exceptional items	39.7	27.7
Exceptional items*	(1.8)	(5.8)
	37.9	21.9

* See Note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2011 *continued*

6 INCOME TAX EXPENSE (CONTINUED)

The tax charge on profit before exceptional items represents an effective tax rate on profit before exceptional items for the year ended 31 December 2011 of 29.5 per cent (2010: 28.9 per cent). As a Group involved in overseas operations, the amount of profitability in each jurisdiction, transfer pricing legislation and local tax rate changes will affect future tax charges.

The total charge for the year can be reconciled to the accounting profit as follows:

	2011 \$million	2011 per cent	2010 \$million	2010 per cent
Profit before tax	162.0	–	96.0	–
Tax on ordinary activities at 26.5 per cent (2010: 28.0 per cent)*	42.9	26.5	26.9	28.0
Difference in overseas effective tax rates	10.4	6.4	6.2	6.5
Income not chargeable for tax purposes	(9.1)	(5.6)	–	–
Expenses not deductible for tax purposes	0.8	0.5	1.0	1.0
Tax losses and other deductions	(6.3)	(3.9)	(5.0)	(5.2)
Adjustments in respect of prior years	(0.8)	(0.5)	(1.4)	(1.5)
Exceptional tax credit	–	–	(5.8)	(6.0)
Tax charge and effective tax rate for the year	37.9	23.4	21.9	22.8

*Tax rate reflects reduction in UK corporation tax rate from 28 per cent to 26 per cent with effect from April 2011.

7 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging/(crediting):

	2011 \$million	2010 \$million
Employee costs	100.6	92.6
Net foreign exchange losses	0.9	0.7
Research and development costs	7.8	9.2
Government grants	(0.4)	(0.4)
Depreciation of property, plant and equipment	18.5	19.9
Amortisation of intangible assets	1.9	1.9
Total depreciation and amortisation expense	20.4	21.8
Cost of inventories recognised as expense	378.3	361.3
Fees available to the Company's auditor and its associates:		
Audit of the Company's financial statements	0.2	0.2
Audit of the Company's subsidiaries	0.4	0.4
Other services	0.6	0.4

Other services in relation to the fees paid to the auditors comprise mainly of advisory services relating to taxation.

8 EMPLOYEES

	2011 \$million	2010 \$million
Employee costs:		
Wages and salaries	88.9	83.0
Social security costs	8.2	7.0
Pension costs	3.5	2.6
	100.6	92.6
Average number of FTE employees*:		
	Number	Number
Specialty Products	877	876
Surfactants	168	164
Chromium	271	272
Central	14	19
Total	1,330	1,331

* Full time equivalent including contractors. The 2010 comparative has been restated to include contractors.

9 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following:

	2011 \$million	2010 \$million
Earnings:		
Earnings for the purpose of basic earnings per share	124.1	74.1
Exceptional items net of tax	(29.3)	(5.8)
Adjusted earnings	94.8	68.3
Number of shares:		
	2011	2010
Weighted average number of shares for the purposes of basic earnings per share	446.5	443.5
Effect of dilutive share options	9.9	4.6
Weighted average number of shares for the purposes of diluted earnings per share	456.4	448.1

The calculation of the basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the parent is based on the following:

	2011 cents	2010 cents
Earnings per share:		
Basic	27.8	16.7
Diluted	27.2	16.5
Basic before exceptional items	21.2	15.4
Diluted before exceptional items	20.8	15.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2011 *continued*

10 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill \$million	Brand \$million	Other intangible assets \$million	Total \$million
Cost:				
At 1 January 2010	315.4	13.8	13.6	342.8
Exchange differences	(2.1)	1.3	0.9	0.1
Reclassification	(8.0)	2.8	5.2	–
Additions	–	–	0.4	0.4
At 1 January 2011	305.3	17.9	20.1	343.3
Exchange differences	(0.5)	(0.5)	(0.4)	(1.4)
Additions	–	–	0.3	0.3
At 31 December 2011	304.8	17.4	20.0	342.2
Amortisation:				
At 1 January 2010	–	–	3.3	3.3
Charge for the year	–	–	1.9	1.9
At 1 January 2011	–	–	5.2	5.2
Charge for the year	–	–	1.9	1.9
At 31 December 2011	–	–	7.1	7.1
Carrying amount:				
At 31 December 2011	304.8	17.4	12.9	335.1
At 31 December 2010	305.3	17.9	14.9	338.1
At 1 January 2010	315.4	13.8	10.3	339.5

The transfer between goodwill and other intangible assets in 2010 was the result of the conclusion of the purchase price allocation exercise that took place following the Fancor acquisition on 24 December 2009. An amount of \$8.0 million previously and provisionally recognised as goodwill was re-allocated to other intangible assets.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (“CGUs”) that are expected to benefit from that business combination. The carrying value of goodwill relates to Elementis Specialty Products (\$301.4 million) and Elementis Surfactants (\$3.4 million).

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. In order to stress test the results over a wider range of conditions, management has expanded its testing to include discount rates based on a variety of equity risk premiums and different capital structures that reflect the potential variability of risk within the CGUs and the Group’s long term financing options. The result of this exercise was a range of discount rates from 9.0 per cent, calculated on a basis broadly consistent with 2010 (discount rate of 10.6 per cent) to 11.8 per cent.

The Group prepares cash flow forecasts derived from the most recent three year plans approved by management for the next three years and extrapolates cash flows for the following 17 years based on estimated growth rates of 0 to 2.5 per cent. The rates do not exceed the average long term growth rate for the relevant markets and also take into account potential, future capacity limitations for the Chromium business. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. The results of the impairment testing using the assumptions discussed show that there is no indication that goodwill might be impaired.

The brand intangible represents the value ascribed to the trading name and reputation of the recent Deuchem and Fancor acquisitions. The Group considers these to have significant and ongoing value to the business that will be maintained and it is therefore considered appropriate to assign these assets an indefinite useful life. The remaining intangible assets comprise of the value ascribed to customer lists, patents and non-compete clauses, which are being amortised over periods of five to ten years.

Other intangible assets comprise mainly of the value ascribed to the brand and customer lists acquired as part of the Deuchem acquisition. The customer list is being amortised over a useful economic life of ten years.

11 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings \$million	Plant and machinery \$million	Fixtures, fittings and equipment \$million	Under construction \$million	Total \$million
Cost:					
At 1 January 2010	147.4	485.4	51.0	11.4	695.2
Additions	–	0.9	0.1	14.7	15.7
Exchange differences	(0.8)	(12.0)	(0.6)	0.2	(13.2)
Disposals	(0.1)	(5.7)	(0.3)	–	(6.1)
Reclassifications	0.3	11.9	0.6	(12.8)	–
At 31 December 2010	146.8	480.5	50.8	13.5	691.6
Additions	–	0.5	0.1	22.0	22.6
Exchange differences	(1.7)	(4.1)	(0.5)	(0.1)	(6.4)
Disposals	(0.2)	(8.8)	(3.1)	(3.1)	(15.2)
Reclassifications	1.3	18.9	–	(20.2)	–
At 31 December 2011	146.2	487.0	47.3	12.1	692.6
Accumulated depreciation:					
At 1 January 2010	97.1	384.0	42.2	3.2	526.5
Charge for the year	3.0	13.4	3.5	–	19.9
Exchange differences	(1.9)	(11.2)	(0.7)	(0.1)	(13.9)
Disposals	–	(3.8)	(0.2)	–	(4.0)
Reclassifications	–	(0.3)	0.3	–	–
At 31 December 2010	98.2	382.1	45.1	3.1	528.5
Charge for the year	2.8	13.8	1.9	–	18.5
Exchange differences	(0.8)	(3.9)	(0.4)	–	(5.1)
Disposals	(0.1)	(6.8)	(3.1)	(3.1)	(13.1)
Reclassifications	0.1	1.2	(1.3)	–	–
At 31 December 2011	100.2	386.4	42.2	–	528.8
Net book value:					
At 31 December 2011	46.0	100.6	5.1	12.1	163.8
At 31 December 2010	48.6	98.4	5.7	10.4	163.1
At 1 January 2010	50.3	101.4	8.8	8.2	168.7

Group capital expenditure contracted but not provided for in these financial statements amounted to \$7.2 million (2010: \$10.1 million).

