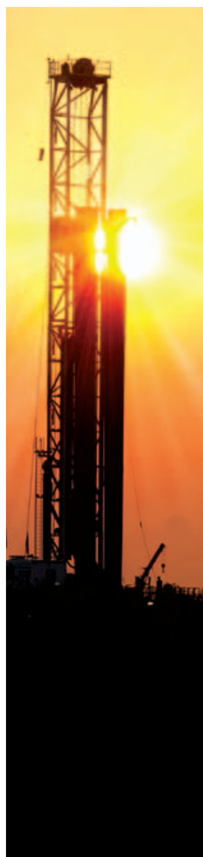
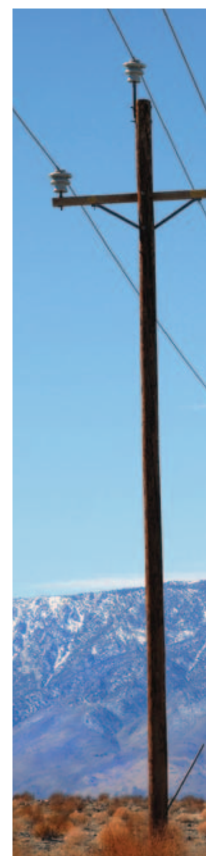
ELEMENTIS

A global specialty chemicals company

Investing in growth





2012

Annual report and accounts

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 Latin 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.

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
provides high value functional additives to the decorative and industrial coatings, personal care and oilfield drilling markets that improve the flow characteristics and performance of its customers' products or production processes.

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

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

KEY INVESTMENT DRIVERS

- Solid financial track record, profitable well run businesses with a proven and respected management team.
- Highly cash generative with a strong balance sheet and special dividend programme announced.
- Double digit operating margins.
- Balanced geographic exposure to mature and emerging markets.
- Global leader in rheology with a broad, patent protected product portfolio with applications in different markets and sectors.
- Investment in further growth: strong new product pipeline, multiple capacity expansion programmes and selective acquisitions.

WHERE WE DO IT

9 countries
30+ locations
1,300+ employees

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

HIGHLIGHTS

Group earnings per share increased by 12.0 per cent*

Operating margin* improved to 19.0 per cent (2011: 18.0 per cent)

Resilient performance in Specialty Products

- Constant currency sales up 4 per cent; operating profit* up 3 per cent
- Investing in growth
  - – New plant commissioned; new technical facilities; acquisition in Brazil

Solid performance in Chromium

- Robust earnings and strong cash flow

Excellent cash generation

- Net cash position increased to $44.0 million

Final ordinary dividend increased by 14 per cent, full year up 11 per cent

First payment announced under special dividend programme, proposing to distribute 50 per cent of year end net cash

FINANCIAL SUMMARY

	2012	2011	Change
Sales	**$757.0m**	$760.5m	
Operating profit	**$143.9m**	$137.1m*	+5%
Profit before tax	**$141.2m**	$134.5m*	+5%
Diluted earnings per share	**23.3c**	20.8c*	+12%
Net cash	**$44.0m**	$26.2m	+68%
Profit for the year	**$107.1m**	$124.1m**	
Basic earnings per share	**23.7c**	27.8c**	
Dividends to shareholders:			
– Interim dividend	**2.45c**	2.34c	+5%
– Final proposed	**5.32c**	4.66c	+14%
– Total ordinary dividend	**7.77c**	7.00c	+11%
– Special dividend	**4.79c**	–	

* before exceptional items, all of which relate to 2011

** includes one-time gain from recovery of funds from EU commission

CONTENTS

Company overview

Ifc At a glance
01 Highlights and financial summary
02 Opportunities for growth

Business review

04 Summary of strategic progress
08 Chairman's statement
10 Group Chief Executive's overview
13 Our businesses
21 Finance report
25 Key performance indicators
25 Risk management report
29 Corporate social responsibility report

Corporate governance

36 Board of directors and senior executives
38 Directors' report
41 Directors' responsibility statement
42 Corporate governance report
46 Report of the Audit Committee
47 Report of the Nomination Committee
48 Report of the Remuneration Committee
61 Independent auditor's report

Financial statements

62 Consolidated income statement
62 Consolidated statement of comprehensive income
63 Consolidated balance sheet
64 Consolidated statement of changes in equity
65 Consolidated cash flow statement
66 Notes to the consolidated financial statements
101 Parent company statutory accounts
102 Notes to the financial statements of Elementis plc

Shareholder information

106 Five year record
107 Shareholder services
108 Corporate information
108 Financial calendar
108 Annual General Meeting
108 Principal offices

Cautionary statement:

The Annual Report and Accounts for the financial year ended 31 December 2012, 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.

OPPORTUNITIES FOR GROWTH

Elementis is highly cash generative, operates on a resilient and sustainable business model and has multiple opportunities for significant growth.

GLOBAL COATINGS MARKET

Global industrial coatings market: $53bn (additives segment: $1.8bn).

Global decorative coatings market: $36bn (additives segment: $1.6bn).

Source: Kusumgar, Nerlfi & Growney, Global coatings and ink additives, March 2010

NORTH AMERICA

A $7.4m investment in a state of the art research & development centre of excellence (comprising process development and laboratory facilities) and management and administration offices. This new 65,000 sq. ft. facility in East Windsor, New Jersey was commissioned in April 2012.

In addition, Specialty Products is investing $20m to expand manufacturing through a new 44,000 sq. ft. facility in North America to support specialty rheology additives and dispersants for the decorative coatings market. Production at the New Martinsville site in West Virginia commenced in early 2013.

LATIN AMERICA

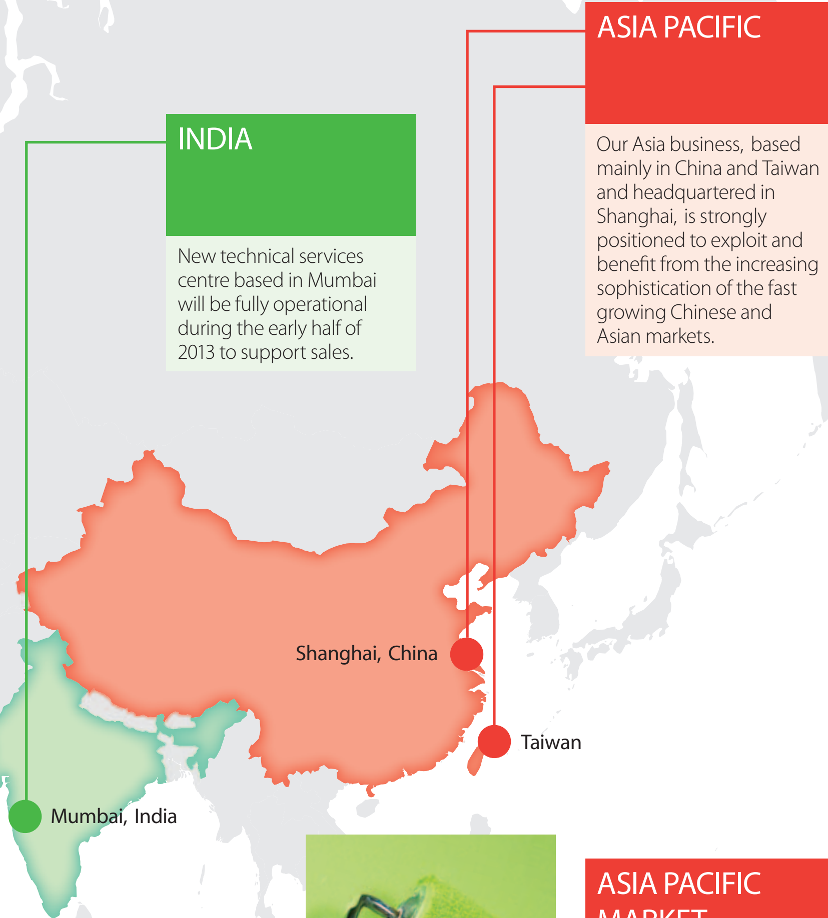
Specialty Products completed its acquisition of Brazilian coatings additives company, Watercryl, on 28 September 2012. The manufacturing and technical facilities based in Palmital, São Paulo will provide the platform to accelerate growth in this region.

2013 GDP growth forecast for Brazil: 3.95%.

Source: IMF, World Economic Outlook Database, October 2012

UK AND EUROPE

Research & development focus and strengthened leadership team in the personal care business has led to good progress being made to grow this high margin business, through a combination of a new range of eco-certified products and geographic expansion into high growth markets in Asia Pacific and Latin America.

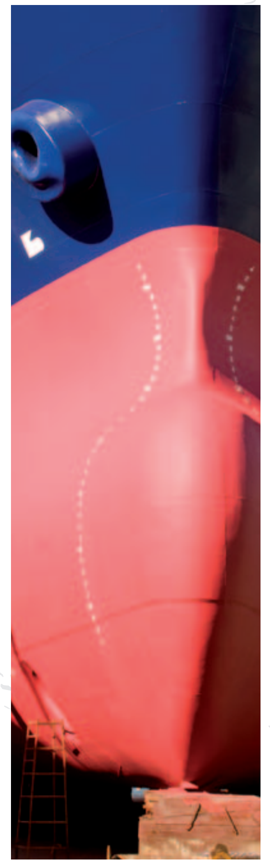


INDIA

New technical services centre based in Mumbai will be fully operational during the early half of 2013 to support sales.

ASIA PACIFIC

Our Asia business, based mainly in China and Taiwan and headquartered in Shanghai, is strongly positioned to exploit and benefit from the increasing sophistication of the fast growing Chinese and Asian markets.



GLOBAL SHALE GAS & OIL MARKET

33 countries identified as having shale gas reserves.

A total of 6,600 trillion cubic feet of technically recoverable shale gas reserves identified.

Equivalent to 40% of the total world technically recoverable natural gas reserves.

Summary breakdown of the largest reserves (cubic feet in trillions):

North America	1,931
China	1,275
Latin America	1,225
Europe	639

Source: US EIA, World Shale Gas Resources: An Initial Assessment, April 2011

ASIA PACIFIC MARKET

IMF 2013 GDP growth forecasts in a selection of Elementis markets:

China	8.23%
India	5.97%
ASEAN (avg.)	5.32%
Taiwan	3.87%
South Korea	3.63%
Australasia (avg.)	3.03%
Japan	1.23%

Source: IMF, World Economic Outlook Database, October 2012

IFC – 03 COMPANY OVERVIEW
04 – 35 BUSINESS REVIEW
36 – 61 CORPORATE GOVERNANCE
62 – 105 FINANCIAL STATEMENTS
106 – 108 SHAREHOLDER INFORMATION

SUMMARY OF STRATEGIC PROGRESS

Elementis Group

	A OUR STRATEGY	B EXECUTING OUR STRATEGY	C PERFORMANCE AGAINST STRATEGY IN 2012
1	Grow the Specialty Products business profitably, utilising cash flow from the Chromium and Surfactants businesses.	See sections on Specialty Products, Chromium and Surfactants on pages 6 and 7.	→ See Box B1.
2	Improve 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.	• Managing the businesses to deliver financial performance that generates strong operating cash flow. • Managing the capital base effectively. • Managing legal and financial risks to the Company (including UK pension fund).	• Operating cash flow of $117.2 million generated. • $37.4 million of capital expenditure and $24.0 million spent acquiring Watercryl in Brazil. • Special dividend programme announced in 2012. • Agreed UK pension fund triennial valuation and funding plan.
3	Maintain our global leadership position in rheology.	• Robust new product pipeline to meet market needs. • Patent protected product innovation. • Acquiring proprietary technology.	New products and applications developed for the decorative and industrial coatings, personal care and oilfield drilling markets.
4	Generate and preserve value over the longer term to create sustainable shareholder value.	• Delivering operating plans that meet consensus earnings forecasts. • Maintaining a strong balance sheet to reinvest in growth and finance returns to shareholders. • Managing business and corporate risks. • Proactive investor relations programme.	• Diluted EPS before exceptional items of 23.3 cents reported in 2012. • Total shareholder return ("TSR") over the last three years was 375 per cent compared to 45 per cent for the FTSE 250 index in the same period. • Active programme of formal and ad hoc meetings (including investor conferences) with investors and potential investors in the UK, US and Europe. • Appropriate engagement with financial press and analyst community.
5	Manage significant business and corporate risks.	• Proper identification, assessment and mitigation of risks. • Effective risk management policies, communication and training.	→ See Box E5 and E6.
6	Maintain high standards of business conduct, ethics and corporate responsibility (e.g. health, safety & environment – "HSE").	• Setting high standards and fostering appropriate culture through leadership, policies, communication and training. • Maintaining membership of FTSE4Good index.	• Business conduct and ethics compliance programme in place, including policies, training and communication. • No major HSE incident or litigation/ compliance breach to report. • Membership of FTSE4Good retained.

PRIORITIES FOR 2013 (D)	KPIs (2012) (E) Definitions are shown in the KPI section of the Finance report
→ See Box B1.	→ See Box B1.
• Ensure funding is available to invest in further organic and acquisitive growth. • Renew Group revolving credit facility. • Maintain progressive dividend policy and special dividend programme.	• Operating cash flow of $117.2 million generated. • Average working capital ("AWC") to sales ratio of 19.1 per cent reflects strategic holding of key raw materials. • Return on operating capital employed ("ROCE") before tax and excluding goodwill decreased slightly to 49.0 per cent. → See also Box E5.
See sections on Specialty Products on pages 6 and 7.	→ See Box D3.
• Deliver 2013 operating plans. • Maintain investor relations activity. → See also Box B4.	• Operating profit* on a constant currency basis increased by 7 per cent. • Operating* and contribution margins improved to 19 per cent and 38.5 per cent respectively. • Total dividend for 2012 of 12.56 cents per share, including special dividend of 4.79 cents per share, represents an increase of 79.4 per cent. * before exceptional items, all of which relate to 2011
• Continue to manage significant business and corporate risks. See also Risk management report on page 25.	• No new contingent liabilities.
• Continue to maintain high standards of business conduct, ethics and corporate responsibility. • Continue to meet criteria for FTSE4Good membership. See also Corporate social responsibility ("CSR") report on page 29.	• Two "Lost time accidents". • No Tier 2 or 3 environmental incidents. See CSR report.

IFC – 03 COMPANY OVERVIEW
04 – 35 BUSINESS REVIEW
36 – 61 CORPORATE GOVERNANCE
62 – 105 FINANCIAL STATEMENTS
106 – 108 SHAREHOLDER INFORMATION

SUMMARY OF STRATEGIC PROGRESS CONTINUED

Our businesses

A OUR STRATEGY	B EXECUTING OUR STRATEGY	C PERFORMANCE AGAINST STRATEGY IN 2012
7 Specialty Products To be the fastest growing and most competitive supplier of specialty chemicals additives in the world. Growing the business, revenue and market share, while maintaining margins.	• Organic growth from new products, markets, applications or geographies. • Selective acquisitions in rheology or complementary additives. • Excellent customer service and understanding. • Technical expertise and support, and product innovation. • Operational excellence to maintain margins and improve procurement and supply chain efficiencies.	• Market share gains and robust new product pipeline delivering results. • Capacity expansion projects to support growth in the coatings and oilfield drilling markets. • Acquisition of Watercryl in Brazil gives the business a significant platform to grow in the Latin American markets. • New R&D centre of excellence in New Jersey commissioned in April 2012 and a new technical service centre established in Mumbai that will be commissioned in early 2013. • Operating margin of approximately 20 per cent is consistent with that of a true specialty chemicals company and AWC metrics show that this aspect of the business is managed well.
8 Chromium Consistently deliver a relatively stable and sustainable level of earnings and cash flow.	• Maintain high capacity utilisation and optimising operational performance by flexing our low cost manufacturing footprint to respond to changes in demand. • Operational discipline to maintain price and cost competitiveness and margins. • Improve cost base by securing supply of raw materials and energy. • Serve higher margin markets and customers with value added products and just in time service via custom designed delivery systems.	• Business delivered strong operating profit and cash flow results despite challenging economic conditions and shifts in market and regional demand. • Operating margin being maintained within a sustainable range. • Contracts secured to deliver stable energy prices and consistent and reliable supplies of key raw materials.
9 Surfactants Steadily upgrading the product portfolio in Surfactants by focusing on higher margin applications, while at the same time transitioning the manufacturing facility to produce more higher margin coatings additives for Specialty Products.	• Focus on higher margin markets to balance the base load activity in high volume commodity applications. • Offer innovative products to the market and to customers. • Target growth in higher margin segments to improve profitability. • Improve productivity, operational efficiencies and sales focus.	• Operating profit of $4.8 million reflects a decrease in sales, as the business continues to transition its product portfolio mix away from lower margin surfactants to higher margin specialty additives. • Revenue split approximately 50:50 between additives and surfactants, while volume split is 40:60 respectively. • Operating margin improved. • AWC to sales ratio continues to show solid performance.

PRIORITIES FOR 2013

D

KPIs (2012)

Definitions are shown in the KPI section of the Finance report

E

- Achieve 2013 operating plan.
- Maintain operating margins at around 20 per cent and AWC levels at a sustainable level.
- Win new customers and work with existing customers to help them solve their formulary problems and to provide a level of performance that improves the effectiveness or efficiency of their products, processes or applications.
- Using the Watercryl acquisition as a platform for growing sales in Latin America.
- Continue to develop new products for the decorative and industrial coatings, personal care and oilfield drilling markets.
- Commission the technical service centre in Mumbai to support sales into India.

Financial

- Constant currency sales increased by 4.2 per cent.
- Operating profit* on a constant currency basis increased by 3.8 per cent.
- Operating margin* remained at c.20 per cent.
- ROCE before tax and excluding goodwill decreased to 40.2 per cent.
- AWC to sales ratio maintained at 18.8 per cent.

Non-financial

- Two "Lost time accidents".
- No Tier 2 or 3 environmental incidents.

See CSR report.

- Maintain current level of operating and financial performance:
  - Deliver consistent level of earnings and operating cash flow.
  - Flex the business model to adjust to changes in customer demand.
  - Continue to provide value added products in unique delivery systems that enable customers to improve efficiency, reduce working capital and meet regulatory standards.
  - Optimise capacity utilisation.
  - Optimise supply chain and secure supplies of key raw materials.

Financial

- Constant currency sales increased by 3.9 per cent.
- Operating profit* on a constant currency basis increased by 11.9 per cent.
- Operating margin improved to 26.2 per cent.
- ROCE before tax and excluding goodwill decreased to 64.5 per cent.
- AWC to sales ratio (excluding chrome ore) improved to 16.2 per cent.

Non-financial

- No "Lost time accidents".
- No Tier 2 or 3 environmental incidents.