Land and buildings at cost comprised the following:

	2011 \$million	2010 \$million
Freehold property	145.9	146.5
Short leasehold properties	0.3	0.3
	146.2	146.8

12 INVENTORIES

	2011 \$million	2010 \$million
Raw materials and consumables	46.0	33.4
Work in progress	13.6	9.0
Finished goods and goods purchased for resale	60.2	59.9
	119.8	102.3

Inventories are disclosed net of provisions for obsolescence of \$6.2 million (2010: \$4.8 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2011 *continued*

13 TRADE AND OTHER RECEIVABLES

	2011 \$million	2010 \$million
Trade receivables	89.3	100.9
Other receivables	1.1	4.6
Prepayments and accrued income	8.7	6.3
	99.1	111.8

14 TRADE AND OTHER PAYABLES

	2011 \$million	2010 \$million
Trade payables	42.0	44.6
Other taxes and social security	2.8	1.0
Other payables	4.1	6.5
Accruals and deferred income	39.4	43.2
	88.3	95.3

15 PROVISIONS

	Environmental \$million	Chromium UK closure \$million	Self insurance \$million	EU commission fine \$million	Total \$million
At 1 January 2010	28.0	26.7	2.6	33.5	90.8
Charge to income statement	3.2	–	(0.2)	–	3.0
Utilised during the year	(2.4)	(8.1)	(0.1)	(32.2)	(42.8)
Transfer	(3.6)	3.6	–	–	–
Currency translation differences	(0.3)	(0.9)	–	(1.3)	(2.5)
At 1 January 2011	24.9	21.3	2.3	–	48.5
Charge to income statement	1.9	–	0.1	–	2.0
Utilised during the year	(4.0)	(2.7)	(0.1)	–	(6.8)
Currency translation differences	(0.1)	–	–	–	(0.1)
At 31 December 2011	22.7	18.6	2.3	–	43.6
Due within one year	3.7	4.0	0.2	–	7.9
Due after one year	19.0	14.6	2.1	–	35.7

Environmental provisions relate to manufacturing and distribution sites including certain sites no longer owned by the Group. These provisions have been derived using a discounted cash flow methodology and reflect the extent to which it is probable that expenditure will be incurred over the next 20 years.

The Chromium UK closure provision contains all anticipated costs relating to closure including environmental costs.

Self insurance provisions at 31 December 2011 represent the aggregate of outstanding claims plus a projection of losses incurred but not reported. The self insurance provisions are expected to be utilised within five years.

16 DEFERRED TAX

	Retirement benefit plans \$million	Accelerated tax depreciation \$million	Amortisation of US goodwill \$million	Temporary differences \$million	Unrelieved tax losses \$million	Total \$million
At 1 January 2010	15.8	(21.4)	(69.4)	(0.8)	53.1	(22.7)
(Charge)/credit to the income statement	(4.6)	(0.9)	(8.3)	2.7	(13.3)	(24.4)
Exceptional credit	–	–	–	1.8	4.0	5.8
Credit to other comprehensive income	3.4	–	–	–	–	3.4
Currency translation differences	–	–	–	(0.9)	–	(0.9)
At 1 January 2011	14.6	(22.3)	(77.7)	2.8	43.8	(38.8)
(Charge)/credit to the income statement	(4.9)	(0.4)	(8.2)	(1.0)	(16.3)	(30.8)
Exceptional credit	1.8	–	–	–	–	1.8
Credit to other comprehensive income	8.1	–	–	–	–	8.1
Currency translation differences	–	–	–	(0.6)	–	(0.6)
At 31 December 2011	19.6	(22.7)	(85.9)	1.2	27.5	(60.3)
Deferred tax assets	2.1	0.1	–	1.1	4.1	7.4
Deferred tax liabilities	17.5	(22.8)	(85.9)	0.1	23.4	(67.7)

At 31 December 2011 the full amount of ACT previously written-off, available for offset against future UK profits, was \$39.2 million (2010: \$39.4 million). Additional tax losses for which no deferred tax asset has been recognised and for which there is no expiry date were \$4.2 million (2010: \$32.1 million). These relate to restricted losses within the UK and have reduced in the year due to the restructuring within subsidiaries.

Deferred tax assets have been recognised to the extent that it is considered more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted. Where this is not the case, deferred tax assets have not been recognised. There are no significant temporary differences arising in connection with interests in subsidiaries and associates.

17 SHARE CAPITAL

	2011 \$million	2010 \$million
At 1 January	43.2	43.2
Issue of shares	0.2	–
At 31 December	43.4	43.2

Details of share capital are set out in Note 7 to the parent company financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2011 continued

18 SHARE PREMIUM, OTHER RESERVES AND RETAINED EARNINGS

	Share premium \$million	Other reserves \$million	Retained earnings \$million	Total \$million
Balance at 1 January 2010	11.0	116.0	116.1	243.1
Issue of shares	0.6	–	–	0.6
Share based payments	–	1.9	–	1.9
Profit for the year	–	–	74.1	74.1
Dividends paid	–	–	(19.5)	(19.5)
Purchase of shares by the ESOT	–	–	(2.4)	(2.4)
Actuarial gain on pension scheme	–	–	25.3	25.3
Exchange differences	–	8.6	–	8.6
Tax credit on actuarial gain on pension scheme	–	–	3.4	3.4
Increase in fair value of derivatives	–	1.4	–	1.4
Transfer	–	(1.2)	1.2	–
Balance at 1 January 2011	11.6	126.7	198.2	336.5
Issue of shares	1.1	–	2.6	3.7
Share based payments	–	2.6	–	2.6
Profit for the year	–	–	124.1	124.1
Dividends paid	–	–	(21.9)	(21.9)
Purchase of shares by the ESOT	–	–	(2.2)	(2.2)
Actuarial loss on pension scheme	–	–	(44.7)	(44.7)
Exchange differences	–	1.3	–	1.3
Tax credit on actuarial loss on pension scheme	–	–	8.1	8.1
Decrease in fair value of derivatives	–	(1.7)	–	(1.7)
Transfer	–	(3.1)	3.1	–
Balance at 31 December 2011	12.7	125.8	267.3	405.8

Other reserves comprise:

	Capital redemption reserve \$million	Translation reserve \$million	Hedging reserve \$million	Share options reserve \$million	Total \$million
At 1 January 2010	158.8	(38.9)	(7.5)	3.6	116.0
Share based payments	–	–	–	1.9	1.9
Exchange differences	–	8.6	–	–	8.6
Increase in fair value of derivatives	–	–	1.4	–	1.4
Transfer	–	–	–	(1.2)	(1.2)
At 1 January 2011	158.8	(30.3)	(6.1)	4.3	126.7
Share based payments	–	–	–	2.6	2.6
Exchange differences	–	1.3	–	–	1.3
Decrease in fair value of derivatives	–	–	(1.7)	–	(1.7)
Transfer	–	–	–	(3.1)	(3.1)
Balance at 31 December 2011	158.8	(29.0)	(7.8)	3.8	125.8

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary. The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

19 BORROWINGS

	2011 \$million	2010 \$million
Bank loans	22.0	120.1
The borrowings are repayable as follows:		
On demand or within one year	6.2	9.1
In the second year	1.7	1.6
In the third year	11.7	1.6
In the fourth year	1.7	107.8
After more than five years	0.7	-
	22.0	120.1

The weighted average interest rates paid were as follows:

	2011 per cent	2010 per cent
Bank loans	4.4	2.4

Of all US dollar borrowings, \$14.0 million was unsecured, bearing interest at the relevant interbank rates plus a margin. The Taiwan dollar and remaining US dollar borrowings consisted of unsecured borrowings, those secured by time deposits and those secured by charges over various land and buildings in Taiwan. Group borrowings were denominated as follows:

	US Dollar	Taiwan Dollar	Total
Bank loans			
31 December 2010	109.9	10.2	120.1
31 December 2011	14.2	7.8	22.0

20 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of the consolidated cash flow statement comprise the following:

	2011 \$million	2010 \$million
Cash and cash equivalents	48.2	40.8

21 FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

21 FINANCIAL RISK MANAGEMENT (CONTINUED)

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. No single customer accounts for a significant proportion of the Group's revenue and geographically there is no concentration of credit risk.

Each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, where available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Board. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar assets.

Investments

The Group limits its exposure to credit risk through a treasury policy that imposes graduated limits on the amount of funds that can be deposited with counterparties by reference to the counterparties' credit ratings, as defined by Standard & Poor's or Moody's. Management does not expect any counterparty to fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group's funding policy is to have committed borrowings in place to cover at least 125 per cent of the maximum forecast net borrowings for the next 12 month period. At the year end the Group had \$201.9 million (2010: \$105.9 million) of undrawn committed facilities, of which \$190.0 million expires after more than one year.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The Group uses derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a foreign currency other than the respective functional currencies of Group entities, primarily the US Dollar and the Euro. The Group hedges up to 100 per cent of current and forecast trade receivables and trade payables denominated in a foreign currency. The Group uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily US Dollar, but also Euro and GBP. This provides an economic hedge and no derivatives are entered into. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances. The Group's investment in overseas subsidiaries is hedged by US Dollar denominated drawdowns under the syndicated facility, which mitigates the currency risk arising from the translation of a subsidiary's net assets.

Interest rate risk

The Group's policy is to borrow at both fixed and floating interest rates and to use interest rate swaps to generate the required interest profile. The policy does not require that a specific proportion of the Group's borrowings are at fixed rates of interest.

Other market price risk

Equity price risk arises from available-for-sale equity securities held within the Group's defined benefit pension. In respect of the US schemes, management monitors the mix of debt and equity securities in its investment portfolio based on market expectations. The primary goal of the Group's investment strategy in respect of the US schemes, is to maximise investment returns, without excessive risk taking, in order to meet partially the Group's unfunded benefit obligation and management is assisted by external advisers in this regard. In respect of the UK scheme, the investment strategy is set by the trustees and the Board is kept informed.

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on operating capital employed including goodwill, as defined on page 15. The Group's target is to achieve a ROCE (including goodwill) in excess of our weighted average cost of capital.

The Board encourages employees to hold shares in the Company through the Group's savings related share option schemes. At present, employees, including executive directors hold 0.3 per cent (2010: 0.2 per cent) of ordinary shares, or 3.5 per cent (2010: 3.9 per cent) assuming that all outstanding options vest or are exercised.

	2011 \$million	2010 \$million
Recognised in profit or loss		
Interest income on bank deposits	0.7	0.4
Net pension interest	1.9	(1.9)
Financial income	2.6	(1.5)
Net change in fair value of cash flow hedges transferred from equity	(0.3)	0.3
Interest on bank loan	(4.0)	(3.7)
Financial costs	(4.3)	(3.4)
Net financial costs	(1.7)	(4.9)

None of the above relates to financial assets or liabilities held at fair value through profit and loss:

Recognised directly in equity

Effective portion of changes in fair value of cash flow hedge	(0.8)	0.9
Fair value of cash flow hedges transferred to income statement	(0.9)	0.5
Effective portion of change in fair value of net investment hedge	3.6	(4.8)
Foreign currency translation differences for foreign operations	(2.3)	13.4
Recognised in		
Hedging reserve	(1.7)	1.4
Translation reserve	1.3	8.6

Derivatives used for hedging included within current assets amounted to \$0.8 million at 31 December 2011 (2010: \$0.9 million) and \$1.4 million within current liabilities (2010: nil).

Loans and borrowings

	2011 \$million	2010 \$million
Current liabilities		
Unsecured bank loan	4.0	4.4
Secured bank loan	2.2	2.6
Non-current liabilities		
Unsecured bank loan	10.0	105.0
Secured bank loan	5.8	8.1

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Year of maturity	Face value \$million	2011 Carrying amount \$million	Face value \$million	2010 Carrying amount \$million
Unsecured bank loan	Multi	2014	10.0	10.0	105.3	105.0
Unsecured bank loan	USD	2012	4.0	4.0	4.4	4.4
Secured bank loan	USD	2012	0.2	0.2	0.5	0.5
Secured bank loan	TWD	2012-2016	7.8	7.8	10.2	10.2
Total interest bearing liabilities			22.0	22.0	120.4	120.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2011 *continued*

21 FINANCIAL RISK MANAGEMENT (CONTINUED)

The multi-currency unsecured bank facility bears interest at LIBOR of the currency drawn down plus a margin based on the ratio of the Group's net borrowings to EBITDA (earnings before interest, tax, exceptional items, depreciation and amortisation). The remaining loans bear interest at interest rates of between 2.6 per cent and 2.9 per cent. The secured bank loans are secured against land and buildings in Taiwan with a carrying value of \$10.2 million.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2011 \$million	2010 \$million
Trade receivables	89.3	100.9
Cash and cash equivalents	48.2	40.8
	137.5	141.7

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	2011 \$million	2010 \$million
North America	30.5	23.7
Europe	24.7	37.9
Rest of the World	34.1	39.3
	89.3	100.9

Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross 2011 \$million	Impairment 2011 \$million	Gross 2010 \$million	Impairment 2010 \$million
	Not past due	83.3	(1.0)	94.7
Past due 0-30 days	6.7	–	6.5	–
Past due 31-120 days	0.6	(0.3)	1.1	(0.2)
Total	90.6	(1.3)	102.3	(1.4)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2011 \$million	2010 \$million
Balance at 1 January	1.4	2.3
Impairment loss recognised	(0.1)	(0.9)
Balance at 31 December	1.3	1.4

The provision for impairment relates primarily to customers of Elementis Chromium who, due to their payment history and geographical location, are assessed as having a higher exposure to credit risk than is acceptable. A provision is therefore deemed to be appropriate.

Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

	31 December 2011				
	Carrying amount \$million	Contractual cash flows \$million	6 months or less \$million	6-12 months \$million	1 year or more \$million
Non-derivative financial liabilities:					
Unsecured bank loan	14.0	(14.0)	(10.0)	(4.0)	-
Secured bank loan	8.0	(8.0)	-	(2.2)	(5.8)
Trade and other payables*	48.9	(48.9)	(48.9)	-	-
	70.9	(70.9)	(58.9)	(6.2)	(5.8)

* Excludes derivatives.

	31 December 2010				
	Carrying amount \$million	Contractual cash flows \$million	6 months or less \$million	6-12 months \$million	1 year or more \$million
Non-derivative financial liabilities:					
Unsecured bank loan	109.4	(109.7)	(105.3)	(4.4)	-
Secured bank loan	10.7	(10.7)	(0.5)	(2.1)	(8.1)
Trade and other payables*	52.5	(52.5)	(52.5)	-	-
	172.6	(172.9)	(158.3)	(6.5)	(8.1)

* Excludes derivatives.

Bank loans have been drawn under committed facilities and can be re-financed on maturity from the same facilities. The contractual maturities indicated reflect the maturing of the loans rather than the end date of the facilities.

Cash flow hedges

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur:

	2011					2010				
	Carrying amount \$million	Expected cash flows \$million	6 months or less \$million	6-12 months \$million	1-2 years \$million	Carrying amount \$million	Expected cash flows \$million	6 months or less \$million	6-12 months \$million	1-2 years \$million
Forward exchange contracts:										
Assets	0.8	22.1	11.3	8.1	2.7	0.2	38.8	15.1	17.8	5.9
Liabilities	-	(21.3)	(10.9)	(7.8)	(2.6)	-	(38.6)	(15.0)	(17.7)	(5.9)
Interest rate swaps:										
Assets		0.8	0.2	0.2	0.4	0.7	2.7	0.4	0.4	1.9
Liabilities	(0.6)	(1.4)	(0.3)	(0.3)	(0.8)	-	(2.0)	(0.3)	(0.3)	(1.4)
Forward gas contracts:										
Assets		2.1	0.9	1.2	-	-	-	-	-	-
Liabilities	(0.8)	(2.9)	(1.3)	(1.6)	-	-	-	-	-	-
	(0.6)	(0.6)	(0.1)	(0.2)	(0.3)	0.9	0.9	0.2	0.2	0.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2011 continued

21 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to impact the income statement:

	2011					2010				
	Carrying amount \$million	Expected cash flows \$million	6 months or less \$million	6-12 months \$million	1-2 years \$million	Carrying amount \$million	Expected cash flows \$million	6 months or less \$million	6-12 months \$million	1-2 years \$million
Forward exchange contracts:										
Assets	0.6	16.2	8.1	8.1	–	0.2	35.6	17.8	17.8	–
Liabilities	–	(15.6)	(7.8)	(7.8)	–	–	(35.4)	(17.7)	(17.7)	–
Interest rate swaps:										
Assets	–	0.8	0.2	0.2	0.4	0.7	2.7	0.4	0.4	1.9
Liabilities	(0.6)	(1.4)	(0.3)	(0.3)	(0.8)	–	(2.0)	(0.3)	(0.3)	(1.4)
Forward gas contracts:										
Assets	–	2.1	0.9	1.2	–	–	–	–	–	–
Liabilities	(0.8)	(2.9)	(1.3)	(1.6)	–	–	–	–	–	–
	(0.8)	(0.8)	(0.2)	(0.2)	(0.4)	0.9	0.9	0.2	0.2	0.5

Currency risk

Exposure to currency risk

The Group's exposure to currency risk was as follows based on notional amounts:

	2011			2010		
	USD \$million	Euro \$million	Other \$million	USD \$million	Euro \$million	Other \$million
Trade receivables	49.8	26.9	12.6	53.8	31.5	15.6
Trade payables	(22.4)	(11.7)	(7.9)	(22.3)	(13.3)	(9.0)
Gross balance sheet exposure	27.4	15.2	4.7	31.5	18.2	6.6
Forward exchange contracts	–	(15.6)	–	–	(35.4)	–
Net exposure	–	(0.4)	4.7	–	(17.2)	6.6

The main exchange rates relevant to the Group are set out in the Business review on page 13.