See CSR report.

→ See Box B9.

Financial

- Constant currency sales decreased by 17.5 per cent.
- Operating profit* on a constant currency basis decreased by 4.0 per cent.
- Operating margin* improved to 6.6 per cent.
- ROCE before tax and excluding goodwill increased to 25.1 per cent.
- AWC to sales ratio improved to 9.6 per cent.

Non-financial

- No "Lost time accidents".
- No Tier 2 or 3 environmental incidents.

See CSR report.

* before exceptional items, all of which relate to 2011

IFC – 03 COMPANY OVERVIEW
04 – 35 BUSINESS REVIEW
36 – 61 CORPORATE GOVERNANCE
62 – 105 FINANCIAL STATEMENTS
106 – 108 SHAREHOLDER INFORMATION

CHAIRMAN'S STATEMENT

Robert Beeston
Chairman

I am pleased to report another year of excellent progress at Elementis. As has been widely documented, the economic environment remained challenging in 2012 and continues to test the resilience of our strategy and business model. It is therefore gratifying to report that we have yet again delivered improvements in earnings and operating margin in the year.

The well invested and cash generative nature of our businesses means that we have been able to make further value added investments and yet still increase the amount of net cash on our balance sheet in 2012 by $17.8 million, to a total of $44.0 million at the end of the year. As a result the Board is recommending the first distribution under the recently announced special dividend programme.

The Group has continued to benefit from its strategy of investing in Specialty Products, where opportunities are plentiful and prospective returns are high, funding this investment through the positive cash flow generated by this business and the stable earnings and cash flow from the Chromium business. The period has seen several exciting investments in Specialty Products, and already in 2013 we have announced the acquisition of Hi-Mar, further expanding our product offering and technical service in the area of defoamers. These investments will further enhance the growth prospects and resilience of both Specialty Products and the Group as a whole.

Group revenues in 2012 were $757.0 million compared to $760.5 million in the previous year, with Specialty Products and Chromium both showing revenue growth, while the Surfactants business continued to reduce revenue in low margin activities in line with its strategy. Group operating profit* increased by 5 per cent to $143.9 million, or 7 per cent on a constant currency basis, and operating margin* increased from 18.0 per cent in 2011 to 19.0 per cent in the year. Diluted earnings per share* improved by 12 per cent to 23.3 cents per share.

* before exceptional items, all of which relate to 2011

Balance sheet
The Group continues to be in a robust financial position and has a balance sheet that provides a strong platform to fund future growth. During the year a new funding plan was agreed with the trustees of the Group's UK pension plan that will finance the agreed funding deficit over the next six years. Under the new plan the Group will make affordable contributions that strike the right balance between meeting our commitments under the plan, while supporting our growth, and providing appropriate returns to our shareholders and other stakeholders. Under IAS 19 the total deficit in the Group's retirement plans at the end of 2012 was $136.0 million, compared to $94.8 million in the previous year. This increase is largely due to decreases in real bond yields during the year.

Ordinary dividend
The Board is recommending a final dividend of 5.32 cents (2011: 4.66 cents) per share which will be paid on 31 May 2013 in pounds sterling at an exchange rate of £1=$1.5266 (equivalent to a sterling amount of 3.4849 pence per share), to shareholders on the register on 3 May 2013. This brings the total ordinary dividend to shareholders for the year to 7.77 cents (2011: 7.00 cents), representing an increase of 11 per cent over the previous year. Going forward the Board intends to maintain a progressive ordinary dividend policy as the Group's dollar earnings and cash flow permit.

Special dividend
Following a review of the Group's capital in the year the Board announced that it intended to institute a special dividend programme to provide shareholders with an enhanced return, in recognition of the strong cash generative nature of the Group. Under this programme, at any year end when the Group is in a net cash position and there are no immediate investment plans for that cash, the Board will recommend an additional special dividend of up to 50 per cent of the net cash amount. The Board is confident in the Group's ability to continue to fund growth investments, similar to those made in 2012, from internally generated cash flow. The Board has therefore concluded that it would be appropriate to distribute the full 50 per cent of the net cash balance at the end of 2012 as a special dividend. The amount of this special dividend will therefore be $22 million, or 4.79 cents per share (equivalent to a sterling amount of 3.1377 pence per share), and will be paid under the same terms and exchange rate as the ordinary dividend, bringing the combined dividend for the full year to 12.56 cents per share.

Health, safety and the environment

Our performance in this important area of our business continues to be of a high industry standard and showed an improvement over the previous year. Nevertheless, we remain extremely vigilant in monitoring and continuously improving our processes and activities that impact upon the safety of our employees and the environment.

Corporate governance

Your Board remains committed to maintaining high standards of corporate governance and is satisfied that the Company has complied fully with all of the relevant provisions of the UK Corporate Governance Code (June 2010 version) ("CGC") throughout the financial year ended 2012. In my introduction to the Corporate governance report for 2012, I set out how your Board has applied the main principles in the CGC relating to the role and effectiveness of the Board.

The Board welcomes the changes that have been made to the UK Corporate Governance Code (September 2012 version) and is confident that the Company will comply fully with these new provisions during 2013.

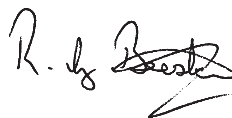
As previously reported, a recruitment process is underway that should lead to changes being made to the Board during the course of 2013. Two additional directors will be appointed to replace Chris Girling and Kevin Matthews, who will be retiring towards the end of the year. Both individuals have served as non-executive directors since 2005. Chris Girling is Chairman of the Audit Committee and it is planned that this role will be taken over by one of the two new appointees after a period of induction and handover. Kevin Matthews is Chairman of the Remuneration Committee and he will be succeeded in this role by current Board member Andrew Christie. The Board is mindful of the benefits of gender diversity on boards and has taken these factors into consideration in the recruitment process. All Board changes will be announced at the appropriate time.

People

Our progress and successes are only possible through the significant efforts and dedication of our employees around the world. I would therefore like to thank and congratulate them on behalf of the Board for yet another year of notable achievements.

Outlook

The resilient performance demonstrated by the Group in 2012, combined with new investments in Specialty Products, are further evidence that Elementis is adopting the right strategy to drive profitable growth and create value for shareholders and other stakeholders. The Board is therefore confident that the Group can continue to make progress in the medium term.



Robert Beeston
Chairman
26 February 2013

GROUP CHIEF EXECUTIVE'S OVERVIEW

David Dutro
Group Chief Executive

Dear Shareholders,

It is my pleasure to report another excellent year for Elementis, with 2012 marking a new level of achievement for our Company. Collectively our businesses delivered the highest EPS* level in the Group's history. Even more remarkably, this strong performance was achieved in the face of a global economy and market environment that grew more uncertain as the year progressed. These results further validate the resilience and inherent quality of our businesses. This record performance is especially notable when viewed as a continuation of the striking improvements in performance we have achieved over the past three years, during which we increased EPS* by more than 440 per cent. Our total shareholder return of 375 per cent over this period puts the Group in the top percentile of all FTSE All Share companies. We are resolute in our commitment to deliver profitable growth across all stages of the economic cycle and our internal performance targets continue to be independent of improvements in market conditions.

The Board recently announced that, in addition to its current progressive dividend policy, a special dividend programme has been instituted that will provide an additional return to shareholders of up to 50 per cent of year end net cash on the balance sheet. This programme reflects the Board's high level of confidence in the Company's financial strength and our ability to continue to deliver strong cash flows. With a positive outlook for the future and ample cash to fund bolt on acquisitions and growth investments, we are sure that our new dividend programme will enhance our ability to provide strong returns to our shareholders.

Elementis Specialty Products
Consistent with our strategic focus on growth in 2012, Specialty Products introduced new products, expanded our geographic presence and made investments to serve our customers' growing demand. These investments included:

- **The acquisition of Watercryl in Brazil, strengthening Specialty Products's position in Latin America.**
- **Completion of a new Specialty Products North American additives plant – supporting the sale of recently introduced products in decorative coatings.**
- **A new world class US based technology centre and pilot plant – to better support our innovation model and product development programme.**
- **On-going investment in new capacity to support both the current high demands and future growth of our coatings, personal care and oilfield customers.**
- **An office and technical service lab being opened in Mumbai, India.**

These investments will contribute significantly to our continued growth and further strengthen our product innovation model and technological leadership. We are in the enviable position of having manufacturing facilities that are extremely well invested, thus requiring only modest levels of maintenance capital, resulting in the majority of our capital spend being invested in growth projects.

The Specialty Products business provides a robust growth platform, with our balanced geographic exposure across mature and emerging economies, strong technology base and strategic market diversification. In addition to an impressive proprietary product offering, we also own and operate a high purity hectorite clay mine. Hectorite clay is highly valued by coatings and personal care, and increasingly by our oilfield, customers for its unique rheology characteristics and colour purity, which create a distinct long term competitive advantage for both Specialty Products and our customers. Specialty Products has a significant technical service and application support presence in our market segments, which has been built on long term relationships of trust, collaboration and technical expertise. Our differentiated technological innovation is supported by best in class process technology and tightly held manufacturing know-how.

The Specialty Products growth strategy is two pronged: internally generated growth through innovative new products, geographic expansion and gains in market share, along with value adding acquisitions that are consistent with our business model.

On the acquisition front, Specialty Products acquired Watercryl, a Brazilian based specialty additives manufacturer. Through this acquisition, we enhanced our penetration of the very important, high growth Latin American region and obtained a portfolio of innovative products that complements our own. While our global presence enables us to develop and leverage solutions for our customers around the world, a strong local presence is critical in allowing us to truly understand our customers and their specific needs, and to respond proactively to address them. The integration of Watercryl, which is expected to be accretive to earnings in 2013, is well underway and delivering a number of

* before exceptional items

exciting growth opportunities in the fast growing Latin America markets. The announcement on 20 February 2013 that we have acquired Hi-Mar, a leading supplier of defoamers, demonstrates our continued commitment to targeting bolt on acquisitions that extend our product range into adjacent, high growth markets and that are synergistic with our current technologies, product portfolio, customer base and margin expectations.

At the heart of nearly every investment we make in this business is innovation. Innovation at Elementis is about leveraging our expertise, market knowledge and deep customer relationships to develop and commercialise value added solutions for our customers and markets. This concept is captured in the Specialty Products tagline "your one-stop solution provider." Our R&D pipeline is stronger than ever and, more importantly, our new products are delivering real value to our customers and to the bottom line. Our ability to consistently deliver innovative products has been a critical component of our growth strategy and performance improvement to date, and it will drive our next level of success as well.

Elementis Chromium

Elementis Chromium reported its best year ever in terms of earnings, further confirming the business's ability to adjust to rapidly changing market dynamics. In 2012 this business delivered operating margins of 26.2 per cent and a return on capital employed (before tax and excluding goodwill) of 65 per cent.

The Chromium business's strategy is primarily focused on reducing cyclical fluctuations and consistently delivering more predictable and therefore higher quality earnings and cash flow. The business provides products that serve a diverse range of customers, geographies and applications, allowing it to quickly shift products and resources away from sluggish areas to those offering better returns. As the only North American based manufacturer of chromium chemicals, the business is able to provide North American customers with a differentiated and highly valued closed loop delivery model, providing a long term competitive advantage to Elementis. The business has a significant share of North American chromium chemicals sales and 58 per cent of its sales were into this region in 2012. In addition, on the manufacturing side, the business completed its alternative energy project, which allows the Castle Hayne, North Carolina facility to operate on natural gas as well as fuel oil. This investment gives the business far greater flexibility to procure energy in a more cost effective manner going forward.

Elementis Surfactants

We continue to improve the quality of the product portfolio and margins in our Surfactants business. This business, located in Delden, the Netherlands, shares its production facility with the Specialty Products business. The goal remains to utilise more of the facility's capacity over time to support the higher margin product range in the Specialty Products business. The Delden facility is a large and well maintained site and we are pleased to have the available capacity to support the Specialty Products growth strategy.

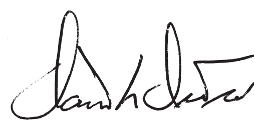
Summary

I am proud of Elementis's accomplishments in 2012, which are a direct reflection of the hard work and dedication of our global team and performance driven culture.

Regardless of the overall economic conditions, Elementis will continue to execute our well defined growth strategy of focusing on market share gains, introducing new products and strengthening our position in new geographies and technologies with complementary bolt on acquisitions.

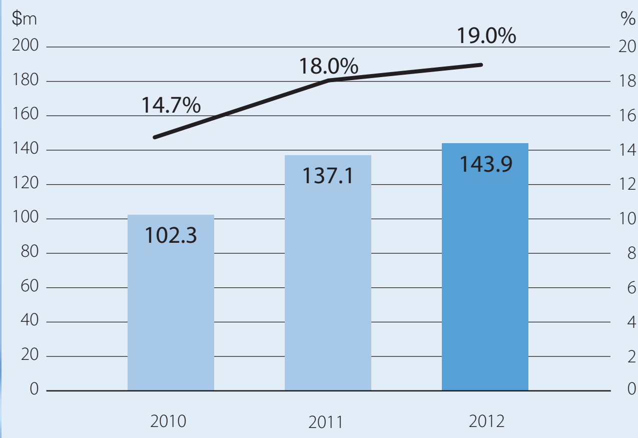
As we embark on a new financial year we have excellent momentum. What's more, I believe we are only now beginning to see the full earnings and cash generating ability of the businesses.

We will continue to provide value for our customers, which will deliver results for you our shareholders. We have established goals and plans to make 2013 another exceptional year for our Company. We continue to be positive about the future at Elementis and our ability to continue to make progress in this outstanding company for our stakeholders. In closing, we would like to sincerely thank our shareholders and customers for their continued confidence and support.



David Dutro
Group Chief Executive
26 February 2013

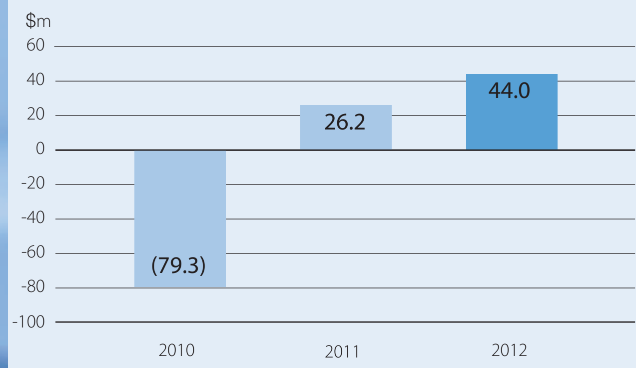
GROUP OPERATING PROFIT AND MARGIN



Group operating profit* ($m)
Operating margin* (%)

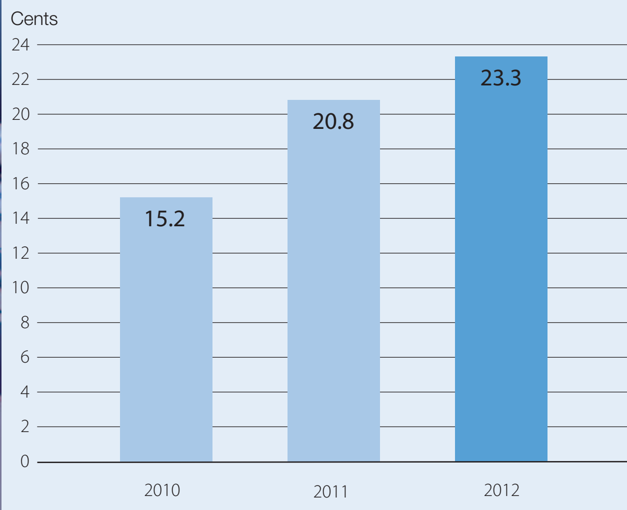
* before exceptional items, all of which relate to 2010 and 2011

NET CASH/(DEBT)



Net cash/(debt) ($m)

EARNINGS PER SHARE



Diluted earnings per share before exceptional items, all of which relate to 2010 and 2011 (cents)

OUR BUSINESSES

REVENUE

	Revenue 2011 $million	Effect of exchange rates $million	Increase/ (decrease) 2012 $million	**Revenue 2012 $million**
Specialty Products	449.9	(9.6)	18.4	**458.7**
Chromium	231.0	–	9.1	**240.1**
Surfactants	94.3	(6.4)	(15.4)	**72.5**
Inter-segment	(14.7)	–	0.4	**(14.3)**
	760.5	(16.0)	12.5	**757.0**

OPERATING PROFIT

	Operating profit 2011* $million	Effect of exchange rates $million	Increase/ (decrease) 2012 $million	**Operating profit 2012 $million**
Specialty Products	89.7	(2.9)	3.3	**90.1**
Chromium	56.1	–	6.7	**62.8**
Surfactants	5.4	(0.4)	(0.2)	**4.8**
Central costs	(14.1)	0.3	–	**(13.8)**
	137.1	(3.0)	9.8	**143.9**

* before exceptional items

KEY FACTS

ELEMENTIS SPECIALTY PRODUCTS

We are the Group's largest business, accounting for 61 per cent of Group sales and 63 per cent of Group operating profit in 2012.

We are based in 27 locations around the world, in North and Latin America, Europe and Asia, and our sales are approximately split equally between the Americas, Europe and Asia.

We have over 900 employees globally, 12 manufacturing facilities, 3 research centres of excellence (including a process development facility) based in North America, Europe and Asia, 6 technical service centres and 11 dedicated sales offices.

www.elementis.com

ELEMENTIS CHROMIUM

We are a leading producer and global supplier of chromium chemicals, and the only domestic producer in the US.

Our business accounts for 32 per cent of Group sales and 44 per cent of Group operating profit in 2012.

We operate from two major facilities in Castle Hayne, North Carolina and Corpus Christi, Texas, and three smaller processing facilities supplying local tanneries.

We have over 250 employees, most of whom are located in the US.

www.elementischromium.com

ELEMENTIS SURFACTANTS

We provide surfactant based chemical solutions for industrial processes and products involving interfacial surface chemistry.

We share a manufacturing plant in Delden, the Netherlands, with Elementis Specialty Products and the plant is in the process of transitioning its product portfolio to producing more higher margin specialty additives.

We employ over 150 employees at our Delden site.

www.elementis.com

IFC – 03 COMPANY OVERVIEW
04 – 35 BUSINESS REVIEW
36 – 61 CORPORATE GOVERNANCE
62 – 105 FINANCIAL STATEMENTS
106 – 108 SHAREHOLDER INFORMATION

OUR BUSINESSES CONTINUED

Elementis Specialty Products

Greg McClatchy
President of Elementis Specialty Products and Elementis Surfactants

	2012	2011
Sales	$458.7m	$449.9m
Operating profit	$90.1m	$89.7m*
Operating margin	19.6%	19.9%*
ROCE**	40.2%	42.6%

* before exceptional items
** before tax and excluding goodwill

WHAT WE DO

We provide high value functional additives to the decorative and industrial coatings, personal care and oilfield drilling markets that improve the flow characteristics and performance of our customers' products or production processes.

We have 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.

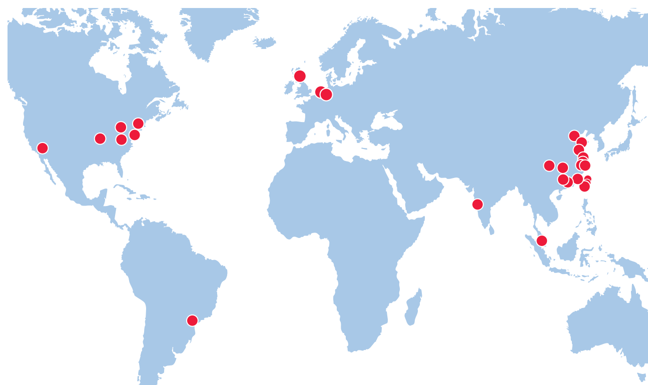
The same requirements for rheological additives exist in personal care products, such as creams and lotions, and in oilfield drilling applications, providing viscosity control to thicken and suspend solids in drilling formulations and to stabilise stimulation packages used in the drilling process.

Our patent-protected technology addresses the performance needs of our customers through our rheological modifiers for aqueous and solvent systems, wetting and dispersing agents, colourants and tinting systems, defoamers, waxes and slip aids, adhesion promoters and other performance enhancing or surface active additives.

HOW WE DO IT

- Proven leadership team with solid track record in the management of the business including risk, working capital, HSE and supply chain matters.
- World class R&D leadership, focused on product innovation and a robust new product pipeline.
- Balanced geographic growth platform, spread across developed and emerging markets.

Specialty Products worldwide



- Tightly held manufacturing know-how, best in class process technology and manufacturing and operational excellence.
- Diversified portfolio of proprietary technology.
- Aligned with global market leaders in coatings, personal care and oilfield drilling markets; opportunities to leverage relationships to cross-sell into different markets or sectors.
- Strong reputation for customer service, technical support and long term relationships of trust, collaboration and technical expertise.
- Product portfolio has many end users and a wide range of applications in multiple high growth markets and sectors.
- Commercial teams (sales and marketing) work with R&D function to develop new products to give customers an alternative or to address a specific market or customer need.

SciPark, East Windsor, New Jersey

WHERE WE DO IT

Key segments served
- Decorative paints and coatings
- Industrial paints and coatings
- Oilfield drilling
- Personal care

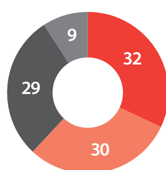
Other segments served:
- Adhesives and sealants
- Asphalt and bitumen
- Construction
- Inks
- Lubrication
- Plastics
- Refractory and ceramics
- Water treatment

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 applications
- Decorative 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 extraction activities
- Personal care: antiperspirants, nail polish, mascara, make-up, eye shadow, lipsticks, creams, lotions and suncare products
- Construction: concrete, plasters, mortars, renderings, stuccos, flooring systems and building adhesives

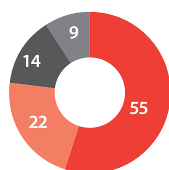
SPLIT OF SALES REVENUE 2012 (%)

GEOGRAPHIC



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

SEGMENT



- Industrial coatings
- Decorative coatings
- Oilfield
- Personal care

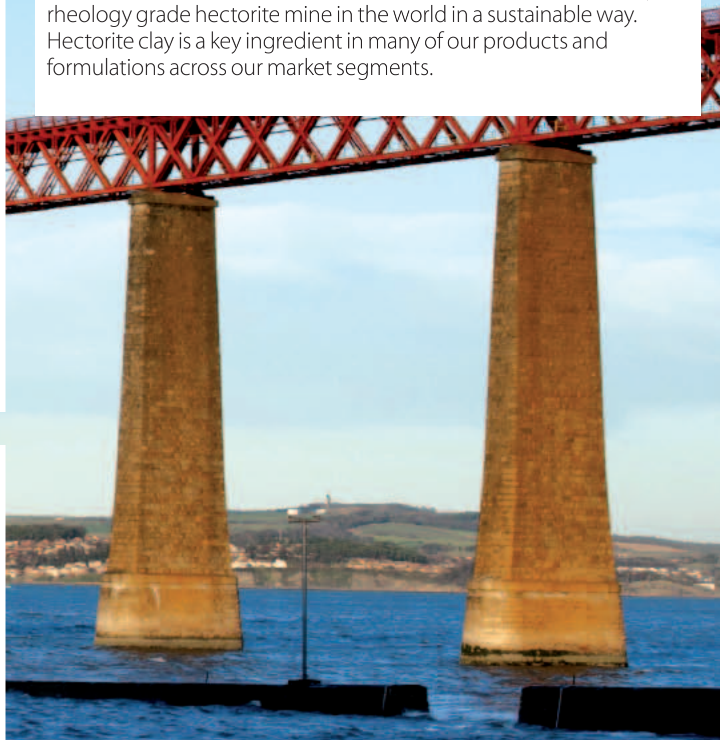
INDUSTRY STRUCTURE AND SUPPLY CHAIN

Our coatings customers are the global, regional and local coatings companies. 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 coatings 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. Its unique technologies and strong alignment with key industry players have allowed the business to benefit from the recent increase in drilling activity for shale gas in North America, as well as the continuing global trend of exploiting oil and gas reserves in more extreme environments, both of which require greater and more sophisticated rheological solutions.

The top ten customers account for less than 30 per cent of total sales.

In each key segment, the business has many competitors from multinationals to smaller, privately owned businesses.

The business has long term agreements in place to secure supplies of key raw materials, such as clays, quaternary amines and other chemical intermediates. The business owns and operates the only rheology grade hectorite mine in the world in a sustainable way. Hectorite clay is a key ingredient in many of our products and formulations across our market segments.



IFC – 03 COMPANY OVERVIEW
04 – 35 BUSINESS REVIEW
36 – 61 CORPORATE GOVERNANCE
62 – 105 FINANCIAL STATEMENTS
106 – 108 SHAREHOLDER INFORMATION

Elementis Specialty Products continued

OUR BUSINESS MODEL

Our growth strategy is shaped by our unique commercial advantage
Elementis Specialty Products displays all the characteristics of a true specialty chemicals company: highly segmented markets; balanced exposure to mature and emerging markets; differentiation through customer service and technical support; long term relationships of trust, collaboration and technical expertise; high operating margins and return on operating capital; ability to pass on raw material inflationary price increases; and products that are critical ingredients in customers' formulations and essential to their performance. In addition, it is the owner of the only rheology grade hectorite mine in the world.

How our business is organised
The Specialty Products business is organised into five business units that reflect the four principal strategic segments served (industrial and decorative coatings, personal care and oilfield drilling):

1. Coatings Americas
2. Coatings Europe
3. Coatings Asia
4. Personal Care
5. Oilfield Drilling

Each of our five business units has the following reporting structure:

Business President

Business Unit Director

The five business units are supported by business and corporate support functions:

- Business Finance (including shared service centres, credit control, accounts payable/ receivable)
- Product Stewardship & Regulatory Affairs, HSE and Quality
- Procurement & Supply Chain, Commercial (Sales & Marketing), Technical Service and R&D
- Group Finance (including Treasury), HR, IT, Legal & Compliance and Governance & Risk Management

Where we add value
Coatings is the largest segment of our business and the performance requirements for decorative and industrial coatings are very different and can vary depending on the exact application or regional factors and preferences. In decorative coatings, the reason for such a wide range of brands and paints is partly down to providing a better choice to the end consumer, be it value, colour or performance with additives for environmentally friendly coatings systems. (1) The paint required for all the different surfaces in the home are formulated specifically for each room. For example, paint should be water resistant in the bathroom, stain and scrub resistant in the kitchen and scuff resistant in the hallway.

The performance requirements of industrial coatings are higher still, for example, ships, bridges or cargo containers. A coating may have to be resistant to hot and cold weather, be rust and mould proof and durable against rough handling. (2) Just about every object that has a surface will have a coating, from laptops and washing machines, to commercial aircraft and luxury cars.

Growth of our coatings business is linked to GDP factors, as well as product innovation and customer service, so a strong, vibrant global economy will mean more house building, construction and other infrastructure projects, as well as consumption of luxury goods, all of which provide a significant boost to economic activity.

However, our business has a very balanced geographic footprint, providing a natural hedge against differing economic conditions depending on geographic region. This has helped to ensure our business is more sustainable, can maintain margins and generate value for our shareholders.

In addition to servicing a wide base of customers (existing and new), the business responds to the changing needs of customers and actively seeks to identify gaps in the market, and these drive our R&D programmes. For example, we have helped a motorcycle and a ship manufacturer overcome the rheology challenges of applying just a single coating on their surfaces, without compromising on quality and performance, which saved them both time and cost – helping them to service their customers. (3) Other examples include a customer who needed better spatter control or higher efficiency when spraying a coating on floor covering products.

An example of targeting a niche market with a new product is from our personal care business. We launched a natural oil based rheology modifier for colour cosmetics and skin care in the form of a gel, using our eco-certified ingredients. This was a new product innovation that was introduced into the market with good results. (4)

Watercryl, Brazil

2012 PERFORMANCE

Sales in Specialty Products for 2012 were $458.7 million compared to $449.9 million in the previous year, an increase of 2 per cent, or 4 per cent on a constant currency basis. The increase was primarily due to higher sales volumes as the business experienced good growth in most of its key markets and geographies.

In the coatings market, additives sales in North America increased by 7 per cent as the business continued to benefit from market share gains and new product launches. A particular feature was the growth in decorative paints where several new NiSAT products were launched and a new US plant producing these products began production in early 2013. Marine and ink coatings applications also showed robust growth, while a slowdown in some construction markets impacted sales in the second half of the year, such that first half sales were 14 per cent ahead of the same period last year, while second half sales were similar to the previous year.

In Europe, sales increased by 2 per cent, after adjusting for currency movements, due to market share gains in a number of end applications, including wood coatings and construction. Year on year constant currency sales were 3 per cent lower in the first six months of the year and 8 per cent higher than the previous year in the second half.

In Asia Pacific, coatings sales have continued to show good growth as a result of our strong presence in China and our ability to leverage a differentiated customer offering and technical service into other high growth markets, such as India. Comparisons with the previous year are somewhat impacted by a portfolio optimisation strategy, implemented during the first half of 2011 to improve margins. This strategy offset the underlying growth that the business was experiencing, such that first half sales in 2012 were 1 per cent higher than the same period last year. However, this programme did not impact the second half and sales in that period were 15 per cent higher than the previous year. For the year as a whole, coatings sales in Asia Pacific increased by 7 per cent.

In Latin America, coatings sales benefited from the acquisition of Watercryl in Brazil, which completed on 28 September 2012. The acquisition added $2.5 million to sales in the fourth quarter of 2012 and contributed to the full year regional sales increase of 17 per cent.

In oilfield drilling, there is a strong underlying demand for rheology additives in North American shale drilling as well as drilling for oil and gas in extreme environments, such as deep water and high temperature and pressure. However, customer inventory adjustments in the North American market during the second half of the year had a significant impact on sales in that period. As a result, the strong sales growth seen throughout 2011 and into the first half of 2012, with sales 28 per cent ahead of the previous year, were offset in the second half of the year, such that overall sales for the year were 6 per cent lower than the previous year.

In personal care, sales for the year were 8 per cent higher than the previous year, or 13 per cent on a constant currency basis, as the business continued to experience good demand for rheology additives, particularly for applications such as aerosol antiperspirants and colour cosmetics. Organisational changes in the business during the year provided greater focus and helped drive higher growth in the second half, where sales grew by 18 per cent excluding currency, compared to 9 per cent in the first half.

Operating profit* in 2012 was $90.1 million compared to $89.7 million in the previous year, which is an increase of 4 per cent excluding currency movements. Operating margin* remained resilient, at just under 20 per cent, despite changes in the sales mix, while raw material inflation was less evident due to the diverse nature of the materials utilised by the business. Selective price increases during the year had a positive impact on operating profit and fixed costs increased by 6 per cent, partly to support a number of growth investments made during the year.

* before exceptional items, all of which relate to 2011

OUR BUSINESSES CONTINUED

Elementis Chromium

Dennis Valentino
President of Elementis Chromium

	2012	2011
Sales	$240.1m	$231.0m
Operating profit	$62.8m	$56.1m
Operating margin	26.2%	24.3%
ROCE*	64.5%	67.0%

* before tax and excluding goodwill

WHAT WE DO

We provide chromium chemicals to our customers that make their products more durable and are used in a wide range of sectors and applications.

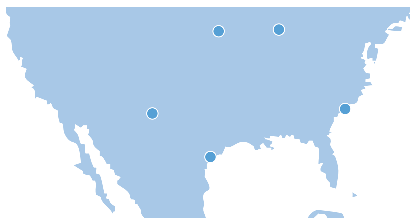
Our reputation for quality and operational excellence, and our high levels of customer service and technical support are key differentiating factors for us that enable us to develop long term, mutually advantageous relationships with our customers.

The key products in our broad product portfolio include: chromic acid, chromic oxide, sodium dichromate and chrome sulphate. These products are used in very diverse end markets around the world.

HOW WE DO IT

- The business is structured to benefit 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 geographic presence in North America, with export sales to Latin America, Europe and Asia Pacific.

Chromium – United States



- As well as being the only domestic producer in the US, the business has a unique product delivery system that meets high regulatory standards and helps our customers manage their supply chain more effectively.

WHERE WE DO IT

Key segments served

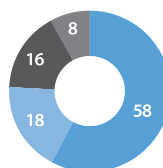
- Metal finishing
- Timber treatment
- Leather tanning
- Pigments/ceramics
- Refractory
- Chrome metal (super alloys)

Key products and applications

- **Chromic oxide:** as a pigment in paints, decorative coatings, plastics, roofing tiles and ceramic tiles; in the construction of high temperature and abrasion resistant refractory brick for glass and fibreglass; and in the production of super alloy metals for use in aeroplane and land based turbines.
- **Chromic acid:** in plating metal and plastic to produce a strong, tarnish resistant chrome finish for appliances, automobiles and many other applications; and as a wood preservative for marine pilings, telegraph poles, landscape timbers and other industrial wood applications.
- **Chrome sulphate:** in tanning to produce high quality leathers for a wide range of end uses.
- **Sodium dichromate:** as an intermediate chemical to produce pigment for industrial coatings and traffic paint.

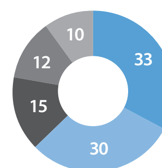
SPLIT OF SALES REVENUE 2012 (%)

GEOGRAPHIC



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

SEGMENT



- Metal finishing
- Other
- Timber treatment
- Pigmentary
- Leather tanning

INDUSTRY STRUCTURE AND SUPPLY CHAIN

The business has a large customer base with customers located in different regions around the world. Our top ten customers account for 46 per cent of total sales.

The business has many competitors from multinationals to smaller privately owned businesses.

The business has agreements in place to secure supplies of key raw materials, such as chrome ore, soda ash and sulphuric acid.

OUR BUSINESS MODEL

Our strategy is to operate at high capacity utilisation to generate sustainable earnings and cash flow to reinvest into the Specialty Products business

Elementis Chromium manufactures a range of chromium chemicals. The business has the ability to flex its manufacturing operations to respond to changes in demand and its diverse end markets (by geography, application and sector), giving our business model the strength and resilience to generate sustainable earnings and cash flow over a broad range of economic conditions.

How our business is organised

The Chromium business operates with a lean management structure:

Business President

Leadership team:

- Vice President Finance (also responsible for sourcing of key materials and energy)
- Global Commercial Director (sales and marketing)
- President of the leather tanning products ("LTP") business
- Operations Director

The Product Stewardship & Regulatory Affairs, HSE and Quality functions report to the Operations Director

The business is supported by corporate support functions:

Shared service centres (credit control, accounts payable/receivable)	Group Finance (including Treasury), HR, IT, Legal & Compliance and Governance & Risk Management

How our business operates

The two main facilities in Castle Hayne and Corpus Christi produce all of our chromium chemicals, with the exception of liquid chrome sulphate which is manufactured at the LTP sites. The commercial and operations teams work together closely to flex our production output to meet current customer demand, to respond to regional or market shifts and to optimise product mix and margins.

2012 PERFORMANCE

Chromium sales in 2012 were $240.1 million compared to $231.0 million in 2011, an increase of 4 per cent. Currency had no material impact on year on year sales. Sales volumes were 1 per cent higher than the previous year, as the business operated at high rates of capacity and adjusted its production mix to optimise output in response to changes in global demand patterns. Sales volumes in the first half of the year were 2 per cent ahead of the previous year, while second half volumes were similar to the previous year. In North America, which accounted for 58 per cent of sales in 2012 (2011: 57 per cent), sales volumes were 5 per cent higher than the previous year, as higher sales of chromic acid used in timber treatment offset lower sales of chrome sulphate for leather tanning applications. The demand in timber treatment was driven by a continuing preference by consumers for chrome based products over more expensive petrochemical based alternatives, while the softer demand in leather tanning applications was a result of lower herd sizes in North America following recent drought conditions.

In Europe, sales volumes were significantly higher than the previous year, growing by 29 per cent, as solid growth in the global chrome metal market for aerospace applications created opportunities to sell high quality chrome oxide to key manufacturers, a number of whom are based in Europe.

In Asia Pacific, sales volumes were 18 per cent lower than the previous year as strong sales of chromic acid for auto applications in China were more than offset by lower sales in Japan caused by the merger of two major customers. Average selling prices increased by 3 per cent in response to higher raw material prices.

Operating profit improved by 12 per cent versus the previous year to $62.8 million and operating margin increased to 26.2 per cent from 24.3 per cent. Lower energy costs contributed $7.4 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, as well as lower average gas prices compared to the previous year. This, combined with higher average selling prices, more than compensated for higher raw material costs experienced in the year, while fixed costs remained firmly under control.

Elementis Surfactants

	2012	2011
Sales	$72.5m	$94.3m
Operating profit	$4.8m	$5.4m*
Operating margin	6.6%	5.7%*
ROCE**	25.1%	21.7%

* before exceptional items
** before tax and excluding goodwill

WHAT WE DO

We manufacture a wide range of surface active ingredients and products that are used as intermediates in the production of chemical compositions.