Sensitivity analysis

A ten per cent strengthening of US dollar against the following currencies at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Equity \$million	Profit or loss \$million
31 December 2011		
GBP	0.5	2.4
Euro	(0.8)	(5.4)
RMB	(5.5)	(1.1)
TWD	(1.9)	0.2
31 December 2010		
GBP	1.7	2.5
Euro	(2.3)	(4.1)
RMB	(5.9)	(1.1)
TWD	(2.1)	0.2

A ten per cent strengthening of US dollar against all currencies will have increased/(decreased) the carrying amount of variable rate instruments as follows:

	Carrying amount	
	2011 \$million	2010 \$million
Variable rate instruments		
Financial liabilities	(0.8)	(1.0)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2011 Profit or loss		2010 Profit or loss	
	100bp increase \$million	100bp decrease \$million	100bp increase \$million	100bp decrease \$million
Variable rate instruments	-	-	(1.1)	1.1

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with carrying amounts shown in the balance sheet, are as follows:

	31 December 2011		31 December 2010	
	Carrying amount \$million	Fair value \$million	Carrying amount \$million	Fair value \$million
Trade and other receivables	90.4	90.4	105.5	105.5
Cash and cash equivalents	48.2	48.2	40.8	40.8
Derivative contracts used for hedging:				
Assets	0.8	0.8	0.9	0.9
Liabilities	(1.4)	(1.4)	-	-
Unsecured bank facility	(14.0)	(14.0)	(109.4)	(109.7)
Secured bank loan	(8.0)	(8.0)	(10.7)	(10.7)
Trade and other payables*	(88.3)	(88.3)	(95.3)	(95.3)
	27.7	27.7	(68.2)	(68.5)
Unrecognised gain/(loss)	-	-	-	(0.3)

* Excludes derivatives.

Basis for determining fair values

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly or indirectly.

Level 3: Valuation techniques using significant unobservable inputs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2011 *continued*

21 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Level 1 \$million	Level 2 \$million	Level 3 \$million	Total \$million
31 December 2011				
Trade and other receivables	–	–	90.4	90.4
Cash and cash equivalents	48.2	–	–	48.2
Derivative contracts used for hedging	(0.6)	–	–	(0.6)
Unsecured bank facility	(14.0)	–	–	(14.0)
Secured bank loan	(8.0)	–	–	(8.0)
Trade and other payables*	–	–	(89.1)	(89.1)
	25.6	–	1.3	26.9
31 December 2010				
Trade and other receivables	–	–	105.5	105.5
Cash and cash equivalents	40.8	–	–	40.8
Derivative contracts used for hedging	0.9	–	–	0.9
Unsecured bank facility	(109.7)	–	–	(109.7)
Secured bank loan	(10.7)	–	–	(10.7)
Trade and other payables*	–	–	(95.3)	(95.3)
	(78.7)	–	10.2	(68.5)

* Excludes derivatives.

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Derivatives (level 1)

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest (based on government bonds).

Non-derivatives financial liabilities (level 2)

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and other receivables (level 3)

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate constant credit spread and were as follows:

	2011 per cent	2010 per cent
Derivatives	4.1 – 7.1	4.1
Borrowings	2.6 – 2.9	2.4 – 3.8

22 OPERATING LEASES

	2011 \$million	2010 \$million
Minimum lease payments under operating leases recognised as an expense in the year	4.5	3.9

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2011 \$million	2010 \$million
Within one year	1.9	2.4
In the second to fifth years inclusive	1.0	7.5
After five years	24.9	22.4
	27.8	32.3

Operating lease payments represent rentals payable by the Group for certain of its properties, plant and machinery. Leases have varying terms and renewal rights.

23 RETIREMENT BENEFIT OBLIGATIONS

The Group has a number of contributory and non-contributory post retirement benefit plans providing retirement benefits for the majority of employees and executive directors. The main schemes in the UK, US and Netherlands are of the defined benefit type, the benefit being based on number of years of service and either the employee's final remuneration or the employee's average remuneration during a period of years before retirement. The assets of these schemes are held in separate trustee administered funds or are unfunded but provided for on the Group balance sheet. In addition the Group operates an unfunded post retirement medical benefit ("PRMB") scheme in the US. The entitlement to these benefits is usually based on the employee remaining in service until retirement age and completion of a minimum service period.

A full actuarial valuation was carried out on 30 September 2008 for the UK scheme and at 31 December 2011 for the US and Netherlands schemes. The UK actuarial valuation has been updated to 31 December 2011 for inclusion within this Annual Report. The assumed life expectancies on retirement are:

	UK		US		Netherlands	
	2011 years	2010 years	2011 years	2010 years	2011 years	2010 years
Retiring at 31 December 2011						
Males	22	21	19	19	19	19
Females	23	23	21	21	21	21
Retiring in 20 years						
Males	24	24	21	21	19	19
Females	25	25	22	22	21	21

The principal assumptions used by the actuaries were as follows:

	UK per cent	US per cent	Netherlands per cent
2011			
Rate of increase in salaries	4.20	3.45	2.00
Rate of increase in pensions in payment	3.10	N/A	N/A
Discount rate	4.70	4.75	4.75
Inflation	3.20	3.00	2.00
2010			
Rate of increase in salaries	4.60	3.45	2.00
Rate of increase in pensions in payment	3.50	N/A	N/A
Discount rate	5.40	5.75	4.75
Inflation	3.60	3.00	2.00
2009			
Rate of increase in salaries	4.60	3.45	2.00
Rate of increase in pensions in payment	3.50	N/A	N/A
Discount rate	5.50	6.25	5.25
Inflation	3.60	3.25	2.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2011 *continued*

23 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The main assumptions for the PRMB scheme are a discount rate of 4.75 per cent (2010: 5.75 per cent) per annum and a health care cost trend of 6.5 per cent (2010: 7.0 per cent) per annum for claims pre age 65 reducing to 4.5 per cent per annum by 2019 (2010: 4.5 per cent). Actuarial valuations of retirement benefit plans in other jurisdictions have either not been updated for IAS19 purposes or disclosed separately because of the costs involved and the considerably smaller scheme sizes and numbers of employees involved.

The expected rates of return and assets of the defined benefit retirement benefit plans were:

	Equities per cent	Gilts per cent	Bonds per cent	Cash and insured annuities per cent	Total
2011					
Long term rate of return					
UK	7.25	3.00	4.70	3.00	–
US	8.00	–	5.50	–	–
Netherlands	–	–	4.75	–	–
	\$million	\$million	\$million	\$million	\$million
Asset value					
UK	289.2	–	152.3	235.6	677.1
US	61.4	–	20.8	0.7	82.9
Netherlands	–	–	45.8	–	45.8
Total	350.6	–	218.9	236.3	805.8
	Equities per cent	Gilts per cent	Bonds per cent	Cash and insured annuities per cent	Total
2010					
Long term rate of return					
UK	7.50	4.10	5.40	4.10	–
US	8.50	–	6.00	–	–
Netherlands	–	–	4.75	–	–
	\$million	\$million	\$million	\$million	\$million
Asset value					
UK	307.5	101.5	102.1	137.0	648.1
US	63.6	–	21.7	0.4	85.7
Netherlands	–	–	44.3	–	44.3
Total	371.1	101.5	168.1	137.4	778.1

The net liability was as follows:

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Total \$million
2011					
Total market value of assets	677.1	82.9	–	45.8	805.8
Present value of scheme liabilities	(712.1)	(124.3)	(8.2)	(53.3)	(897.9)
Net liability recognised in the balance sheet	(35.0)	(41.4)	(8.2)	(7.5)	(92.1)

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Total \$million
2010					
Total market value of assets	648.1	85.7	–	44.3	778.1
Present value of scheme liabilities	(677.0)	(111.9)	(8.2)	(45.7)	(842.8)
Net liability recognised in the balance sheet	(28.9)	(26.2)	(8.2)	(1.4)	(64.7)

The net pension liability in respect of pension schemes in other jurisdictions at 31 December 2011 was \$2.7 million (2010: \$2.7 million).