Our products have many applications and are used in a large number of industries and sectors, such as in oilfield services, household and industrial cleaning, textiles and leather, and other niche markets including animal feed, agriculture and plastics.

Our broad range of specialty surfactants include non-ionic, anionic, cationic and amphoteric surfactants, blended products, as well as specialty additives, such as dispersing agents, emulsifiers and defoamers.

HOW WE DO IT

- Our unique and versatile product portfolio, broad expertise in surfactants chemistry, flexibility and ability to produce a wide range of complex products, often in relatively small quantities and customised to meet our customers' requirements, are key strengths of the business.
- Through close customer relationships and by maximising synergies of customers' application experience, as well as our chemical knowledge, we continuously strive to offer tailor made products and system solutions that contribute to our customers' success.
- Our plant is equipped with both continuous and multi-purpose batch reactors for various chemical processes, including polymerisation and condensation reactions, ethoxylation, propoxylation, phosphation, sulphation, sulphonation and quaternisation.

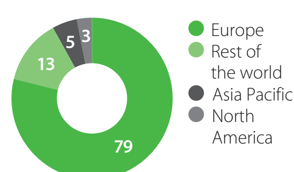
WHERE WE DO IT

Key segments served

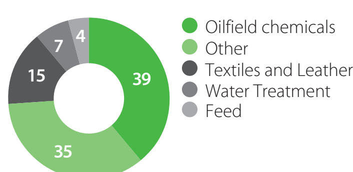
- Oilfield production chemicals
- Construction chemicals
- Agro-chemical and animal feed markets
- Pharmaceutical ingredients
- Textiles and leather
- Plastics and resins
- Household
- Resin and polymer emulsification

SPLIT OF SALES REVENUE 2012 (%)

GEOGRAPHIC



SEGMENT



INDUSTRY STRUCTURE AND SUPPLY CHAIN

The business has many competitors from multinationals to smaller privately owned businesses.

The business has long term agreements in place to secure supplies of key raw materials, which include ethylene and propylene oxides, nonylphenol ethoxylate and fatty alcohols.

OUR BUSINESS MODEL

Our strategy is to shift our product portfolio towards higher margin applications, while transitioning our manufacturing facility towards producing additives for Specialty Products, and to improve our level of profitability and operating margin.

How our business is organised

The President of the Specialty Products business is also the President of the Surfactants business which, in addition to sharing a site, also shares a common management framework and resources, although its performance is reported separately. The Surfactants facility is headed by a business unit managing director into whom the operations and commercial sales teams report. The business shares various business and corporate support functions with the Specialty Products business, as illustrated on page 16.

The business's customers are mainly based in Europe and its top ten customers represent 64 per cent of revenue. The focus of the business is to continue operational excellence by maintaining a tight control over costs and to increase sales of our higher margin and more profitable products.

2012 PERFORMANCE

Sales in Surfactants for 2012 were $72.5 million compared to $94.3 million in the previous year, a decrease of 23 per cent, or 18 per cent on a constant currency basis. The majority of sales in this business are denominated in euros. In line with the business's strategy to produce more additives for Specialty Products, sales volumes in Surfactants declined by 21 per cent compared to the previous year. This was exacerbated by the economic downturn in Europe, with approximately 80 per cent of sales in Surfactants going into this region. During this transition, the business continues to improve the sales portfolio by increasing the proportion of higher value products and this was evident in the 2012 sales mix. Average selling prices improved by 3 per cent in response to increases in raw material costs.

Operating profit* in 2012 was $4.8 million compared to $5.4 million in the previous year. Operating profit was lower due to the planned reduction in sales volumes, however, operating margin* improved to 6.6 per cent, compared to 5.7 per cent in the previous year. Improved selling prices largely compensated for increases in raw material costs and the increase in operating margin was a result of portfolio optimisation and positive cost control.

* before exceptional items, all of which relate to 2011

FINANCE REPORT

Brian Taylorson
Finance Director

REVENUE

	2012 $million	2011 $million
Specialty Products	**458.7**	449.9
Chromium	**240.1**	231.0
Surfactants	**72.5**	94.3
Inter-segment	**(14.3)**	(14.7)
	757.0	760.5

OPERATING PROFIT

	2012 Operating profit $million	2012 Exceptional items $million	2012 Adjusted operating profit $million	2011 Operating profit $million	2011 Exceptional items $million	2011 Adjusted operating profit $million
Specialty Products	**90.1**	**–**	**90.1**	87.9	1.8	89.7
Chromium	**62.8**	**–**	**62.8**	56.1	–	56.1
Surfactants	**4.8**	**–**	**4.8**	0.2	5.2	5.4
Central costs	**(13.8)**	**–**	**(13.8)**	20.4	(34.5)	(14.1)
	143.9	**–**	**143.9**	164.6	(27.5)	137.1

Group results
Group sales in 2012 were $757.0 million compared to $760.5 million in the previous year, an increase of 2 per cent excluding currency movements. Sales in both Specialty Products and Chromium increased over the previous year, while sales in Surfactants declined, in line with that business's strategy. Overall sales volumes for the Group were higher than the previous year, largely due to growth in Specialty Products, and pricing also improved, compensating for increases in raw material costs.

Group operating profit* increased by 5 per cent to $143.9 million, an increase of 7 per cent on a constant currency basis. Operating margin* improved to 19.0 per cent, compared to 18.0 per cent in the previous year, as each business continued to focus on sustainable higher margin and differentiated business opportunities, and maintained a strict operating discipline. The Group also benefited from lower energy costs in the year as a result of structural changes in Chromium operations and generally lower gas prices in North America.

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 2012 a credit of $1.2 million (2011: $0.3 million cost) resulted from these hedge transactions and was 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 2012 central costs were $0.3 million lower than the previous year, before exceptional items, at $13.8 million. The decrease was largely due to foreign currency movements.

Exceptional items
There were no exceptional items in 2012.

Two items were recorded in 2011 under "Exceptional items". The first item was in relation to the recovery of $34.5 million from the European Commission as first 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 was a provision of $7.0 million relating to the Group's pension arrangements in the Netherlands.

Net finance costs

	2012 $million	2011 $million
Finance income	**0.8**	0.7
Finance cost of borrowings	**(3.4)**	(4.0)
	(2.6)	(3.3)
Net pension finance income	**1.2**	1.9
Discount on provisions	**(1.3)**	(1.2)
	(2.7)	(2.6)

* before exceptional items, all of which relate to 2011

Net finance costs increased by $0.1 million in 2012 to $2.7 million, largely due to a reduction in the net pension credit on the Group's pension deficits under IAS 19. Net interest costs on borrowings and deposits were $2.6 million compared to $3.3 million in the previous year. A significant part of the finance cost of borrowings is fixed in nature and relates to arrangement and commitment fees on the Group's borrowing facilities. The discount on provisions of $1.3 million (2011: $1.2 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

	2012 $million	2012 Effective rate per cent	2011 $million	2011 Effective rate per cent
Before exceptional items	**34.1**	**24.2**	39.7	29.5
Exceptional items	–	–	(1.8)	(1.3)
Total	**34.1**	**24.2**	37.9	28.2

The tax charge of $34.1 million (2011: $39.7 million) represents an effective tax rate of 24.2 per cent (2011: 29.5 per cent) with the decrease in tax rate resulting from structural changes within the Group's financing arrangements, as well as certain credits for the cost of share options. Set against these credits is an increase in deferred taxation due to the changes in the UK tax rate resulting in a reduction in the amount of the deferred tax asset as well as increases in overseas taxes.

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* was 23.3 cents compared to 20.8 cents in the previous year, with the improvement mainly due to an increase in operating profit* of $6.8 million and a reduction in the Group tax rate from 29.5 per cent to 24.2 per cent.

Basic earnings per share including exceptional items (all of which relate to 2011) was 23.7 cents compared to 27.8 cents in 2011. The 2011 result benefited from a one-time recovery of funds from the EU Commission of $34.5 million.

Distributions to shareholders

During 2012 the Group paid a final dividend in respect of the year ended 31 December 2011 of 4.66 cents per share (2011: 2.60 cents). An interim dividend of 2.45 cents per share (2011: 2.34 cents) was paid on 5 October 2012 and the Board is recommending a final dividend of 5.32 cents per share (2011: 4.66 cents) and a special dividend of 4.79 cents per share, both of which will be paid on 31 May 2013.

Cash flow

The cash flow is summarised below:

	2012 $million	2011 $million
EBITDA[1]	**165.2**	157.0
Change in working capital	**(12.9)**	(9.3)
Capital expenditure	**(37.4)**	(20.8)
Other	**2.3**	(0.6)
Operating cash flow	**117.2**	126.3
Pension deficit payments	**(27.9)**	(22.0)
Interest and tax	**(15.7)**	(11.3)
Exceptional items	**(3.7)**	31.8
Other	**3.1**	1.7
Free cash flow	**73.0**	126.5
Dividends paid	**(32.2)**	(21.9)
Acquisitions and disposals	**(24.0)**	–
Currency fluctuations	**1.0**	0.9
Movement in net cash	**17.8**	105.5
Net cash/(borrowings) at start of year	**26.2**	(79.3)
Net cash at end of year	**44.0**	26.2

[1] EBITDA – earnings before interest, tax, exceptional items, depreciation and amortisation

The Group delivered a positive cash flow performance in 2012 and, as a result, increased net cash on the balance sheet from $26.2 million at the end of 2011 to $44.0 million at the end of 2012. Contributing to operating cash flow in the year, EBITDA increased from $157.0 million to $165.2 million consistent with the improvement in operating profit. Cash flow relating to working capital was an outflow of $12.9 million compared to an outflow of $9.3 million in 2011. The increase was largely due to additional spending of $13.3 million to increase the strategic level of chrome ore inventories held by the Chromium business, in order to mitigate supply chain risks. This was offset by other structural improvements in working capital, as part of the Group's programme to continuously improve working capital efficiency. Capital expenditure in 2012 increased by $16.6 million to $37.4 million as the Group continued to invest in the growth of Specialty Products. In Specialty Products, spending on the new technical centre in the US, the new plant to produce innovative products for decorative coatings and the plant expansion to serve the oilfield drilling sector accounted for almost $15 million of the Group capital spend in 2012, while capital spending on plant maintenance across the Group was approximately $15 million (2011: $13 million). Pension deficit payments in 2012 were $27.9 million, compared to $22.0 million in the previous year, and mostly relate to payments to the UK plan which are discussed further below. Interest and tax payments in 2012 were $15.7 million (2011: $11.3 million) and the increase relates mostly to higher tax payments associated with a higher level of profits in 2012. Dividends paid are in line with distributions described in the previous paragraph and acquisition spending of $24.0 million in 2012 relates to the acquisition of Watercryl in Brazil by Specialty Products.

* before exceptional items, all of which relate to 2011

Balance sheet

	2012 $million	2011 $million
Intangible fixed assets	342.6	335.1
Other net assets	94.0	87.9
Net cash	44.0	26.2
	480.6	449.2
Equity	480.6	449.2

Group equity increased by $31.4 million in 2012 (2011: $69.5 million). Capital expenditure and the recognition of plant acquired with Watercryl led to an increase in property, plant and equipment of $33.4 million (2011: $0.7 million) and working capital increased by $17.0 million (2011: $11.8 million), much of which related to the increase in strategic stocks of chrome ore. Offsetting these increases, the retirement benefit obligation increased by $41.2 million (2011: increase of $27.4 million) driven mainly by actuarial losses following a decline in corporate bond yields. Net cash increased by $17.8 million (2011: $105.5 million) as the Group continues to be cash generative after its operating, investment and financing activities.

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

	2012 Year end	2012 Average	2011 Year end	2011 Average
Pounds sterling	0.62	0.63	0.64	0.62
Euro	0.76	0.78	0.77	0.71

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 2012 the Group held provisions of $40.5 million (2011: $43.6 million), of which $37.6 million (2011: $41.3 million) relates to environmental matters, including the closure of the Eaglescliffe facility in the UK. The Group's environmental provision has been calculated using a methodology consistent with previous years. Approximately $25.2 million relates to sites maintained by the Group (2011: $28.8 million) with the remainder relating to sites no longer under Group control. $3.7 million was spent on the Eaglescliffe closure programme in 2012 with an anticipated spend in 2013 of approximately $2.5 million.

Pensions and other post-retirement benefits

	2012 $million	2011 $million
Net liabilities:		
UK	72.9	35.0
US	51.3	49.6
Other	11.8	10.2
	136.0	94.8

UK plan

The largest of the Group's retirement plans is the UK defined benefit pension scheme ("UK Scheme") which had a deficit under IAS 19 of $72.9 million at the end of 2012, compared to $35.0 million at the end of 2011. The UK Scheme is relatively mature, with approximately 66 per cent (2011: 66 per cent) of its gross liabilities represented by pensions in payment, and was closed to new members during 2012.

Funding

The most recent triennial valuation was completed as of 30 September 2011 and resulted in an agreed deficit with the trustees of the UK Scheme, for funding purposes, of £91.1 million. The deficit at the previous triennial valuation (30 September 2008) was £101.7 million. A new funding plan was agreed with the trustees in 2012 which includes a fixed payment schedule plus two contingent payments linked to dividends paid to shareholders in each of 2012 and 2013. Based on dividends paid in 2012, the first contingent payment of £2.9 million was made to the fund in 2012. A second payment will be made in the first half of 2014 based on dividends paid in 2013. For example, based on the ordinary and special dividends announced on 26 February 2013 and assuming that the interim dividend in 2013 is the same as 2012 (2.45 cents per share), the second contingent payment would be approximately £8.2 million. The overall payment schedule is designed to eliminate the funding deficit by the end of 2018 and, using the above example, the combined fixed and contingent payments are likely to be as follows:

Year payable	Amount (£million)
2012	12.9
2013	14.5
2014	23.8
2015	14.9
2016	10.9
2017	9.7
2018	7.4

IAS 19 valuation

In 2012 the UK Scheme deficit, under IAS 19, increased to $72.9 million (2011: $35.0 million) as a result of an increase in scheme assets of $47.6 million (2011: $29.0 million), offset by an increase in scheme liabilities of $85.5 million (2011: increase of $35.1 million). The scheme assets increased due to a 5 per cent return on investments for the year (2011: 9 per cent), contributions from the Company of $21.1 million (2011: $16.3 million), less benefit payments of $40.2 million (2011: $40.0 million). Currency movements also increased the asset value by $31.6 million (2011: reduced by $3.9 million). The scheme liabilities increased due to actuarial losses of $57.5 million (2011: $41.9 million), mainly due to a decline in real corporate bond yields of approximately 30 basis points (2011: 30 basis points), finance costs of $33.2 million (2011: $36.5 million) and currency movements of $34.1 million (2011: decreased by $4.2 million), which were offset by benefit payments as described above.

Investment strategy

With the support of the Company, the trustees are operating 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 equity based, with the aim of funding part of the liabilities by generating higher returns with an acceptable level of risk, while also contributing to reducing the deficit over time.

US plans

The US liabilities in 2012 comprised a defined benefit pension plan, with a deficit value of $42.8 million (2011: $41.4 million), and a post-retirement medical plan with a value of $8.5 million (2011: $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 $1.4 million (2011: $15.2 million) during the year, due to an increase in the scheme assets of $10.5 million (2011: decrease of $2.8 million) and an increase in the scheme liabilities of $11.9 million (2011: $12.4 million). The scheme assets were 73 per cent (2011: 74 per cent) invested in equities and generated a return of 13 per cent in the year (2011: minus one per cent), which was the main contributor to the increase in value. The scheme liabilities increased mainly due to a fall in real corporate bond yields during the year of approximately 60 basis points (2011: 100 basis points).

Other plans

In the Netherlands, the Group operates an insured defined benefits plan as is customary in that country. At the end of 2012 the deficit value for this plan was $8.5 million, compared to $7.5 million in the previous year and the increase was mostly due to a fall in real corporate bond yields of 125 basis points. 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. 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's 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 is expected to review the case sometime in 2013. The majority of the deficit value in 2012 relates to this case.

Other liabilities amounted to $3.3 million (2011: $2.7 million) and relate to pension arrangements for a relatively small number of employees in Germany.

Amendments to IAS 19 impacting reporting from 2013 onwards

Amendments to IAS 19 Employee Benefits make substantial changes to the recognition, measurement and disclosure of retirement benefit obligations. The most significant change is that the expected return on plan assets, currently calculated using management's estimate of the return on the appropriate assets, will be replaced by a figure calculated by applying the liability discount rate to the pension plan assets. The Group estimates that had the revised standard been applied in the 2012 financial year the profit before tax figure would have been lower by $7.8 million, or 1.5 cents per share. The impact in 2013 is likely to be of a similar amount.

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 earnings per share, 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 $143.9 million for the year ended 31 December 2012 (2011: $137.1 million before exceptional items). The Group's operating margin was 19.0 per cent compared to 18.0 per cent in 2011.

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 2012 was 19.1 per cent (2011: 17.2 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 49.0 per cent for the year ended 31 December 2012 (2011: 52.6 per cent).

ROCE for the Group including goodwill was 31.2 per cent in 2012 (2011: 23.0 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 two LTAs in 2012 (2011: five).

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 2012 was 38.5 per cent (2011: 37.7 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 2012 the operating cash flow was $117.2 million (2011: $126.3 million).

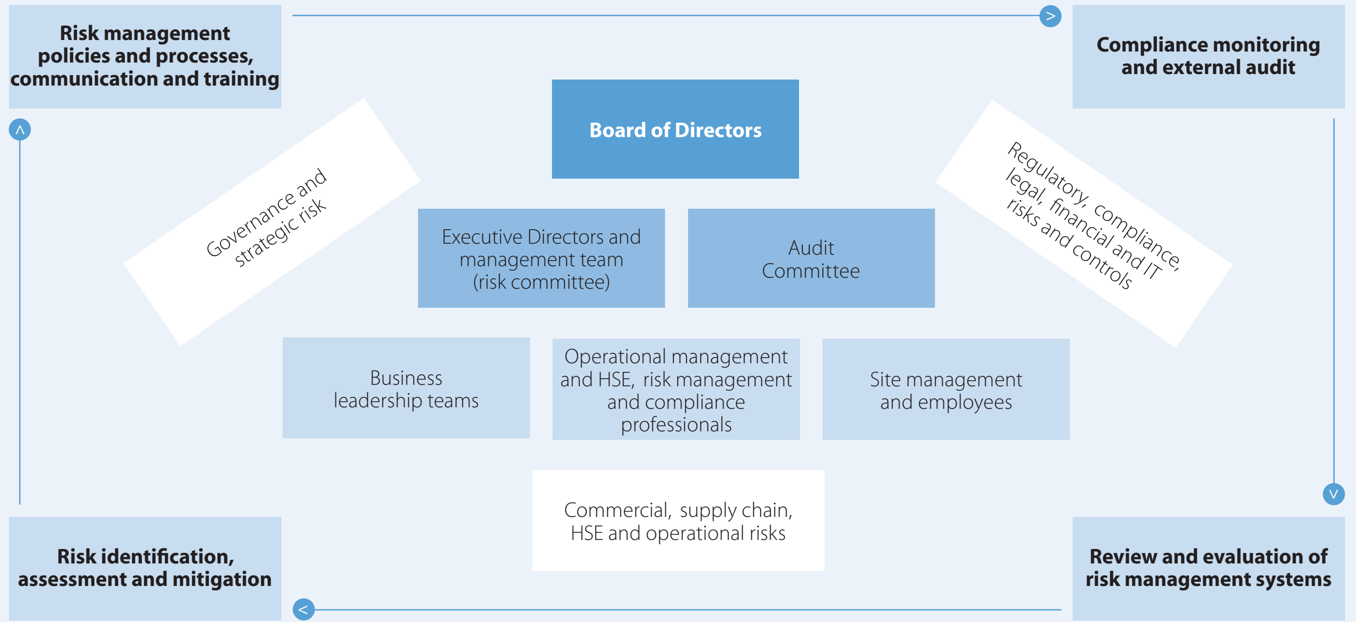
Risk management report

Risk management leadership
The Board is ultimately responsible for the management of risk in the Group. It sets the tone for the Group's policies on risk, appetite for risk and levels of risk tolerance. However, the day to day management of risk 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, which is assisted by the internal and external auditors. The Audit Committee plays 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.

Risk management structure
The illustration overleaf is intended to show that a holistic approach is taken to the management of risk throughout the Group, which is a responsibility shared by all directors, executives, managers and employees alike.

A summary of the key components of the Elementis risk management system can be found on our website under "Principal features of our risk management system" at: **www.elementisplc.com/governance-responsibility/risk-management.**

The principal objectives of risk management are preventing material financial loss and fraud, safeguarding the value of assets (including reputation) and ensuring compliance with laws, regulations and Group policies. In seeking to generate and preserve value over the longer term, the Board sets the tone and direction for the way the businesses are managed that strikes the right balance between being too risk tolerant and being too risk averse. This is reflected in the decisions that have been taken, such as in relation to the acquisition of Watercryl, the approval of capital investment plans to support further growth in the Specialty Products business and agreeing the pension deficit and new funding plan with the trustees of the UK pension scheme.



Risk management review

The following is a summary of the Board's formal programme for reviewing risk during the year:

- Reviewing and approving the 2011 annual report and accounts.
- Considering and approving the risk transference and insurance programme.
- Receiving and considering periodic litigation and compliance reports and presentations.
- Presentations from business units.
- Approving amendments to the risk management policy and associated organisation and resource arrangements.
- Considering and approving the major risks identified by the management team in its formal risk review process, including mitigation action and testing of business continuity plans.
- Reviewing business performance through CEO and Finance Director board reports, approving annual operating plans and monitoring performance against updated forecasts during the year.
- Receiving incident notification reports on health, safety and environmental matters.
- Considering the views of shareholders through regular feedback from investors on meetings with management, analysts' research reports and presentations from the Company's corporate advisers.
- Board, Committee and individual director performance evaluation.
- Board succession planning exercise and the work of the Nomination Committee.
- Work of the Remuneration Committee in setting remuneration policies and incentive targets that encourages the business to deliver exceptional performance without excessive levels of risk taking.
- Work of the Audit Committee and the internal audit service providers.

Internal control system

A critical component of the Group's risk management is the internal control system and the role of the Audit Committee in overseeing and managing the Company's relationship with both the internal and external auditors. The Audit Committee is responsible for monitoring, and reviewing the effectiveness of, the Group's system of internal controls, which comprises financial, operational and compliance risks and controls. Although the Audit 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.

A separate description of the work of the Audit Committee appears in the corporate governance section of the Annual Report.

The Board is of the view that an on-going 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 on 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 Audit 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.

Risk identification and review

Key identified risks, both financial and non-financial, are reviewed by the Board, which is supported by the work of the Audit Committee and the internal auditors, as well as by divisional management. 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. Its 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.

Financial reporting

There is a comprehensive Group-wide 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 Audit 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 Audit 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 Audit 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. For a description of its work during the year, see page 46.

Principal risks and uncertainties

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

Principal risks and uncertainties

RISK	MITIGATION
Sub-optimal global economic conditions can affect sales, capacity utilisation and cash generation, as well as increase competitive pressure in the marketplace, impacting profitability and operating margins. The resultant non-delivery of operating plans can lead to market expectations of Group earnings not being met.	• Specialty Products is well positioned against a deterioration in economic conditions due to its balanced geographic footprint, broad differentiated product offering and the broad application of its technology across different sectors. • Chromium business model is flexible and can be adapted to respond to variances in regional demand patterns. • 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.
Growth opportunities and product innovation may not materialise.	• 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. • Capacity expansion programmes are being implemented to ensure the business can supply to high growth markets. • Regular Board reports on new product pipeline and progress on R&D projects.

RISK	MITIGATION
Disruption to supply chain, key raw materials, infrastructure (e.g. IT networks or transportation) and energy price stability can impact capacity utilisation and add to operating costs.	• Raw materials are sourced from a broad and diverse supplier base. • Strategic holding of key raw materials. • Transport and carrier mitigation plans and insurance in place. • Energy costs are hedged where possible.
Major regulatory enforcement action/litigation and other claims from products and historical/ on-going operations can lead to higher operating costs and reputational damage.	• Active compliance and risk management programmes in place (including policies, procedures and training). • Insurance programme and risk transfer strategy in place to mitigate financial losses. • Experienced General Counsel supported by in-house and external legal teams. • Regular reviews of litigation and compliance reports by the Board and role of the Audit Committee, as well as the internal audit programme, help ensure these key risks are managed effectively.
UK pension fund: • Volatile financial markets, poor investment returns and increased life expectancy can all result in higher funding costs.	• Pension investment strategy includes significant element of liability matching, including the use of interest rate and inflation hedging instruments. • Options for pension de-risking periodically reviewed. • Deficit funding plan agreed with pension trustees through to 2018.
Regulation/technological advances: • New technology, methods of production or processes giving competitors a market advantage. • New regulations restricting the use or carriage of chemicals can lead to loss of applications and sales or add to operating costs.	• R&D team aims to develop new products and technologies for use in an evolving market to meet the changing needs of our sophisticated customers. • Active REACh programme in which the businesses participate in industry consortia, providing data and information to regulators and experts, to support safety reviews of our products in a broad range of applications.
Major event or catastrophe (e.g. IT failure or operations/HSE incident).	• Good housekeeping, preventative maintenance and other safety procedures help to mitigate the effects of a major incident. • 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 the effects of a major incident. • HSE management programme with environmental compliance audits in place.
Volatile financial markets and/or major disruptions to global or regional banking systems can affect liquidity, the ability to access cash, make payments and fund operations, and lead to higher operating costs.	• Company was in a net cash position at the year end with extensive borrowing facilities in place, so any impact is unlikely to materially impact on the ability to trade and fund operations. • Company cash is deposited with a syndicate of banks with high credit approval ratings. • Company has a strong unleveraged balance sheet so could raise alternative sources of funding in emergencies. • Treasury policies implemented and compliance monitored, strong focus on cash management with weekly cash reports so that cash requirements are known in advance.

These principal risks and uncertainties should be read in conjunction with the note on contingent liabilities on page 100.

Brian Taylorson
Finance Director
26 February 2013

CORPORATE SOCIAL RESPONSIBILITY REPORT

Introduction

The Company recognises that corporate social responsibility ("CSR") is a fundamental part of its business activities, from employee safety and environmental awareness, to supply chain responsibility and business ethics. How it performs in this important area 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

To demonstrate the Company's commitment to CSR, it 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

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

Diversity

We have a global workforce (including contractors and temporary workers) of over 1,300 spread across three continents (42 per cent in the Americas, 27 per cent in Europe and 31 per cent in Asia). Gender diversity in the workplace continues to be a focus of governance in UK public companies. Elementis is committed to equality of opportunity and firmly believes that women contribute equally in the workplace at all levels, which is demonstrated through the recent appointment of a new Vice President of Global Human Resources, Ling Dawes, at the beginning of 2013. She is a member of the senior executive team and reports directly to the CEO. Out of our total workforce (excluding contractors or temporary workers), 24 per cent are female. Of these female employees, 16 per cent (just under 50) hold managerial positions and 8 per cent (over 20) hold an executive management position (within the four tiers below Board level). The Group, however, does not consider targets or quotas to be appropriate for increasing the percentage of women in management positions. In terms of a diversity policy more generally, a summary of our employment policies appears on page 38 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, training and grievance procedures. Our HR policies seek to ensure decisions are based on objective criteria and merit. Staff turnover across the Group, for 2012, was under 0.5 per cent (2011: 0.6 per cent).

Compliance programme

The Elementis Board and senior management team view the effectiveness of the Elementis compliance programme as fundamental to the Group's continuing success and in meeting its corporate responsibilities. The high expectations Elementis has for all of its employees around the world are set out in the Group's Code of Business Conduct and Ethics (the "Code"), a summary of which appears on our website at: **www.elementisplc.com/governance-responsibility.** All employees receive training on the Code, which has been translated into five languages. The Code is supplemented by an extensive global network of policies, processes and guidelines covering a wide range of compliance matters including, for example, anti-bribery and corruption. On completion of training, employees are required to certify that they understand and agree to be bound by the Code and various other policies.

In 2012, numerous online training courses were provided to Elementis employees on the Code and other compliance areas including: global export controls, human rights, the UK Bribery Act, records management and financial integrity. These training courses were made available to employees in multiple languages. Online training is supplemented by personal training, where appropriate, with senior executives also receiving training through briefings by the General Counsel. The Code also requires 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. It is the Group's practice to undertake an extensive due diligence review of all potential acquisition targets before completing any transaction.

Beyond its compliance policies and training, a critical aspect of the Elementis compliance programme is the Group's strong commitment to having employees feel that they can raise compliance concerns without fear of retaliation. During 2012, our employees were reminded of the Group's whistleblowing arrangements and information and AlertLine posters were distributed to all sites in local languages, where appropriate. Reporting options for employees, which include their manager, Human Resources and the General Counsel and Chief Compliance Officer, are well publicised within the Group. While employees are encouraged to report concerns through these routes, a toll-free hotline is also available. The Group views its employees as its best form of defence in detecting compliance issues and early detection is essential to effectively protecting Elementis.

Health and safety

Elementis cares about the health and safety of its employees, contractors and visitors. As such, safety performance and the effectiveness of current programmes are reviewed on a regular basis by management at all levels. New initiatives are commonly developed and implemented as part of the Group's continuing commitment to reduce risk within the work environment.

The Group must, of course, comply with all applicable regulatory requirements in each country in which it operates. A programme of health and safety audits is undertaken on a three year rolling cycle to ensure regulatory compliance. However, Elementis takes health and safety beyond regulatory compliance and has Group policies, procedures and standards, supplemented by local instructions on how requirements are to be applied specifically at manufacturing sites. Senior operations management routinely review, improve and implement new Group policies and practices. Internal and external subject experts provide guidance and training in the development and implementation of these new policies and practices. An incident notification and reporting system is in place to ensure that safety incidents are reported to the management team and the Board. Incidents, including near misses, are recorded and managed through an HSE database. Investigations are carried out following any incidents and appropriate corrective action is taken to mitigate the risk of their recurrence. In addition, safety incidents and general safety topics are often highlighted in safety alerts and shared throughout the Group sites to raise awareness.

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.**

Safety performance

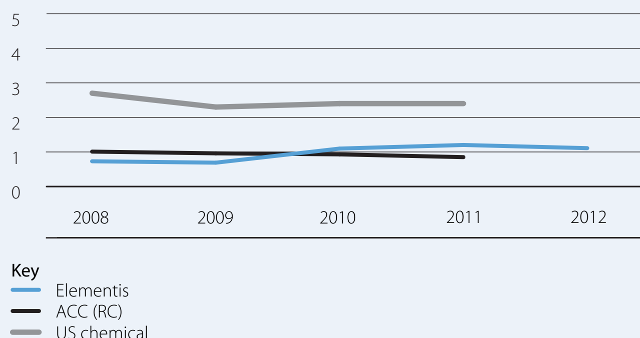
The Company continually strives to eliminate accidents and injuries within the workplace. We seek to achieve this through maintaining our strong focus on, and commitment to, safety design, a safe environment, setting and communicating safety standards, training, encouraging safe behaviours and developing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

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 the day of incident. The number of recordable incidents across the Group in 2012 was 14 (2011: 15). Of the 14 recordable incidents only two required time away from work greater than three days (2011: five).

As well as the total number of recordable and lost time incidents, the Board uses an overall recordable incident rate as a performance indicator based on the industry standard of 200,000 hours worked. The total recordable incident rate in 2012 was 1.11 (2011: 1.20). Within the chemical industry, the sustained performance of Elementis is comparable to companies that are generally viewed as having "industry best" safety performance (based on American Chemistry Council – Responsible Care® members, 0.85 in 2011) and significantly better than the general chemical industry in the US (2.4 in 2011 based on latest data available from the US Bureau of Labour Statistics).

RECORDABLE INCIDENT RATE

Recordable incidents per 200,000 hours worked



(2011 is latest data available for ACC and US chemical)

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 compliance with Elementis policies and procedures is strictly enforced. As a result, there were no recordable injuries to contractors on Elementis sites in 2012 (2011: zero).

Safety improvement initiatives

During 2012, we completed the implementation of the basic safety process that we started in 2011 following a comprehensive review. The changes introduced a new level of focus on safety leadership and communication, policies and behavioural safety.

Keeping track of safety related actions and reporting can be a complex task. To help manage this, a compliance calendar system introduced in recent years has become a critical tool that ensures safety related actions and training are completed in a timely manner. In addition, new policies continue to be developed and instituted based on the needs within the Group.

The Group collects a significant amount of data in an incident reporting database. The original purpose of the database was as a tool for investigation and establishing corrective actions. A major improvement initiated in 2012 is to use the data in the database to identify trends and manage safety proactively rather than the traditional reactive approach. A collaborative exercise to enhance the current database was conducted during 2012 involving representatives from manufacturing and external consultants and experts. This has led to a specification for modifications that will help site and corporate management to understand and manage HSE related trends, as well as specific HSE incidents.

Some sites have experimented with bringing in recognised safety professionals to help make safety personal and show the individual contributions that everyone can make to safety.

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 has 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. Currently over 40 per cent of our employees are union members and over a fifth are subject to collective bargaining agreements.

Further information on human rights at Elementis can be found on our website at: **www.elementisplc.com/governance-responsibility.**

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 in California, which provides many environmental education programmes and resources for teachers and students. Our Newberry Springs mine is located near the Mojave desert.

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.

In 2012, the Group made charitable donations of $28,563 (2011: $51,113) to a wide range of groups and organisations supporting many different causes. Examples of 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 seeks to operate its facilities in a way that minimises the impact on the environment. We view compliance with all applicable legal 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, and where enforcement action is likely. Tier 2 incidents have a minor impact and require notification but are likely to result in minimal or no action being taken 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. Beyond that we strive for continual improvement in standards to reduce our impact on the environment. In 2012, Elementis had no Tier 2 or Tier 3 incidents (2011: one).

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

The data presented in Table 1 is influenced by production levels and specific events, so an increase or decrease does not necessarily mean our performance in these areas has improved or deteriorated. The information in Table 1 showing our performance per tonne of production is affected by changes in the type of fuel, production processes, product mix and plant efficiencies, which may change with different levels of capacity utilisation. 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.

The changes in performance data shown in Table 1 is explained in the commentary following.

Table 1 – Environmental performance

	2012 Absolute ('000s)	2012 Per tonne of production	2011 Absolute ('000s)	2011 Per tonne of production	2010 Absolute ('000s)	2010 Per tonne of production
CO_2 emissions (tonnes)	**183**	**0.76**	200	0.74	261	0.99
Water consumed (m^3)	**1,928**	**7.97**	1,889	6.97	1,848	6.99
Energy consumed (GJ)	**4,910**	**12.9**	4,862	12.1	4,926	12.1
	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)	**1.70**	**7.01**	1.54	5.67	1.20	4.54
Non-hazardous waste disposed (tonnes)	**104**	**430**	116	431	114	433

Emissions to air

The Group is committed to reducing, wherever it can, its greenhouse gas ("GHG") emissions, which for Elementis are principally carbon dioxide ("CO_2") and some nitrous oxide. Elementis complies with relevant national CO_2 reduction schemes, such as the UK Carbon Reduction Commitment energy efficiency scheme, and will comply with future requirements under the Companies Act 2006 requiring the directors to report on specific GHG emissions.

The reduction in CO_2 emissions is largely due to the change of fuel from oil to natural gas used for firing the chromate kilns at Castle Hayne, North Carolina.

In addition to the GHG potential, the emissions of the oxides of sulphur and nitrogen arising from the Group's operations can contribute towards acid rain. Volatile organic compounds, where emitted, can damage soil and ground water or combine with nitrous 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. For information on these emissions, visit our website at **www.elementisplc.com/governance-responsibility.**

Discharges to water

Maintaining the water quality of the areas in which we operate is a regulatory issue and 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, but can also be found on our website.

Any emissions to air or discharges to water above regulatory permitted levels will continue to be reported each year under environmental incidents.

Water consumption

Generally, the Company does not operate in areas of extreme water shortage. Nevertheless, water is a valuable resource and the Company recognises the global need to conserve water. Water consumption is minimised where possible by treatment and recycling.

Water consumption is related to production output, product mix, plant utilisation and cleaning activities. Water consumption increased in 2012 due to the varying nature of plant operating and cleaning requirements.

Energy consumption
The Group is committed to reducing its consumption of energy derived from fossil fuels as a contribution towards reducing GHG emissions and the consequential impact on global warming. There is nevertheless an energy requirement for production, so the Group has taken steps to move towards cleaner energy sources, such as natural gas in place of oil. In 2012 natural gas represented 96 per cent of the fossil fuel consumption (gas, oil and coal measured in consistent energy units, GJ) (2011: 69 per cent). There is also the added incentive that, as energy is an expensive resource, its efficient use has a significant effect on the cost of production. 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.