The following amounts have been recognised in the financial statements:

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Total \$million
2011					
Consolidated income statement					
Current service cost	(0.7)	(0.4)	(0.1)	(0.8)	(2.0)
Expected return on pension scheme assets	39.2	6.6	–	1.9	47.7
Interest on pension scheme liabilities	(36.5)	(6.3)	(0.4)	(2.4)	(45.6)
Net finance income/(charge)	2.7	0.3	(0.4)	(0.5)	2.1
Curtailed loss	–	–	–	(7.0)	(7.0)
Net income statement	2.0	(0.1)	(0.5)	(8.3)	(6.9)
Other comprehensive income					
Actual return less expected return on pension scheme assets	17.2	(7.4)	–	0.6	10.4
Experience gains and losses arising on scheme liabilities	(9.8)	(0.7)	(0.4)	0.6	(10.3)
Changes in assumptions underlying the present value of scheme liabilities	(32.1)	(12.3)	–	(0.8)	(45.2)
Actuarial (loss)/gain recognised	(24.7)	(20.4)	(0.4)	0.4	(45.1)

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Total \$million
2010					
Consolidated income statement					
Current service cost	(0.8)	(0.3)	(0.1)	(0.6)	(1.8)
Expected return on pension scheme assets	35.7	5.5	–	1.7	42.9
Interest on pension scheme liabilities	(35.6)	(6.4)	(0.5)	(2.3)	(44.8)
Net finance income/(charge)	0.1	(0.9)	(0.5)	(0.6)	(1.9)
Curtailed gains	0.5	–	–	–	0.5
Net income statement	(0.2)	(1.2)	(0.6)	(1.2)	(3.2)
Other comprehensive income					
Actual return less expected return on pension scheme assets	37.1	5.6	–	3.6	46.3
Experience gains and losses arising on scheme liabilities	9.1	(6.4)	(0.5)	1.1	3.3
Changes in assumptions underlying the present value of scheme liabilities	(18.8)	–	–	(4.7)	(23.5)
Actuarial gain/(loss) recognised	27.4	(0.8)	(0.5)	–	26.1

In addition to the current service cost above, \$1.5 million (2010: \$1.4 million) was charged to the income statement in respect of defined contribution schemes and smaller defined benefit schemes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2011 *continued*

23 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Changes in the present value of the defined benefit obligation are as follows:

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Total \$million
2011					
Opening defined benefit obligation	(677.0)	(111.9)	(8.2)	(45.7)	(842.8)
Service cost	(0.7)	(0.4)	(0.1)	(0.8)	(2.0)
Interest cost	(36.5)	(6.3)	(0.4)	(2.4)	(45.6)
Contributions by employees	(0.2)	(0.1)	–	(0.8)	(1.1)
Actuarial losses	(41.9)	(13.0)	(0.4)	(0.2)	(55.5)
Benefits paid	40.0	7.4	0.9	1.7	50.0
Curtailements and settlements	–	–	–	(7.0)	(7.0)
Exchange differences	4.2	–	–	1.9	6.1
Closing defined benefit obligation	(712.1)	(124.3)	(8.2)	(53.3)	(897.9)

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Total \$million
2010					
Opening defined benefit obligation	(691.5)	(105.8)	(8.1)	(42.2)	(847.6)
Service cost	(0.8)	(0.3)	(0.1)	(0.6)	(1.8)
Interest cost	(35.6)	(6.4)	(0.5)	(2.3)	(44.8)
Contributions by employees	(0.2)	–	–	(0.7)	(0.9)
Actuarial losses	(9.7)	(6.4)	(0.5)	(3.8)	(20.4)
Benefits paid	39.3	7.0	1.0	1.2	48.5
Curtailements and settlements	0.5	–	–	–	0.5
Exchange differences	21.0	–	–	2.7	23.7
Closing defined benefit obligation	(677.0)	(111.9)	(8.2)	(45.7)	(842.8)

Changes in the fair value of plan assets are as follows:

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Total \$million
2011					
Opening fair value of plan assets	648.1	85.7	–	44.3	778.1
Expected return	39.2	6.6	–	1.9	47.7
Actuarial gain/(loss)	17.2	(7.4)	–	0.6	10.4
Contributions by employer	16.3	5.3	–	1.5	23.1
Contributions by employees	0.2	0.1	–	0.8	1.1
Benefits paid	(40.0)	(7.4)	–	(1.7)	(49.1)
Exchange differences	(3.9)	–	–	(1.6)	(5.5)
Closing fair value of plan assets	677.1	82.9	–	45.8	805.8

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Total \$million
2010					
Opening fair value of plan assets	622.1	74.5	–	40.4	737.0
Expected return	35.7	5.5	–	1.7	42.9
Actuarial gains	37.1	5.6	–	3.8	46.5
Contributions by employer	11.0	7.1	–	1.4	19.5
Contributions by employees	0.2	0.1	–	0.7	1.0
Benefits paid	(39.3)	(7.1)	–	(1.2)	(47.6)
Exchange differences	(18.7)	–	–	(2.5)	(21.2)
Closing fair value of plan assets	648.1	85.7	–	44.3	778.1

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Total \$million
2011					
Movement in deficit during the year					
Deficit in schemes at 1 January	(28.9)	(26.2)	(8.2)	(1.4)	(64.7)
Current service cost	(0.7)	(0.4)	(0.1)	(0.8)	(2.0)
Contributions	16.3	5.3	0.9	1.5	24.0
Net interest income/(expense)	2.7	0.3	(0.4)	(0.5)	2.1
Actuarial (loss)/gain	(24.7)	(20.4)	(0.4)	0.4	(45.1)
Curtailments and settlements	–	–	–	(7.0)	(7.0)
Currency translation differences	0.3	–	–	0.3	0.6
Deficit in schemes at 31 December	(35.0)	(41.4)	(8.2)	(7.5)	(92.1)

Employer contributions in 2011 were \$16.3 million (2010: \$11.0 million) to the UK scheme; \$6.2 million (2010: \$8.1 million) to US schemes and \$1.5 million (2010: \$1.4 million) in respect of the Netherlands scheme. Contributions in 2012 at current exchange rates for these schemes will depend in part on the outcome of the triennial valuation of the UK scheme, but are not anticipated to be less than \$26 million. Employers' contributions in 2011 in respect of defined contribution schemes and smaller defined benefit schemes were \$1.0 million (2010: \$0.7 million).

Year ended 31 December 2011

	UK	US	Netherlands	Total
Difference between expected and actual return on scheme assets				
Amount (\$million)	17.2	(7.4)	0.6	10.4
Percentage of scheme assets	2.5%	(8.9)%	1.3%	1.3%
Experience gains and losses on scheme liabilities				
Amount (\$million)	(9.8)	(1.1)	0.6	(10.3)
Percentage of scheme assets	(1.4)%	(1.3)%	1.3%	(1.3)%
Total amount recognised in consolidated statement of comprehensive income				
Amount (\$million)	(24.7)	(20.8)	0.4	(45.1)
Percentage of scheme assets	(3.6)%	(25.1)%	0.9%	(5.6)%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2011 *continued*

23 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Year ended 31 December 2010

	UK	US	Netherlands	Total
Difference between expected and actual return on scheme assets				
Amount (\$million)	37.1	5.6	3.6	46.3
Percentage of scheme assets	5.7%	6.5%	8.1%	6.0%
Experience gains and losses on scheme liabilities				
Amount (\$million)	9.1	(6.9)	1.1	3.3
Percentage of scheme assets	1.4%	(8.1)%	2.5%	0.4%
Total amount recognised in consolidated statement of comprehensive income				
Amount (\$million)	27.4	(1.3)	–	26.1
Percentage of scheme assets	4.2%	(1.5)%	–	3.4%

Year ended 31 December 2009

	UK	US	Netherlands	Total
Difference between expected and actual return on scheme assets				
Amount (\$million)	53.5	12.5	1.5	67.5
Percentage of scheme assets	8.6%	16.8%	3.7%	9.2%
Experience gains and losses on scheme liabilities				
Amount (\$million)	1.8	(0.9)	0.8	1.7
Percentage of scheme assets	0.3%	(1.2)%	2.0%	0.2%
Total amount recognised in consolidated statement of comprehensive income				
Amount (\$million)	(62.9)	11.6	0.3	(51.0)
Percentage of scheme assets	(10.1)%	15.6%	0.7%	(6.9)%

Historical summary

	2011 \$million	2010 \$million	2009 \$million	2008 \$million	2007 \$million
Present value of scheme liabilities	(897.9)	(842.8)	(847.6)	(672.6)	(940.5)
Fair value of plan assets	805.8	778.1	737.0	602.6	899.1
Deficit in the plan	(92.1)	(64.7)	(110.6)	(70.0)	(41.4)
Experience adjustments arising on plan liabilities	(10.3)	3.3	1.7	(13.8)	(2.2)
Experience adjustments arising on plan assets	10.4	46.3	67.5	(114.7)	(17.4)

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increased/decreased by 0.5 per cent	Decreased/increased by 6 per cent
Rate of inflation	Increased/decreased by 0.5 per cent	Increased/decreased by 5 per cent
Rate of salary growth	Increased/decreased by 0.5 per cent	Increased/decreased by 1 per cent
Rate of mortality	Increased by 1 year	Increased by 3 per cent

24 SHARE BASED PAYMENTS

The Company has several share option schemes for certain directors and employees of the Group.