Energy reduction initiatives
Under the Group's policy on sustainable development, one area which our businesses have been working on is energy efficiency. There are a number of initiatives underway to increase the Group's energy efficiency. The facility at Delden in the Netherlands, shared by Specialty Products and Surfactants, is working on an energy efficiency plan for the period 2013 to 2016. Under the plan, several process efficiency measures have been identified and the facility is targeted to reduce energy usage by an estimated 6 per cent over the next four years, with an additional 6 per cent in the same period being subject to further study and investment. Areas where such improvements are anticipated include ventilation, replacement of the nitrogen supply and through the activities of our operational excellence initiative.

There is also an energy management plan at the Specialty Products site in Livingston, Scotland. A number of processes and procedures have been developed to enable continual monitoring of the facility's energy usage and waste water generation by product. This enhanced monitoring has enabled the site to identify specific projects to reduce its energy consumption. The facility has specific targets to reduce its natural gas consumption by 10 per cent, electricity consumption by 5 per cent and waste water generation by 5 per cent over the next two years. This equates to a reduction of over 1,100 tonnes of CO_2 per annum. It is intended to achieve these reductions through investment in new technology and improvements to operating practice.

In our Chromium business, the main focus of its energy efficiency plans has been on its largest energy usage plant in Castle Hayne, North Carolina. During 2012, phase two of a major conversion process at this facility from heavy fuel oil to natural gas on three large process driers yielded a 5 per cent reduction in CO_2 emissions per tonne produced. This followed on from phase 1, completed during 2011, where the major operating kilns and boilers were converted to natural gas, reducing CO_2 emissions by 35 per cent from 2010.

Switching from heavy fuel oil to natural gas has additional benefits with a reduction in sulphur oxide ("SOx") emissions by over 99 per cent and nitrogen oxide ("NOx") emissions by about 75 per cent.

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. However, cleaning out a storm water tank damaged by a hurricane at Corpus Christi, Texas created an exceptional generation of hazardous waste in 2012.

In 2012, the New Jersey Department of Environmental Protection recognised Elementis Specialty Products under its environmental stewardship initiative. The award cited the voluntary and proactive measures taken in environmental policy and hazardous materials reduction to go beyond compliance in an effort to improve the environment and achieve a sustainable future. The hazardous waste reduction involves separating out solvent waste from the cleaning process at our Jersey City facility. This waste is now distilled and recycled.

Non-hazardous waste is minimised and recycled as far as possible. It 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. Hazardous waste generated by our operations is disposed of at licensed disposal sites.

Product stewardship
Elementis products benefit our customers and society in many ways, but they must be used in a way to ensure safety to people and the environment throughout the product's entire life cycle. Our principles and culture are such that each employee takes responsibility to ensure health, safety and environmental protection are a part of their daily personal and commercial activities.

We ensure that health, safety and environmental protection are an integral part of our products' life cycle, including development, manufacture, sales, distribution, use, recycle and final disposal by:

- The identification and evaluation of any significant hazards for each product or family of products at all stages of their life cycle.
- The characterisation and review of any risks associated with these products or product families in their intended use.
- The establishment of risk management practices to minimise the potential risks associated with use to people and the environment.
- Proactively communicating the hazards associated with our products and their proper handling, recycling, use and disposal to employees, customers, distributors and the general public.
- The application of our product stewardship principles when selecting suppliers, toll manufacturers and distributors.

To implement these practices, Elementis relies on a highly experienced global product stewardship team, as well as expert consultants, academics and government authorities. We use up-to-date hazard communications and compliance tools to communicate product safe handling, transport and disposal information 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 briefings with our employees, suppliers, distributors and customers. Indeed, each year our global product stewardship team responds to several thousand product safety and compliance questions from our customers, the general public and regulatory authorities.

Whilst we practice a consistent and coordinated approach to regulatory compliance at state, national, regional and global levels, our internal IT systems are being enhanced to automatically flag when a compliance review is needed. We continue to support efforts, by taking opportunities to work with government authorities, to develop regulations to enhance the protection of society and the environment that are based on established scientific risk assessment and risk management principles. Our goal is to work with industry groups to support regulations that are predictable, flexible and capable of responsibly addressing society's economic, environmental and safety requirements.

Through our global product stewardship team, Elementis continues to be fully engaged in the European REACh programme and will successfully deliver on its 2013 Tier 2 REACh obligations. During 2012 our REACh programme was reviewed by our internal auditors and found to be robust and capable of meeting our obligations in 2013 through to 2018.

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 numerous SIEFs (Substance Information Exchange Forum).

In addition to complying with the REACh regulatory requirements for our products during 2012, Elementis continued to focus on compliance with the United Nations GHS (Globally Harmonized System) hazard communications standard as it is implemented around the world. For example, the necessary GHS safety data sheets and labels were available for our products in Singapore when that country's new GHS regulation came into effect in late 2012. Other important regulatory milestones successfully achieved in 2012 were completion of our chemical data reporting for the US Environment Protection Agency, In-Commerce listings for Health Canada and recertification under the US National Organic Programme.

We continue to actively meet the requirements of new, or revised, chemical control regulations across our global markets. At Elementis we are continually evaluating and improving our product stewardship programme to ensure best practices protection of our employees, customers, society and the environment.

R&D and sustainable development

Our global R&D team continues its focus on:

- Reduction in the use of materials that contribute to greenhouse gases.
- Development of biodegradable new products for use in aqueous environments.
- Expanded use of bio-based materials in our products.
- Facilitating the migration of decorative coatings to aqueous solutions from solvent-based systems.

We further advanced our offerings of zero VOC ("volatile organic compound") rheological additives with the introduction of a second generation of products to serve a larger section of the decorative coatings market than before.

New manufacturing processes were defined to meet the increasing demand for two of our new bio-based products. These new manufacturing techniques substantially increased yield from the renewable raw materials while at the same time reduced process waste.

Our global commitment to these and other environmentally friendly initiatives continues to be very high.

Biodiversity

Elementis takes care to ensure that its activities do not cause long term damage to 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 an intense focus on our customers with the goal of offering value added, high quality solutions that are supported by strong technical service. Best in class technical service and innovative product development are critical elements in helping our customers be successful and in how we differentiate ourselves from our competitors. We monitor our performance with metrics, for example, OTIF ("on-time, in full delivery") which improved by 41 basis points over 2011. We develop and nurture close customer relationships through our key account business process and 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 on a one-on-one basis.

Suppliers and supply chain

Over the last several years we have seen a growth in global trade compliance requirements through increased legislation and regulations, such as GHS and CLP (Classification for Labels Documentation and Packaging). These define information to be provided on safety data sheets, product labels and transportation tariffs. They include documentation requiring an effective supply chain methodology to identify the affirmative measures to be taken by our suppliers, internal operations, external warehouses and distribution channels to ensure our customers are able to receive products in a timely manner which we monitor, as explained above, on an OTIF basis globally.

We have continued to address questions from our customers on social responsibility and environmental awareness programmes and have successfully completed a number of surveys and informal audits. Training worldwide for all procurement members continues to ensure compliance and adherence to our Purchasing Code of Practice and Anti-corruption policy. Suppliers are likewise expected to affirm their conformity to international labour laws, social and environmental responsible legislation and best practices. Conflict minerals continue to be absent from our supply chain.

Our North American freight activities have included a focus on the expanded use of back-hauls by carriers to reduce our carbon footprint through an outsourced third party that has greater access to the carrier network. Shipments routed through the third party network reduce both logistics carrier rates and fuel consumption. Our New Martinsville, West Virginia facility, which came on-stream in early 2013, will also address ocean and road freight usage, as we seek to produce rheological products that are currently imported for our North American customers from Europe. We regularly monitor and amend the European and Asian distribution networks using our regional distribution centres to limit our carbon footprint.

Use of natural products within our supply chain grew by $4.5 million in 2012 and is now up to $15.8 million annually. This represents a rise of 40 per cent from 2011 ($11.3 million).

Innovation award

During the year, Elementis was invited to submit an entry to the British Business Awards 2012 (the "Awards"), which is an event organised by the British Chamber of Commerce in China every two years. Elementis entered the innovation award category, which is judged on the basis of: commercial success; long term commitment to continuous investment in China; best practice in innovation; and the wider benefits of the innovation in the Chinese market. The Awards attract strong interest from British companies operating in China across many industrial sectors. Elementis won the prestigious innovation award by demonstrating a deep understanding of the Chinese market and tailoring its innovation to this market.

This success and recognition exemplify our long standing commitment to product innovation, fostered on technical excellence, knowledge of our markets and customers, teamwork and collaboration, and will help drive further growth of our business in China, where Elementis has already established a leading market position.

IFC – 03
COMPANY OVERVIEW
04 – 35
BUSINESS REVIEW
36 – 61
CORPORATE GOVERNANCE
62 – 105
FINANCIAL STATEMENTS
106 – 108
SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

Non-executive directors

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 D S 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.

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.

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, a non-executive director of F&C Asset Management plc and non-executive chairman of Sherborne Investors (Guernsey) A Limited and Sherborne Investors (Guernsey) B Limited. From October 2003 to June 2012, he was a non-executive director of 4imprint Group plc where he was also the senior independent director.

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 of Keller Group plc, Workspace Group plc and ARCO Limited, and chairman of the board of trustees of the Slaughter and May pension scheme.

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 Cellectricon AB, a Swedish private biotechnology business, and holds a D.Phil in chemistry.

Executive directors

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.

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 was a non-executive director of Fiberweb plc between September 2006 and August 2012.

Key
A – Audit Committee
N – Nomination Committee
R – Remuneration Committee
(c) – Chairman of Committee

SENIOR EXECUTIVES

Greg McClatchy
President of Elementis Specialties (comprising 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, and 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.

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. Walker Allen is a member of the New York Bar and is admitted as in-house counsel in New Jersey.

Ken Morris
Chief Information Officer

Ken Morris was appointed Chief Information Officer in October 2012, bringing over 30 years of experience in the chemical industry. Prior to joining Elementis, he held senior IT positions with Ashland, International Specialty Products (now Ashland), and The BOC Group (now Linde). He also worked as a chemical engineer for Exxon (now ExxonMobil). Ken Morris holds a Master of Science degree in management from the Massachusetts Institute of Technology and a Bachelor of Science degree in chemical engineering from Penn State University.

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.

Ling Dawes
Vice President Global Human Resources

Ling Dawes joined Elementis as the Vice President of Global Human Resources in January 2013, bringing to the Company over 20 years of experience as a senior global HR business executive and consultant for mid to large-sized companies, including Aramark International, Cox Enterprise Sales, Corning Technology, Cisco Systems, SAE Corporation and DuPont Global Operations. She holds an MA degree from the University of Arizona and is a certified professional in compensation, benefits and global remuneration with WorldatWork. Ling Dawes is also a certified senior professional in HR with the Society for HR Management.

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.

DIRECTORS' REPORT

Report and financial statements
The directors submit their report and the audited financial statements for the year ended 31 December 2012.

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, comprising the following sections, "Summary of strategic progress", "Chairman's statement", "Group Chief Executive's overview", "Our businesses", "Finance report" (incorporating Key performance indicators and the Risk management report) and "Corporate social responsibility report", forms part of this Directors' report and contains a fair review of, and likely future trends and factors that might affect, the development, performance and position of the Group.

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

Takeover directive disclosures
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 pages 42 to 45, the Directors' responsibility statement on page 41 and the biographical information on the directors shown on page 36 all form part of this Directors' report for the purposes of the DTR.

Results and dividend
The Group profit for the year attributable to equity holders of the parent amounted to $107.1 million (2011: $124.1 million).

Details about the final dividend for the year, as well as a special dividend, are disclosed in the Chairman's statement on pages 8 and 9.

Directors and their share interests
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. Biographical information about each director is shown on page 36.

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 and Board evaluation
All directors will be retiring at the 2013 Annual General Meeting ("AGM") but will be standing for re-election by shareholders.

Information about the Board's evaluation is described in the Corporate governance report.

Employment policies and equal opportunities
The Group is an inclusive and equal opportunity employer that relies on HR specialists throughout its worldwide locations to ensure compliance with all applicable laws governing employment practices and to advise on all HR policies and practices, including recruitment and selection, training and development, and promotion and retirement.

Elementis policies seek to create a workplace that has 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 not tolerated. This principle applies to all aspects of employment from recruitment and promotion, through to termination and all other terms and conditions of employment.

It is Group policy 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. Employees are free to join a trade union or participate in collective bargaining arrangements.

It is also Group policy, for employees who have a disability, to provide continuing employment under normal terms and conditions, where practicable, and to provide training, career development and promotion, as appropriate.

Elementis supports the wider fundamental human rights of its employees worldwide, as well as those of our customers and suppliers, and further details are set out in the Corporate social responsibility report.

Employee communications and involvement
The Group has processes in place for communicating with all its employees. Employee communications include information about the performance of the Group, on major matters affecting their work, employment or workplace and to encourage them to get involved in social or community events.

As is common practice, the Company operates savings-based share option schemes in the US and UK to encourage employees to become shareholders and share in the success of the Group. Further details of these schemes are set out on page 96 and 97.

Going concern
In assessing the Group as a going concern, the directors have given consideration to the factors likely to affect its future performance and development, the Group's financial position and the principal risks and uncertainties facing the Group, including the Group's exposure to credit, liquidity and market risk and the mechanisms for dealing with these risks.

The Group had a net cash position at the year end of $44.0 million and also had access to a syndicated revolving credit facility of $200 million, which expires in July 2014. Due to the highly cash generative nature of Group businesses and the strong balance sheet, the Company reduced its borrowing facility from January 2013 to $100 million. The borrowing facility will be renewed well in advance of its expiry date, after taking into account the Group's funding needs.

Under the current borrowing facility, the Group has to perform 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 on-going 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 104. 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 ("Trust") 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 2012 the Trust held no ordinary shares of 5 pence each in the Company (2011: 1,165,719 shares). A dividend waiver is in place in respect of all shares that may become held by the Trust.

Directors, Articles and purchase of shares

The directors' powers are conferred on them by UK legislation and by the Company's Articles. Rules about the appointment and replacement of directors are also set out in the Articles.

Changes to the Articles must be approved by shareholders passing a special resolution. The Notice of Meeting for the 2013 AGM includes information about proposed changes to the Articles which shareholders are being asked to approve. These are largely changes of a procedural nature or to tidy up provisions that have become redundant. The changes include: deleting the objects clauses from the Articles; putting all resolutions to be voted on at general meetings to a poll (ballot) without a vote on a show of hands first; removing the Chairman's right to a casting vote; amending the retirement by rotation provision so that all directors stand for annual re-election rather than at three year intervals; and increasing the maximum limit for non-executive directors' fees (currently fixed at £500,000 per annum). The reasons for the changes are explained in the Notice of Meeting.

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 AGM within the limits set out in the Notice of Meeting.

Significant agreements – change of control

There are few significant agreements which the Company is party to that take effect, alter or terminate in the event of change of control of the Company. The Company is a guarantor under the Group's $100 million revolving credit facility and, in the event of a change of control, any lender among the facility syndicate, of which there are six with commitments ranging from $10 million to $22.5 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 55 of the Report of the Remuneration Committee apply to him.

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 and maintains a broad supplier base for these key raw materials. In Specialty Products, supply contracts are for clays, quaternary amines and other chemical intermediates. 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. In addition, all businesses purchase energy in the form of natural gas, fuel oil or electricity and it is Group 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.

The Group is not dependent on any particular customer and supplies some of its products through approved distributors. In addition, the Group has a joint venture partner in China at its Anji organoclay plant. While all these relationships are important to our business, the Board does not consider any individual relationship to be material to the Group. The Board also does not consider that the Group's success is materially dependent on any single individual and is satisfied that the Company's incentive arrangements are appropriate to attract, retain and motivate key people within the organisation.

Substantial shareholders

As at 26 February 2013 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	9.84
AXA Investment Managers SA	28,739,014	6.34
Norges Bank	23,037,188	5.08
Ameriprise Financial, Inc. and its group	22,734,503	5.01
BlackRock, Inc.	22,684,705	5.00
Legal & General Group plc	17,219,369	3.80

Auditor

A resolution to re-appoint KPMG Audit Plc as auditors of the Company will be proposed at the forthcoming AGM to be held on 25 April 2013.

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 $28,563 (2011: $51,113) for charitable purposes of which $1,034 (2011: $17,394) was made in the UK. The Group made no political donations during the year (2011: nil).

Policy on payment of suppliers

The Company's and the Group's policies concerning payments 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 2012 represented 64 days (2011: 55 days) of annual purchases, adjusted for currency, 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. Since 2008, the directors of the Company have been in receipt of an indemnity from the Company 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 AGM.

Directors' conflict of interest

Since 2008, Brian Taylorson, who is Finance Director and a trustee of the UK pension scheme, has been the only director who is in receipt of a conflict authorisation from the Company. 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 is subject to annual review by the Board and was renewed during 2012 for another year. The terms of the conflict authorisation have remained unchanged since 2008 and details can be found in last year's annual report.

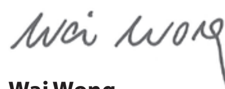
Post balance sheet events

On 19 February 2013, the Group acquired the assets of Hi-Mar Specialty Chemicals, LLC, a US coatings additives company, for a cash consideration of $33.0 million.

Annual General Meeting

The sixteenth Annual General Meeting of the Company will be held on Thursday 25 April 2013. The Notice of Meeting is included in a separate document sent to shareholders.

By order of the Board



Wai Wong
Company Secretary
26 February 2013

DIRECTORS' RESPONSIBILITY STATEMENT

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.
- 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 report 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 page 36, 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.
- 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
26 February 2013

CORPORATE GOVERNANCE REPORT

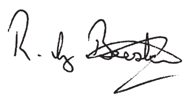
Chairman's introduction

One of the Board's priorities in 2012 has been the implementation of succession plans that should see two additional directors being appointed this year to replace non-executive directors who should be retiring in the latter half of 2013. These appointments and retirements will be announced at the relevant time, since the recruitment process is on-going. As part of this process, the Board appointed recruitment advisers who also facilitated an external evaluation of the Board's performance. More details are set out below and in the Report of the Nomination Committee.

Corporate governance, of course, is not restricted to just how the Board is structured and operates, but extends to the role of the Board in: (i) setting strategy, priorities and standards; (ii) providing leadership, support and guidance to the management team; and (iii) reviewing and exercising oversight in respect of the way in which the businesses (including risk and internal controls) are managed as a whole. In the table below I describe how the main principles of the UK Corporate Governance Code (June 2010 version) ("CGC"), concerning the role and effectiveness of your Board, have been applied. The rest of the corporate governance report will give a more detailed update on the Board's activities and arrangements as they relate to the other CGC principles and provisions.

CGC MAIN PRINCIPLE	HOW ELEMENTIS HAS APPLIED THE PRINCIPLE
Role of the Board	The Elementis Board is collectively responsible for the long term success of the Group. This means the Board as a whole determines the Group's strategy and key priorities and keeps under review management and business performance. It approves annual operating plans, defines the risk profile of the Group and sets the standards and values by which the businesses should be managed, as well as ensuring appropriate relationships are maintained with shareholders and other stakeholders. To do this, the Board has implemented systems and processes to ensure appropriate resources, time and focus are given to properly discharging these functions. These systems and processes include the role of Board committees, as well as a schedule of matters that define what powers are delegated to the executive directors who are responsible for the running of the Group's businesses. Underpinning the effectiveness of these structures are the personal relationships on the Board and these are discussed below.
Division of responsibilities	As Chairman, I am responsible for leadership of the Board, while the executive directors (David Dutro, Chief Executive, and Brian Taylorson, Finance Director) are responsible for managing the Group's businesses. The roles of Chairman and Chief Executive are separate, clearly defined and well understood by the Board, such that no individual has unfettered powers of decision.
Role of the Chairman	My role as Chairman is to lead and manage the Board and to set the style and the tone in which the Board operates. This includes ensuring that there is a forum for constructive discussion and challenge, as well as for an open, frank and informed exchange of views, and creating a framework and the conditions to enable the Board as a whole, and its individual directors, to contribute effectively in the performance of their role. Such framework and conditions include access to information, support and development opportunities, understanding the views of shareholders, and maintaining constructive relationships between executive and non-executive members of the Board.
Role of non-executive directors	Within the framework of a unitary board and the structure of board committees, non-executive members of the Board have an important role to play in the development of strategy, reviewing management and business performance and approving business and operating plans, as well as in monitoring risks, controls and the integrity of financial information, determining executive remuneration levels and Board succession planning.
Board composition: skills and experience	Critical to the effectiveness of any system of corporate governance is the mix of knowledge, skills, experience, aptitudes and personalities on the Board. Your Board does not consider the lack of gender diversity has impeded the performance of the Board or its decision making, but recognises that it is a topical issue which is being addressed in our recruitment process. The Board considers its diversity in terms of international and sector/industry experience and background to be a positive attribute in Board discussions and, notwithstanding the respect directors have for their colleagues, there is appropriate and constructive tension between executives and non-executives for them to perform their responsibilities effectively.

CGC MAIN PRINCIPLE	HOW ELEMENTIS HAS APPLIED THE PRINCIPLE
Board appointments	Except when meeting to discuss specific matters, such as appraising the role of the Chairman or meeting without the executives present, the Board as a whole sits as the Nomination Committee when it considers Board appointments, succession plans and Board evaluation. This ensures all directors are kept informed of the work of the committee, although directors do not participate in the decision making on any matter concerning them personally. The Nomination Committee selected Korn/Ferry Whitehead Mann, after a tender process, to assist its implementation of Board succession plans. This included an external evaluation of the Board that was used to facilitate a Board discussion about its composition, strengths and weaknesses, and the recruitment strategy. A role specification was prepared followed by a long list then short list of candidates for the Audit Committee Chairman role. The process is currently on-going. During 2012, my appointment as Chairman was renewed for a final three year term, until September 2015.
Commitment of directors	A clear condition of appointment is that all directors should devote sufficient time and commitment to their roles and the expected time commitment is made clear to all non-executive directors.
Board induction and development	All directors are encouraged to undertake training to refresh their skills and knowledge. No specific training needs were identified in the Board evaluation process, but individual directors are proactive in addressing their own development needs. The company secretary keeps the directors informed regularly about training opportunities that are available. These include courses and events run by the Company's professional advisers, as well as by third party organisations, and cover a diverse range of topics from accountancy and legal, to pensions and executive remuneration. In addition, as part of a teach-in programme initiated by the Audit Committee, all directors receive two briefings a year from finance staff on the more technical aspects of accounting policy and their application.
Information and support	The Board has an established programme to ensure all aspects of its role and duties and those of its committees are properly met and discharged. This includes formal processes in respect of all Board and committee papers, communication of information to all directors and the dissemination/implementation of Board decisions. The company secretary keeps the Board informed on governance matters and developments and ensures non-executive directors receive the information and support they need.
Board evaluation	The Board considers that a formal and rigorous evaluation of its performance and those of its committees and individual directors was undertaken during 2012. Korn/Ferry Whitehead Mann interviewed all directors individually, discussing openly the Board's performance, strategy, priorities and development needs. Other than as a recruitment adviser, Korn/Ferry Whitehead Mann have no other connection with the Company. Your Board considers that, following this formal performance evaluation, each director contributes effectively and demonstrates appropriate commitment to the role.
Re-election of directors	All directors will be standing for re-election by shareholders at the Annual General Meeting in April and the Board recommends their re-election.



Robert Beeston
Chairman
26 February 2013

Board composition
As identified on page 36, the Board comprises two executive directors (Chief Executive and Finance Director) and five non-executive directors (Chairman, Senior Independent Director and three other non-executive directors). Information about the executive directors' service contracts with the Company is set out in the Report of the Remuneration Committee. All non-executive directors are appointed for three year terms that can be renewed by mutual agreement, subject to annual re-election by shareholders, satisfactory performance and meeting independence requirements.

Robert Beeston's appointment as Chairman was renewed in September 2012. Further details about the non-executive directors' terms of appointment are set out in the Report of the Remuneration Committee. Changes are expected to be made to the Board's composition this year, as described elsewhere in the Annual Report, in connection with the Board's succession plans. However, it is intended that the current number of executives and non-executives will be retained following the refreshment process.

With regards to gender diversity, the Board is addressing this as part of its recruitment programme by requiring both long and short lists to include a high proportion of female candidates. However, the Board's policy is that appointments will be made on the basis of qualification and a preference for a woman would only be given in the event that two candidates are equally matched in all other respects in relation to the role specification. Gender diversity below Board level is discussed in the Corporate social responsibility report.

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 programme of activities that are undertaken at scheduled meetings throughout the year and this is supplemented by ad hoc meetings, conference calls or other Board events, as and when appropriate. Eight formal meetings were held in 2012 and these were attended by all the directors. The Board is supported in its activities by Board committees that have been delegated specific responsibilities as set out in their terms of reference. In addition, a formal schedule of matters reserved for the Board allows certain decisions to be delegated to the executive directors. The schedule of matters reserved to the Board includes: strategic and annual operating plans; approval of financial statements, acquisitions and disposals; risk compliance and management programmes, as well as insurance arrangements; major non-recurring projects and major capital expenditures. The Board reviews the business, financial and operational (HSE) performance of the Group at each of its formal meetings, including major business initiatives and progress on product innovation.

Director attendance in 2012

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Robert Beeston	8/8	–	4/4*	–
David Dutro	8/8	–	–	–
Brian Taylorson	8/8	–	–	–
Ian Brindle	8/8	4/4	4/4	4/4
Andrew Christie	8/8	4/4	4/4	4/4
Chris Girling	8/8	4/4*	4/4	4/4
Kevin Matthews	8/8	4/4	4/4	4/4*

* denotes Chairman of the committee

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, and any unresolved matters concerning Board decisions, of which there were none in 2012, would be recorded in the minutes of meetings. A programme exists to ensure new directors receive appropriate induction tailored to their needs. 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.

On an annual basis, the Board visits one of the Group's overseas locations where it will also hold one of its formal meetings. Last year the annual overseas visit was in East Windsor, New Jersey, at the recently commissioned technical facility of the Specialty Products business, which includes management and administrative offices. As well as receiving presentations from the personal care and oilfield drilling businesses, the Board toured the new lab facilities to learn about some of the projects the product innovation team is working on and participated in an all-employee social event on site attended by some 100 employees. The Board considers that these interactions are important in the development of understanding about the business and the risks and opportunities it faces. These visits also put into an operational context Board discussions relating to risk management and HSE matters, as well as the wider culture and commitment of the workforce.

Board committees
A description of how the Board has discharged its responsibilities through the work of the Audit, Nomination and Remuneration Committees is set out in their respective reports, together with information about their composition, meetings and terms of reference.

Communications with shareholders

The Company undertakes a comprehensive programme of activities throughout the year to ensure there is effective communications with shareholders, analysts and the financial press. These include: results statements and trading updates; other regulatory announcements; investor meetings and conferences; the Annual General Meeting ("AGM"); annual report and accounts; and information on its corporate website.

Shareholders are encouraged to attend the Company's AGM where they can speak and ask questions. The Chairmen of the Audit and Remuneration Committees will also be available to answer questions from shareholders.

Management's meetings with shareholders and analysts are reported to the Board on a regular basis as well as feedback from investors following results roadshows. Research reports about the Company and wider chemicals sector, as well as presentations and reports from the Company's corporate brokers, are provided to all directors in a timely basis, 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 significant developments in business strategy, corporate governance matters or consult them on proposals for executive remuneration.

By order of the Board

Wai Wong
Company Secretary
26 February 2013

REPORT OF THE AUDIT COMMITTEE

The Chairman and members of the Audit Committee (the "Committee") are shown on page 36, together with their biographical information. Chris Girling and Ian Brindle are considered to have the necessary financial experience under governance requirements and all Committee members are considered to be independent. Four meetings were held during 2012, all of which were attended by Committee members, as well as by the Chairman of the Company and both executive directors.

A copy of the Committee's terms of reference is available on the Company's website and the following is a summary of its responsibilities:

- Monitoring the integrity of the financial statements, accounting policies and financial reporting.
- Reviewing the effectiveness of internal control, compliance and risk management systems.
- Overseeing all aspects of the relationship with the internal and external auditors.

The following is a description of the work of the Committee to show how it has discharged its responsibilities:

- Reviewed the annual and interim reports and financial statements, together with the report of the external auditors and accompanying management representation letter.
- Reviewed interim management statements.
- Received two technical briefings from finance staff on inventory accounting and accounting for insurance.
- Received internal audit reports by email, as and when these became available, and discussed these, together with half yearly reports, with the internal audit providers, PricewaterhouseCoopers ("PwC"), as well as representations from management.
- Reviewed the effectiveness of PwC and the external auditors ("KPMG").
- Considered and approved the continued outsourcing of the internal audit function to PwC, since it has the resources to access the skills, knowledge and experience required to staff such a function.
- Considered and approved the scope of work of, and the fees and engagement letters for, both internal and external auditors.
- Reviewed and discussed periodic compliance and litigation reports from the Group's General Counsel, including matters under the Group's Code of Business Conduct and Ethics, such as its anti-bribery and corruption compliance programme and whistleblowing arrangements.
- Reviewed the Company's policy on non-audit services, considered and reviewed the objectivity and independence of the external auditors, as well as the nature and extent of non-audit services they provide.
- Considered and recommended the re-appointment of KPMG as external auditors.
- Received and discussed management reports on tax planning, business continuity plans and the system of internal controls and risk management (the latter is set out on pages 25 to 27 of the Risk management report).
- Reviewed and amended its terms of reference.
- Discussed the new requirements of the amended UK Corporate Governance Code (September 2012 version) .
- Discussed the subject of internal and external auditor rotation and tendering.

In connection with the review of the work of the external and internal auditors, no significant internal control failings or weaknesses were reported so none are disclosed here. There were also no significant matters raised by the external auditors, needing to be resolved, concerning the financial statements that had to be discussed by the Committee and Board and, therefore, no disclosure of such discussion is made.

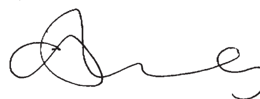
In 2012, non-audit services of $0.8 million from KPMG were approved by the Committee (2011: $0.5 million). These services consisted mainly of tax advisory services in relation to the US, UK, Netherlands, Germany, China, Taiwan and the Group's acquisition in Brazil. KPMG's knowledge of the business meant it could provide these services cost effectively. The Committee is satisfied that the provision of these services does not affect the independence of the external auditors and that KPMG has appropriate procedures in place to safeguard its independence and objectivity, such as having quality control systems and policies on the rotation of key roles, which have been presented to and approved by the Committee.

The Company's policy on non-audit services contains guidance on the types of non-audit work that the external auditors may be considered for. This guidance is in addition to other specified factors that must be taken into consideration, such as the expertise and resources of the firm, whether the services could risk jeopardising audit independence and the fee relative to the audit fee.

Examples of services that the external auditors may be allowed to perform under the policy include due diligence work related to corporate transactions, work involving giving compliance certificates/opinions/comfort letters and advisory work in connection with the interpretation or application of accounting standards or tax legislation. Non-audit work that the external auditors would not normally be considered for include management consulting work, such as on strategy or the redesigning of a significant process, corporate finance work involving the recommendation of a specific transaction or where the fee includes a material success component, and interim management assignments or secondments.

Under the policy, the Finance Director may approve individual engagements where the fee is up to 15 per cent of the Group's audit fee for the previous year, provided that the total non-audit fees in the year do not exceed 50 per cent of that Group audit fee. Decisions above these thresholds must be referred to the Committee for determination.

By order of the Board



Chris Girling
Chairman, Audit Committee
26 February 2013

REPORT OF THE NOMINATION COMMITTEE

The Chairman and members of the Nomination Committee (the "Committee") are shown on page 36, together with their biographical information. Four meetings were held during 2012 and were attended by all Committee members, as well as by the executive directors.

A copy of the Committee's terms of reference is available on the Company's website and the following is a summary of its responsibilities:

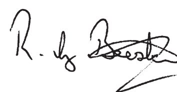
- Reviewing the size and composition of the Board, together with the skills, knowledge, experience and diversity of its members and making recommendations for change as necessary.
- Carrying out an annual performance evaluation of the Board, its committees and individual members.
- Keeping succession planning for the Board and senior executive team under review.

The following is a description of the work of the Committee to show how it has discharged its responsibilities:

- Received and discussed presentations from two external search consultancies (following a tender involving eight firms) and selected Korn/Ferry Whitehead Mann ("Korn/Ferry") to assist in the recruitment of additional non-executive directors as part of the Board's succession plans.
- Agreed the strategy, process and timetable for the Board recruitment programme, including a programme of induction for Korn/Ferry, as well as a Board candidate role specification.
- Reviewed and discussed a long list (gender balanced) and short list (>40% female) of potential candidates, including further representations/presentations from Korn/Ferry, and selected from the short list four candidates (gender balanced) for interview in early 2013.
- All directors participated individually in interviews with Korn/Ferry, as part of its induction, but also as part of the Board's externally facilitated evaluation process.
- Reviewed and discussed the outcome of the director interviews and further discussed this in the context of and as part of the Board's annual formal evaluation of the Board's performance and that of its committees and individual directors.
- Considered and approved the re-appointment of Robert Beeston as Chairman of the Board and Company for a further three year period to September 2015.
- Led by the Senior Independent Director, conducted an annual appraisal of the Chairman's performance, in which it was considered that the Chairman remains effective in and committed to the role.

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. Board members are available to meet with shareholders if requested. The biographical information provided on page 36 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 topics covered in the Board evaluation process, and discussed in the individual director interviews, included Board priorities, dynamics and inter-personal relationships, processes and support. In terms of the specific findings, the collegiate nature of the Board was confirmed as well as the view that it operates effectively, with appropriate tension and no major issues. The challenge is to refresh the Board without excessively disrupting the current dynamics, which have served the current Board well. However, one challenge noted, despite a strong performing Board, was the need to ensure the Board evolves as the Company continues to develop and this is being addressed with the Board's succession plans. The major risks and opportunities of the Group are well understood and these are set out in the Summary of strategic progress on pages 4 to 7.



Robert Beeston
Chairman
26 February 2013

REPORT OF THE REMUNERATION COMMITTEE

Letter from the Chairman of the Remuneration Committee (the "Committee")

Dear Shareholders,

Introduction

I am pleased to introduce the Committee's report on directors' remuneration for 2012, which has been approved by all the directors of the Company. The report, in its entirety, will be subject to a single advisory vote at the 2013 Annual General Meeting, which your Board hopes you will support, and I will be available to answer questions from shareholders on the decisions of the Committee at the meeting.

The Government has tabled proposals to reform the way directors' remuneration is voted upon and reported. In particular, the Department for Business, Innovation and Skills has produced two consultation papers, the results of which will have an impact on the presentation of information in the Remuneration report.

The new legislative requirements will not come into effect until October 2013 but, although not mandatory for this report, the Committee has decided to adopt some of these changes early by incorporating extra information. Consistent with the proposals, this report has been split into two sections. The first section contains a policy report which sets out the different components that make up total remuneration for the executive directors, explains how each component operates and summarises the Committee's strategy and approach in this important area during 2012. The policy report will also apply for 2013. The second section contains an implementation report which discloses how the policy for executive remuneration policy has been applied in 2012.

Taking the two sections of the report together, the aim of the Directors' remuneration report is to provide you with the necessary information explaining and illustrating how the Group's strategy and its performance is linked to, and drives, the remuneration of the executive directors, as well as for other senior executives.

Remuneration strategy

Our remuneration strategy is designed to incentivise the executive directors and business presidents to execute effectively our corporate and business strategies in order to generate and preserve value for our shareholders over the longer term, without encouraging excessive risk taking. The principles and values applied to remuneration at senior management level also underpin our policies and practices throughout the Group. We seek to reward all employees fairly, responsibly and by reference to local market practices, by providing an appropriate balance between fixed and variable remuneration, the payment of which is linked to the achievement of what are intended to be demanding Group performance measures aligned to our strategic objectives.

2012 overview

The Group delivered another solid year of earnings growth, as a result of which the executive directors will receive bonus payments equal to 81.25 per cent of their basic salaries. No awards were made under the Long Term Incentive Plan to the executive directors and business presidents in 2009 and, therefore, there were none to vest in 2012.

2013 highlights

No changes are being proposed to our policy on executive remuneration and the following summarises the application of the policy in the current year:

- After reviewing basic salary levels for the executive directors, an increase for 2013 of three per cent was awarded, which is in line with the increase for the workforce as a whole.
- The structure and operation of the annual bonus scheme and Long Term Incentive Plan ("LTIP") for 2013 will remain the same as in 2012 except that, in respect of the performance metrics in the annual bonus scheme, the actual target ranges will be revised in line with the 2013 operating plan.

It is appropriate to mention here that the LTIP awards made to the executive directors and other senior executives in 2010, which have a three year performance period ended 31 December 2012, will be vesting in full in April 2013. All performance conditions attaching to those awards have been fully met and details of these are given later.

During 2013, the three yearly review of salaries of executive directors, as well as fees of non-executive directors, will be carried out. Any changes will be implemented from January 2014 and reported in next year's remuneration report.