A Long Term Incentive Plan was adopted in 2008 (amended in 2010) ("2010 LTIP") for selected senior executives then including the executive directors and business presidents. Details about this scheme can be found in the Report of the Remuneration Committee. For other executives, the Company operates an approved and unapproved executive share option scheme, which was adopted in 2003 ("2003 ESOS"). This scheme expires next year and accordingly the Board is proposing a new discretionary executive share option scheme to replace the 2003 ESOS at this year's Annual General Meeting. Further details are enclosed in the Notice of Meeting accompanying this Annual Report. Participants of the 2010 LTIP will not also participate in the 2003 ESOS and vice versa.

Under the 2003 ESOS, options are granted to purchase shares in the Company at an exercise price per share based on the Company's mid market closing share price on the dealing day preceding the date of grant with no discount applied. Under the 2010 LTIP, nil cost options are granted i.e. options having no exercise price. In both cases, the number of options that are granted are based on a percentage of the participant's basic salary. Options under both schemes are capable of exercise after three years, subject to earnings per share and total shareholder return performance targets being met, and within ten years of the date of the grant. The maximum individual award under both schemes is generally limited to 150 per cent of basic salary.

The Company also operates a 2008 UK Savings-Related Share Option Scheme under which UK employees can enter into savings contracts with a bank or building society for a period of three or five years and use the proceeds from their savings accounts to purchase shares in the Company on the exercise of their options. The option price is the average mid market price over the five working days preceding the invitation date discounted by 20 per cent. Options may be exercised typically within six months following the end of the savings period. A similar scheme exists for US employees. Under the 2008 US Sharesave Scheme, US employees can enter into savings contracts with a bank for a period of two years and use the proceeds from their savings accounts to purchase shares in the Company on the exercise of their options. The option price is the mid market price on the date of the grant discounted by 15 per cent. Options may be exercised typically within three months following the end of the savings period.

Options were valued (as shown in the table below) using the binomial option pricing model. The fair value per option granted and the assumptions used in the calculations are as follows:

	2011	2010
Fair value per option (pence)	93.5	34.6
Expected volatility (per cent)	53.0	58.0
Risk free rate (per cent)	2.1	2.5
Expected dividend yield (per cent)	2.0	4.4

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous five years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The Group recognised total expenses of \$2.5 million (2010: \$1.4 million) related to share based payment transactions during the year which includes awards made under the Long Term Incentive Plan (as amended in 2010) as shown in the table opposite.

The table overleaf shows all outstanding options granted under the 2010 LTIP and the executive and savings-related share option schemes.

In addition to the above expenses, the Company incurred a further IFRS 2 expense of \$0.2 million (2010: \$0.5 million) in respect of the grant of awards made under the LTIP in 2008, which vested during 2011. The binomial method was used to value these awards. Under IFRS 2 rules, the fair value charge is calculated in the year the awards were first made and then pro rated over the following three to four financial years. The expense in 2011 represents 4/36ths of the total IFRS 2 charge for these awards. Owing to the nature of the awards, participants were entitled to a share of a pool which meant the actual number of shares to which they were entitled to on vesting could not be determined until the date of vesting (28 April 2011) and after the performance condition had been tested. The number of shares that did vest under these awards was 2,946,687. These awards are not included in the table of options/awards overleaf or in the calculation of the weighted average exercise price during 2011 in order to provide consistency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2011 continued

24 SHARE BASED PAYMENTS (CONTINUED)

At 31 December 2011 the following options/awards to subscribe for ordinary shares were outstanding:

Year of grant	Exercise price (p)	Exercisable From	To	At 1 January 2011 '000	Granted '000	Exercised '000	Expired '000	At 31 December 2011 '000
UK savings-related share option scheme								
2006	67.0	01/06/11	30/11/11	10	–	(9)	(1)	–
2007	71.1	01/06/12	30/11/12	10	–	(7)	(3)	–
2008	69.0	01/10/11	31/03/12	56	–	(44)	(4)	8
2008	69.0	01/10/13	31/03/14	9	–	(4)	(5)	–
2009	35.5	01/10/12	31/03/13	451	–	(20)	(13)	418
2009	35.5	01/10/14	31/03/15	47	–	–	–	47
2010	69.3	01/10/13	31/03/14	95	–	–	(3)	92
2010	69.3	01/10/15	31/03/16	7	–	(2)	(5)	–
2011	121.66	01/10/14	01/04/15	–	53	–	(2)	51
2011	121.66	01/10/16	01/04/17	–	4	–	–	4
				685	57	(86)	(36)	620
US savings-related share option scheme								
2009	42.5	27/08/11	27/11/11	441	–	(415)	(26)	–
2010	76.7	27/08/12	27/11/12	356	–	–	(1)	355
2011	119.34	26/08/13	26/11/13	–	293	–	(1)	292
				797	293	(415)	(28)	647
Executive share option scheme/awards granted under the Long term incentive plan*								
2003	24.8	29/04/06	29/04/13	25	–	–	–	25
2004	35.0	23/04/07	23/04/14	115	–	(89)	–	26
2005	51.2	30/03/08	30/03/15	897	–	(843)	–	54
2005	64.5	02/11/08	02/11/15	500	–	(500)	–	–
2006	85.5	04/04/09	04/04/16	1,017	–	(975)	(15)	27
2008	71.3	28/04/11	28/04/18	1,123	–	(761)	(58)	304
2009	29.5	25/03/12	25/03/19	4,080	–	–	(251)	3,829
2009	25.3	29/04/12	29/04/19	100	–	–	–	100
2009+	54.0	14/09/12	14/09/19	100	–	–	–	100
2010	57.0	06/04/13	06/04/20	2,766	–	–	(138)	2,628
2010*	Nil	22/04/13	22/04/20	3,001	–	–	–	3,001
2011	149.9	04/04/14	04/04/21	–	1,000	–	(33)	967
2011*	Nil	04/04/14	04/04/21	–	1,645	–	–	1,645
				13,724	2,645	(3,168)	(495)	12,706

+ These options are cash settled shadow executive options granted to one executive on the same basis as the 2009 options (with the same performance conditions and exercise provisions). These shadow options have not previously been disclosed in the table above due to materiality, but were included in the calculation of the total expenses recognised by the Group related to share based payments. The 2010 and 2011 options shown above include 118,000 and 66,000 shadow options respectively.

The weighted average exercise prices of options disclosed in the previous table were as follows:

	2011 Average exercise price (p)	2010 Average exercise price (p)
At 1 January	40.3	57.3
Granted	64.0	30.4
Exercised	65.2	72.2
Expired	52.1	76.8
At 31 December	38.4	40.3

The weighted average share price at the date of exercise of share options exercised during the year was 154 pence (2010: 112 pence).

25 RELATED PARTY TRANSACTIONS

The Company is a guarantor to the UK pension scheme under which it guarantees all current and future obligations of UK subsidiaries currently participating in the pension scheme to make payments to the scheme, up to a specified maximum amount. The maximum amount of the guarantee is that which is needed (at the time the guarantee is called on) to bring the scheme's funding level up to 105 per cent of its liabilities, calculated in accordance with section 179 of the Pensions Act 2004. This is also sometimes known as a Pension Protection Fund ("PPF") guarantee, as having such a guarantee in place reduces the annual PPF levy on the scheme.

26 MOVEMENT IN NET BORROWINGS

	2011 \$million	2010 \$million
Change in net borrowings resulting from cash flows:		
Increase in cash and cash equivalents	6.7	9.3
Decrease in borrowings repayable within one year	0.9	11.8
Decrease in borrowings repayable after one year	97.0	4.3
	104.6	25.4
Currency translation differences	0.9	1.6
Decrease in net borrowings	105.5	27.0
Net borrowings at beginning of year	(79.3)	(106.3)
Net cash/(borrowings) at end of year	26.2	(79.3)

27 DIVIDENDS

An interim dividend of 2.34 cents per share (2010: 2.34 cents) was paid on 7 October 2011 and the Group is proposing a final dividend of 4.66 cents per share for the year ended 31 December 2011 (2010: 2.60 cents). This brings the total for the year to 7.00 cents per share (2010: 4.94 cents). The final dividend payable, based on the number of ordinary shares in issue at 31 December 2011, is \$20.8 million (2010: \$11.5 million).

28 KEY MANAGEMENT COMPENSATION

	2011 \$million	2010 \$million
Salaries and short term employee benefits	4.5	4.1
Other long term benefits	1.0	0.6
Share based payments	1.4	1.1
	6.9	5.8

The key management compensation given above is for the Board and the two business presidents. Directors' remuneration is set out in the Directors' Remuneration Report on page 40.

29 CONTINGENT LIABILITIES

As is the case with other chemical companies, the Group occasionally receives notices of litigation relating to regulatory and legal matters. A provision is recognised when the Group believes it has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where it is deemed that an obligation is merely possible and that the probability of a material outflow is not remote, the Group would disclose a contingent liability.

Elementis LTP Inc ("LTP") has been named as a defendant in chromium related litigation currently pending in the State of Missouri (the "Missouri Litigation"). The Missouri Litigation developed into the following types of cases: (1) 15 cases involving over 180 individual plaintiffs alleging property and/or personal injury; (2) a class action seeking property damages for an unspecified number of putative class members; and (3) a class action seeking medical monitoring damages for putative class members who live in a four county area.

Between December 2010 and November 2011, five of the individual plaintiff cases (described in clause (1) above) involving approximately 133 individual plaintiffs and the medical monitoring class action (described in clause (3) above) were voluntarily dismissed.

In late December 2011 and early January 2012, LTP secured two orders for summary judgement in its favour by judges in two separate cases. The first was in respect of all of the plaintiffs' claims in one of the cases involving 26 individual plaintiffs (described in clause (1) above), and the second concerned the property damage class action (described in clause (2) above). In January 2012 following these two orders, five more of the cases (described in clause (1) above) involving approximately 17 individual plaintiffs were voluntarily dismissed.

In the four cases involving approximately five individual plaintiffs that remain (described in clause (1) above), the plaintiffs claim personal injury due to alleged exposure to a chromium compound as the result of processes utilised by a tannery in St. Joseph, Missouri that was owned by Prime Tanning, Corp. ("Prime Tanning"). LTP has been named as the procurer of sodium dichromate for another defendant, Wismo Chemical Corp. ("Wismo"). Wismo was located onsite at the tannery and was in the business of converting sodium dichromate (upon delivery by LTP) into chromium sulphate – a chemical agent that is commonly used in the tanning of hides. Wismo, in turn, sold the chromium sulphate to Prime Tanning. 50 per cent of the shares of Wismo had been owned by LTP, its affiliates or its predecessors, but such shares were sold to Prime Tanning prior to LTP being named as a defendant in the Missouri Litigation proceedings.

Management, after consultation with legal counsel, has concluded that the proceedings are unlikely to be adversely determined against LTP and thus would not reasonably be expected to have a material impact on the Group's financial position. None of the remaining proceedings is scheduled to go to trial before the beginning of 2013.

The Group is required to present a separate balance sheet for the parent company, Elementis plc, which continues to adopt UK generally accepted accounting principles. Its accounting policies are set out in Note 1 and its balance sheet is set out below.

ELEMENTIS PLC

Balance Sheet
at 31 December 2011

	Note	2011 £million	2010 £million
Fixed assets			
Investments	3	759.1	640.1
Current assets			
Debtors	4	1.2	0.5
Creditors: amounts falling due within one year			
Creditors	5	(0.2)	(0.2)
Net current assets			
		1.0	0.3
Total assets less current liabilities			
		760.1	640.4
Creditors: amounts falling due after more than one year			
Amounts due to subsidiary undertakings		(286.6)	(271.2)
Net assets			
		473.5	369.2
Capital and reserves			
Called up share capital	7	22.5	22.4
Share premium account	8	6.8	6.1
Capital redemption reserve	8	83.3	83.3
Other reserves	8	81.5	81.5
Share option reserve	8	2.2	1.9
Profit and loss account	8	277.2	174.0
Equity shareholders' funds			
		473.5	369.2

The financial statements of Elementis plc on pages 87 to 90 were approved by the Board on 28 February 2012 and signed on its behalf by:



David Dutro
Group Chief Executive



Brian Taylorson
Finance Director

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

Basis of preparation

The Company's financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its profit and loss account. As the Company's voting rights are controlled within the Group headed by Elementis plc, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned entities which form part of the Group (or investees of the Group qualifying as related parties).

Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

Investments

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

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Pensions and other post retirement benefits

The Company participates in the Elementis Group defined benefit pension scheme. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and as required by FRS 17, it has treated the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable for the year.

Taxation

Deferred taxation is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes that have originated but not reversed at the balance sheet date, except as otherwise required by FRS 19. Advance corporation tax recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors as appropriate.

Share based payments

The fair value of share options granted to employees is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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

2 PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO SHAREHOLDERS

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. A profit of £116.8 million (2010: £48.1 million) is dealt with in the financial statements of the Company.

3 INVESTMENTS

	Unlisted shares at cost £million	Unlisted loans £million	Total £million
Cost at 1 January 2011 and 31 December 2011	0.1	759.0	759.1
Provision for impairment:			
At 1 January 2011	–	(119.0)	(119.0)
Reversal of impairment	–	119.0	119.0
At 31 December 2011	–	–	–
Net book value 31 December 2011	0.1	759.0	759.1
Net book value 31 December 2010	0.1	640.0	640.1

The investment in unlisted loans is with Elementis Holdings Limited, an indirect wholly owned subsidiary. The investment in unlisted shares is in Elementis Group BV, a wholly owned subsidiary.

The £119 million reversal of provision for impairment was made following a directors' valuation of the subsidiary undertaking using a discounted cash flow methodology. A £50 million reversal of provision had been made in the previous period.

The principal subsidiaries of Elementis plc are as follows:

Subsidiary undertakings		Country of incorporation and operation
Elementis Chromium LLP	Chromium chemicals	United Kingdom
Elementis UK Limited trading as:		
Elementis Specialties	Rheological additives, colourants, waxes, other specialty additives	United Kingdom
Elementis Chromium Inc	Chromium chemicals	United States of America
American Chrome & Chemicals Inc	Chromium chemicals	United States of America
Elementis Specialties Inc	Rheological additives, colourants, waxes, other specialty additives	United States of America
Elementis Germany GmbH	Rheological additives, colourants, waxes, other specialty additives	Germany
Elementis Specialties (Changxing) Ltd	Rheological additives, colourants, waxes, other specialty additives	People's Republic of China
Elementis Specialties (Anji) Ltd*	Organoclays	People's Republic of China
Elementis Specialties Netherlands BV	Surfactants and coatings additives	Netherlands
Deuchem Co., Ltd	Additives and resins	Taiwan
Deuchem (Shanghai) Chemical Co., Ltd	Additives and resins	People's Republic of China

* 80 per cent owned subsidiary.

Notes:

None of the undertakings is held directly by the Company.

Equity capital is in ordinary shares, wholly owned and voting rights equate to equity ownership.

All undertakings listed above have accounting periods ending 31 December.

Undertakings operating in the United Kingdom are incorporated in England and Wales. In the case of corporate undertakings, other than in the United Kingdom, their country of operation is also their country of incorporation.

All undertakings listed above have been included in the consolidated financial statements of the Group for the year.

4 DEBTORS

	2011 £million	2010 £million
Corporation tax	1.2	0.5

5 CREDITORS: AMOUNT FALLING DUE WITHIN ONE YEAR

	2011 £million	2010 £million
Accruals and deferred income	0.2	0.2

6 RETIREMENT BENEFIT OBLIGATIONS

The Company is a member of a multi-employer pension scheme providing benefits based on final pensionable pay. Because the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 "Retirement benefits", the scheme has been accounted for as if the scheme was a defined contribution scheme. The net deficit in the scheme at 31 December 2011 was £22.5 million (2010: £18.5 million).

NOTES TO THE COMPANY FINANCIAL STATEMENTS OF ELEMENTIS PLC

for the year ended 31 December 2011 *continued*

6 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The latest full actuarial valuation was carried out at 30 September 2008 and was updated for FRS 17 purposes to 31 December 2011 by a qualified actuary. The contribution for the year was £0.1 million (2010: £0.1 million).

Details of a guarantee given by the Company in respect of current and future obligations of UK subsidiaries currently participating in the pension scheme are set out in Note 10 in the Company's financial statements.

7 CALLED UP SHARE CAPITAL

	2011 Number '000	2011 £million	2010 Number '000	2010 £million
Authorised:				
Ordinary shares of 5 pence each	640,000	32.0	640,000	32.0
Called-up, allotted and fully paid:				
Ordinary shares of 5 pence each				
At 1 January	448,663	22.4	448,123	22.4
Issue of shares	1,287	0.1	540	–
At 31 December	449,950	22.5	448,663	22.4

During the year a total of 1,286,744 ordinary shares with an aggregate nominal value of £64,337 were allotted and issued for cash to various employees at subscription prices between 35 pence and 85.5 pence on the exercise of options under the Group's share option schemes. The total subscription monies received by the Company for these shares was £0.8 million. The holders of ordinary shares are entitled to receive dividends and entitled to one vote per share at meetings of the Company.

8 RESERVES

	Share premium account £million	Capital redemption reserve £million	Other reserves £million	Share option reserve £million	Profit and loss account £million
At 1 January 2011	6.1	83.3	81.5	1.9	174.0
Retained profit for the year	–	–	–	–	116.8
Issue of shares	0.7	–	–	–	–
Share based payments	–	–	–	0.3	–
Transfer	–	–	–	–	–
Dividend paid	–	–	–	–	(13.6)
At 31 December 2011	6.8	83.3	81.5	2.2	277.2

9 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2011 £million	2010 £million
Profit for the financial year	116.8	48.1
Dividends paid	(13.6)	(12.6)
Share based payments	0.3	0.2
Ordinary shares issued	0.8	0.3
Net increase in shareholders' funds	104.3	36.0
Opening shareholders' funds	369.2	333.2
Closing shareholders' funds	473.5	369.2

10 RELATED PARTY TRANSACTIONS

The Company is a guarantor to the UK pension scheme under which it guarantees all current and future obligations of UK subsidiaries currently participating in the pension scheme to make payments to the scheme, up to a specified maximum amount. The maximum amount of the guarantee is that which is needed (at the time the guarantee is called on) to bring the scheme's funding level up to 105 per cent of its liabilities, calculated in accordance with Section 179 of the Pensions Act 2004. This is also sometimes known as a Pension Protection Fund ("PPF") guarantee, as having such a guarantee in place reduces the annual PPF levy on the scheme.

	2011 \$million	2010 \$million	2009 \$million	2008 \$million	2007 \$million
Turnover					
Specialty Products	449.9	410.8	315.2	343.0	282.8
Surfactants	94.3	88.1	76.3	96.6	92.4
Chromium	216.3	198.5	172.2	317.3	224.4
Continuing operations	760.5	697.4	563.7	756.9	599.6
Discontinued operations	–	–	–	–	119.4
Group turnover	760.5	697.4	563.7	756.9	719.0
Operating profit					
Specialty Products	89.7	71.8	30.9	55.0	57.6
Surfactants	5.4	6.1	0.1	0.9	1.8
Chromium	56.1	35.8	13.9	52.4	28.4
Central costs	(14.1)	(11.4)	(8.7)	(10.0)	(11.6)
Continuing operations before exceptional items	137.1	102.3	36.2	98.3	76.2
Exceptional items	27.5	–	(76.7)	(38.8)	38.8
Discontinued operations	–	–	–	–	8.6
Profit/(loss) before interest	164.6	102.3	(40.5)	59.5	123.6
Net interest payable	(2.6)	(6.3)	(7.9)	(6.6)	(9.6)
Profit/(loss) before tax	162.0	96.0	(48.4)	52.9	114.0
Tax	(37.9)	(21.9)	(9.0)	(15.5)	(17.8)
Non-controlling interests	–	–	–	–	(0.2)
Profit/(loss) attributable to equity holders of the parent	124.1	74.1	(57.4)	37.4	96.0
	2011 \$million	2010 \$million	2009 \$million	2008 \$million	2007 \$million
Basic					
Earnings/(loss) per ordinary share (cents)	27.8	16.7	(12.9)	8.5	21.8
Earnings per ordinary share before exceptional items (cents)	21.2	15.4	4.3	17.2	16.2
Diluted					
Earnings/(loss) per ordinary share (cents)	27.2	16.5	(12.9)	8.5	21.6
Earnings per ordinary share before exceptional items (cents)	20.8	15.2	4.3	17.2	16.0
Dividend per ordinary share (cents)	7.0	4.9	4.5	5.5	5.0
Interest cover (times)*	41.5	31.0	14.5	20.0	6.7
Equity attributable to equity holders of the parent	449.2	379.7	286.3	385.9	457.6
Net cash/(borrowings)	26.2	(79.3)	(106.3)	(92.0)	(32.2)
Weighted average number of ordinary shares in issue during the year (million)	446.5	443.5	443.3	442.6	441.9

* Ratio of operating profit before exceptional items to interest on net borrowings.

INTERNET

The Group operates a website which can be found at www.elementisplc.com. This site is frequently updated to provide shareholders with information about the Group and each of its operating divisions. In particular, the Group's press releases and announcements can be found on the site together with copies of the Group's accounts.

REGISTRARS

Enquiries concerning shares or shareholdings, such as the loss of a share certificate, consolidation of share certificates, amalgamation of holdings or dividend payments, should be made to the Company's registrars:

Equiniti Limited

Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Tel: 0871 384 2379 or +44 (0) 121 415 7043

Fax: 0871 384 2100 or +44 (0) 190 369 8403

Website: www.shareview.co.uk

Calls to the above numbers cost 8 pence per minute from a BT landline. Other telephony providers' costs may vary. Lines open 8.30 a.m. to 5.30 p.m., Monday to Friday.

In any correspondence with the registrars, please refer to Elementis plc and state clearly the registered name and address of the shareholder. Please notify the registrars promptly of any change of address.

PAYMENT OF DIVIDENDS

It is in the best interests of shareholders and the Company for dividends to be paid directly into bank or building society accounts. Any shareholder who wishes to receive dividends in this way should contact the Company's registrars to obtain a dividend mandate form.

REGISTRARS' TEXT PHONE

For shareholders with hearing difficulties:

Callers inside the UK telephone: 0871 384 2255

Callers outside the UK telephone: +44 (0) 121 415 7028

WEB-BASED ENQUIRY SERVICE

Equiniti provides a range of shareholders' services online. The portfolio service provides access to information on share balances, balance movements, indicative share prices and information on recent dividends, and also enables address and dividend mandate details to be amended online. For further information and practical help on transferring shares or updating your details, please visit: www.shareview.co.uk

Equiniti also provides a share dealing service that enables shares to be bought or sold by UK shareholders by telephone or over the internet. For telephone sales please call 0845 603 7037 between 8.30 a.m. and 4.30 p.m. and for internet sales please visit: www.shareview.co.uk/dealing

Company Secretary

Wai Wong

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KPMG Audit Plc

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FINANCIAL CALENDAR

28 February 2012	Preliminary announcement of final results for the year ended 31 December 2011
26 April 2012	Annual General Meeting and First Interim Management Statement
2 May 2012	Ex-dividend date for final dividend for 2011 payable on ordinary shares
4 May 2012	Record date for final dividend for 2011 payable on ordinary shares
1 June 2012	Payment of final dividend for 2011 on ordinary shares
31 July 2012	Interim results announcement for the half year ending 30 June 2012
5 September 2012*	Ex-dividend date for interim dividend for 2012 payable on ordinary shares
7 September 2012*	Record date for interim dividend for 2012 payable on ordinary shares
5 October 2012*	Payment of interim dividend for 2012 on ordinary shares
26 October 2012*	Second Interim Management Statement

* Provisional date.

ANNUAL GENERAL MEETING

The Annual General Meeting of Elementis plc will be held on 26 April 2012 at 11.00 a.m. at The Royal Institution of Great Britain, 21 Albemarle Street, London W1S 4BS. The Notice of Meeting is included in a separate document. Details of the ordinary and special business of the Annual General Meeting are contained within the Notice.

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