We continue to monitor our remuneration policy to ensure we have the correct alignment with the business strategy. Furthermore, the Committee encourages dialogue with the Company's shareholders and will consult with major shareholders ahead of any significant future changes to remuneration policy. We were very pleased to receive a significant level of support for our remuneration report from shareholders at last year's AGM. Thank you for your continued support.

Kevin Matthews
Chairman, Remuneration Committee
26 February 2013

Policy report
The information in the table below sets out the remuneration policy for the different elements that make up total remuneration applying to the executive directors. The policy was applied throughout 2012 and will also apply during 2013.

BASIC SALARY	
Purpose and link to Company's strategy	Targeted at a level to attract and retain the world-class executives who are essential to drive the business forward and deliver the Company's strategic goals.
How it operates in practice	Annual salary increase broadly in line with the local workforce, subject to Committee approval. The Committee would take into consideration whether the performance of the business and the executive director merits the award. Formal salary review every three years, with benchmarking analysis 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. Salaries are normally reviewed in December and any changes are effective from January following.
Maximum potential value	Targeted at median level when compared to companies of a similar size in terms of revenue and market capitalisation that are in our sector or a similar industrial sector.
Description of performance metrics applying	N/a
Changes to policy for 2013	No change to policy.

BENEFITS	
Purpose and link to Company's strategy	To aid retention and to remain competitive in the market place. Healthcare benefits in order to minimise business disruption.
How it operates in practice	Life assurance and private medical health insurance are provided. Benefits in the US, where it is standard, include cover for dental costs, accidental death and disablement, and long term disability. Provision of either a company car (for business and personal purposes) or a car allowance, in both cases having a value that is consistent and commensurate with the executive's status and seniority.
Maximum potential value	N/a
Description of performance metrics applying	N/a
Changes to policy for 2013	No change in policy.

ANNUAL CASH BONUS SCHEME	
Purpose and link to Company's strategy	To incentivise the senior management team to deliver the annual operating plans approved by the Board at the start of each financial year.
How it operates in practice	To ensure that a significant proportion of an executive's total remuneration (about a third) is linked to corporate/business financial performance that is tied to the Company's annual operating plan. The Committee does not incorporate corporate or business performance in environmental, social and governance matters when setting targets in the variable parts of remuneration. 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. Governance standards are set by the Board as a whole. Internal guidelines exist that enable the Committee to claw back bonuses paid (from 2012 onwards) that are later found to have been based on performance that was mis-stated or incorrect calculations.
Maximum potential value	Maximum bonus opportunity of one times basic salary (executive directors and business presidents).
Description of performance metrics applying	The bonus, which is paid in cash, is based on the achievement of challenging financial targets relative to the annual operating plan, taking into account general GDP factors, consensus brokers' forecasts and current and past performance of the businesses, together with any organic or acquisitive growth plans. Two performance conditions apply: • Earnings per share ("EPS") and Group average trade working capital to sales ratio expressed as a percentage ("AWC") split 75:25. For the EPS condition, the targets are set at threshold, plan and stretch level, with threshold being previous year actual and the plan and stretch targets set at a level considered to be sufficiently challenging. The AWC condition is structured in a similar way, except that an over-riding condition means the AWC condition would only be operative if the EPS target at plan level has been met. • Bonus accrual (as a percentage of basic salary) for both conditions is linear between threshold and stretch, although vesting under the AWC condition only operates above the plan level. • The annual bonus scheme for the business presidents generally operates in the same way except that the metrics used are business operating profit and AWC. • 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. • EPS and operating profit targets are set to ensure that maximum bonuses are only payable for exceptional performance. The Committee keeps all three performance metrics under review on an annual basis to ensure they continue to remain appropriate and has the discretion to amend the weighting. The Committee considers that the current weighting of 75:25 EPS:AWC is appropriate and that it would not be appropriate for the EPS (or operating profit measure) to be reduced to below 50 per cent.

ANNUAL CASH BONUS SCHEME CONTINUED	
Changes to policy for 2013	No change in policy.

LONG TERM INCENTIVES	
Purpose and link to Company's strategy	The LTIP is the sole long term incentive mechanism and is intended to align the interests of the executives with the Group's long term performance. Further, the general policy is to ensure that a significant proportion of total remuneration is aligned with the long term strategy and the interests of shareholders.
How it operates in practice	• Nil cost options or conditional shares are awarded annually. Options are exercisable three years from, and within ten years of, the date of award, subject to achievement of challenging performance conditions. Share awards vest on the third anniversary of the date of award and are also subject to the achievement of challenging performance conditions. • Other executives participate in an Executive Share Option Scheme ("ESOS").
Maximum potential value	The maximum value of any award under the LTIP is one times an individual's 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.
Description of performance metrics applying	Awards are subject to achievement of the EPS and TSR performance conditions (split 50:50), as follows: EPS condition – awards vest on a linear scale from 0 per cent to 100 per cent for average annual EPS growth of RPI + 4 per cent to RPI + 10 per cent, respectively. The Committee considers that these targets are appropriately challenging after taking into consideration the Company's strategic and operating plans. The Committee considers the target range each year prior to grant to ensure it remains appropriate. TSR condition – awards 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 than the FTSE 250 Index which is heavily weighted towards cyclical sectors. The performance period for both EPS and TSR conditions will correspond to the three financial years beginning with the financial year in which the award is made.
Changes to policy for 2013	No change in policy.

PENSION	
Purpose and link to Company's strategy	To aid retention and remain competitive in the marketplace. To provide appropriate retirement benefits commensurate with local market practice, seniority of the role and tenure with the Company together with giving the executive an opportunity to contribute to their own retirement.
How it operates in practice	**Group Chief Executive** David Dutro participates in a defined contribution scheme and receives an annual salary supplement of 20 per cent of his basic salary as part of his contractual entitlement. For US employees (including executive directors) the Group operates 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 (2012: $250,000). The employer match under these two plans includes a regular match of up to 4 per cent of total pensionable remuneration and a supplemental match of up to 4 per cent, based on age and length of service. Prior to its closure to future accruals in 2006, David Dutro participated in the Elementis Career Reward Retirement Plan ("ECRRP"), 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. The normal pensionable retirement age for David Dutro under the ECRRP is 65. **Finance Director** Brian Taylorson participates in a defined benefit scheme in the UK ("DB scheme") and receives a salary supplement to compensate him for the restricted pension entitlements under the DB scheme as a result of the former HM Revenue & Customs' earnings cap on the amount of salary which may be treated as pensionable (see below). The main benefits to Brian Taylorson 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. • Pensions to spouse and dependent children payable on death. The normal pensionable retirement age for Brian Taylorson is 60. The annual salary supplement that Brian Taylorson receives is an amount (gross) equal to 44 per cent of his basic salary above the notional earnings cap.
Maximum potential value	N/a
Description of performance metrics applying	N/a
Changes to policy for 2013	No change in policy.

SHARE OWNERSHIP GUIDELINES	
Purpose and link to Company's strategy	To align an executive's interests with those of shareholders and to encourage executives to participate and share in the success of the Group.
How it operates in practice	Executive directors are expected to build up a stake in the Company over a period of time that is equal in value to one times their basic annual salary. The Committee monitors compliance with these guidelines and can make changes to them from time to time.
Maximum potential value	N/a
Description of performance metrics applying	N/a
Changes to policy for 2013	No change in policy.

SAVINGS-RELATED SHARE OPTION SCHEME	
Purpose and link to Company's strategy	Helps align an employee's interests with those of shareholders and to encourage employees to participate in the success of the Group.
How it operates in practice	Both executive directors, like other senior executives, also participate in non-discretionary savings-based share plans and information about these can be found in Note 24 to the Consolidated financial statements.
Maximum potential value	UK Sharesave – maximum saving of £250 per month US Sharesave – maximum saving of $2,000 per month
Description of performance metrics applying	N/a
Changes to policy for 2013	No change in policy.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

NON-EXECUTIVE CHAIRMAN AND DIRECTORS' FEES	
Purpose and link to Company's strategy	To attract individuals with the relevant skills, knowledge, experience, aptitudes and personalities that the Board considers necessary in order to maintain an optimal mix that ensure the effectiveness of the Board as a whole in carrying out its duties and responsibilities.
How it operates in practice	Non-executive directors' fees 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. In the case of the Chairman, the fee level is determined by the Remuneration Committee. As well as taking into consideration the above factors, the Committee sets the fee at an appropriate level necessary to attract a role holder qualified to effectively lead a board of a company of a similar size and prestige as Elementis. Fees are reviewed every three years and the next review is in December 2013 to take effect from January 2014. Non-executive directors are not eligible to participate in any pension, bonus or share incentive schemes. No individual is allowed to vote on their own remuneration.
Maximum potential value	Current annual fees: • Chairman: £137,150. • Non-executive director basic fee: £40,000. • Audit or Remuneration Committee Chairman fee: £5,000. • Senior Independent Director fee: £5,000.
Description of performance metrics applying	N/a
Changes to policy for 2013	No change in policy.

Remuneration policy and Group employees
As stated earlier, the same principles and values behind the design of remuneration for the executive directors and business presidents apply to other senior managers and employees throughout the rest of the Group, with modifications to reflect local market practice and the level of seniority and ability to influence Group performance.

Basic salaries throughout the Group are reviewed on an annual basis and increases made on the basis of merit, generally equivalent to an average workforce increase of 3 per cent. For the general body of employees, the level of pay and pay increases are determined by reference to local market factors, which may include collective agreements. For managerial level employees, or those in specific technical or professional roles, basic salary (and associated increases) may be determined by reference to benchmark studies for employees in roles with a similar level of responsibility in the same or a related industry or sector. In this respect, the benchmarking studies used in determining salary increases for senior executives, such as the executive directors, are no different. However, the use of benchmarking studies is only one factor that is considered and others include, for example, the role, contribution and performance of the individual. As the general level of annual salary increase is the same for executive directors and employees, the Committee does not engage with employees for their views when setting policy on executive remuneration.

Employee benefits, such as life assurance or car allowance, are paid dependent on grade or seniority, as well as local market practice.

The Group operates pension plans for all its employees that generally provide the same type of benefits as for senior executives, with the actual level of benefit commensurate with the seniority of the role and length of service. In addition, the structure and design of pension arrangements reflect local laws and market practice.

The Group's annual bonus scheme is operated for executive directors and other manager grades alike. There are about 100 participants from across the Group each year (8 per cent of all employees) and participation is on the basis of invitation. The performance conditions for the executive directors and business presidents apply on a similar

basis to other participants, and the principal difference is in respect of the maximum amount of bonus that can be accrued, which can range from nine per cent of basic salary to 100 per cent in the case of the executive directors and business presidents. The businesses also operate other incentive plans e.g. sales incentive plans or other reward or recognition plans that are used to motivate or incentivise positive behaviour.

The Group operates a Long Term Incentive Plan ("LTIP") for the five most senior executives (including executive directors) in the Group (discussed above) and, for all other executive and manager grades, an executive share option scheme ("ESOS") is operated to provide share-based incentives. There are about 60 participants in the ESOS and a cash-settled shadow scheme exists to provide the same share-based incentive to a number of executives in China. The ESOS is a traditional type of scheme under which employees are awarded options to purchase shares at the share price at the time of grant. In this respect, it differs from the LTIP under which awards of nil cost options are made, giving the full value of the share. The level of grants under the ESOS typically range from options having a market value at the date of grant equal to between 20 per cent and 60 per cent of a participant's basic salary. Further details about the ESOS can be found on page 96. Otherwise, the same EPS and TSR performance conditions apply to both the ESOS and LTIP, except that the respective targets are more difficult under the LTIP than the ESOS.

Employees (including executive directors) in the US and UK can participate in an all-employee savings-based share option scheme and further details about these arrangements can be found on page 96. Owing to local law, the cost of provision and local market practice, this type of provision has not been extended further within the Group.

When reviewing remuneration policies and practices, as well as the total level of remuneration of the executive directors, the Committee is aware of how the total remuneration of the executive directors compares with those of other executives, managers and employees in the Group.

Other Information

Service contracts

Executive directors' service contracts contain a termination notice period not exceeding 12 months.

Name	Date of contract	Notice period
David Dutro, CEO	16 January 2007	12 months
Brian Taylorson, Finance Director	5 June 2005	12 months

Termination payments

The terms covering termination are agreed at the date the contracts are made. Both executive directors are required to mitigate their loss in the event of loss of office.

Group Chief Executive

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.

Finance Director

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.

Non-executive directors' letters of appointment

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.

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

The table below provides further details of the letters of appointment that the non-executive directors held with the Company during the year.

Name	Date of appointment	Date of last re- appointment	Date of expiry
Robert Beeston	21/09/06	21/09/12	20/09/15
Ian Brindle	06/06/05	06/06/11	05/06/14
Andrew Christie	11/08/08	11/08/11	10/08/14
Chris Girling	29/04/05	29/04/11	28/04/14
Kevin Matthews	16/02/05	16/02/11	15/02/14

Copies of the executive directors' service contracts and all letters of appointment of non-executive directors are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the AGM.

Implementation report

The information contained in this section of the report includes information required under existing regulations. Where the Committee has provided supplemental information, it is not intended that this should necessarily meet the requirements of the new regulations. The information presented shows how the Company's policies and practices on executive remuneration were applied in 2012.

Directors' remuneration

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 2012 were:

		Salary/fees		Benefits[2]		Bonus		Total excluding pensions	
	Date of appointment[1]	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Chairman									
Robert Beeston	21.09.12	**137**	137	**–**	–	**–**	–	**137**	137
Executive directors									
David Dutro[3]	17.01.07	**468**	449	**22**	32	**388**	458	**878**	939
Brian Taylorson[4] [5]	02.04.02	**310**	301	**18**	17	**257**	306	**585**	624
Non-executive directors									
Ian Brindle	26.04.12	**45**	45	**–**	–	**–**	–	**45**	45
Andrew Christie	26.04.12	**40**	40	**–**	–	**–**	–	**40**	40
Chris Girling	26.04.12	**45**	45	**–**	–	**–**	–	**45**	45
Kevin Matthews	26.04.12	**45**	45	**–**	–	**–**	–	**45**	45
		1,090	1,062	**40**	49	**645**	764	**1,775**	1,875

Notes

1 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.

2 The benefit package mainly comprises of a car allowance or company car, life assurance and medical cover.

3 David Dutro as Group Chief Executive, who is based in the US and receives his salary in US dollars, received a salary of $744,769 (2011: $723,078). His emoluments exclude salary supplements paid as compensation for the closing to future accruals of the US defined benefit scheme and these are shown on page 59.

4 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 on page 59.

5 The Company had previously released Brian Taylorson to serve on the Board of Fiberweb plc, from which he resigned on 31 August 2012. Fees of £21,333 (2011: £32,000) were paid to him during the year, which he retained.

Determination of annual bonus outcome

This section sets out the various targets that were agreed in respect of the 2012 annual bonus scheme, which the Committee has previously agreed to disclose retrospectively to shareholders.

		2012 bonus plan targets				Bonus received as % of basic salary	
	Relative weighting of performance conditions	Threshold	Plan	Stretch	Actual result	Group Chief Executive	Finance Director
EPS (cents)	75%	20.8	22.4	23.9	23.3	60.00%	60.00%
AWC (%)	25%	19.95	19.45	18.95	19.10	21.25%	21.25%
Total	100%	–	–	–	–	81.25%	81.25%

Bonus accrual under both performance conditions is linear from threshold to stretch.

2013 annual bonus scheme

The structure, operation and information about performance conditions are as set out in the policy report and are unchanged from 2012, except for the actual targets which are not disclosed here due to commercial sensitivity but will be disclosed in next year's remuneration report.

Directors' share options/LTIP awards

	Option type	01.01.12	Granted during 2012	Exercised during 2012	Lapsed during 2012	31.12.12	Option price (p)	Earliest exercise date/date of vesting	Expiry date	Price on exercise (£)	Gain on exercise (£)
David Dutro	A	32,351	–	30,688	1,663	–	76.7	27.08.2012	27.11.2012	2.28	46,459
	A	4,929	–	–	–	**4,929**	119.3	26.08.2013	26.11.2013	–	–
	A	–	13,144	–	–	**13,144**	184.6	30.08.2014	30.11.2014	–	–
	B	988,149	–	–	–	**988,149**	–	22.04.2013	22.04.2020	–	–
	B	451,350	–	–	–	**451,350**	–	04.04.2014	04.04.2021	–	–
	B	–	359,846	–	–	**359,846**	–	27.06.2015	27.06.2022	–	–
Brian Taylorson	A	43,778	–	–	–	**43,778**	35.5	01.10.2014	01.04.2015	–	–
	B	768,103	–	–	–	**768,103**	–	22.04.2013	22.04.2020	–	–
	B	343,951	–	–	–	**343,951**	–	04.04.2014	04.04.2021	–	–
	B	–	273,693	–	–	**273,693**	–	27.06.2015	27.06.2022	–	–

A Savings-related share option schemes.
B Long term incentive plan. The same EPS growth and relative TSR performance conditions apply in respect of the awards in 2011 and 2012 as for the proposed awards in 2013, as described in the policy report. The conditions applying in respect of the 2010 award are described below.

1. The number of savings-based share options shown as lapsed for David Dutro is the difference between the number granted and exercised, and is attributable to currency movements.
2. The option price shown is the market price at the date of grant. Earliest exercise date/date of vesting is 36 months from the date of grant.

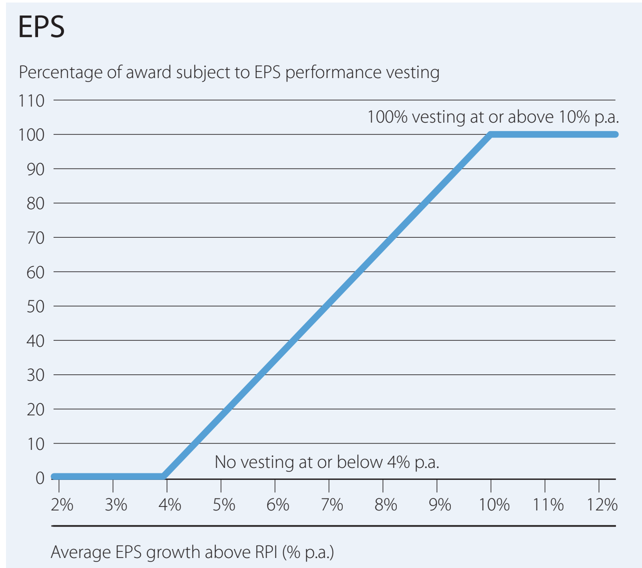
The market price of ordinary shares at 31 December 2012 was 232.5 pence (2011: 137.2 pence) and the range during 2012 was 135.1 pence to 240.3 pence (2011: 107.5 pence to 187.4 pence).

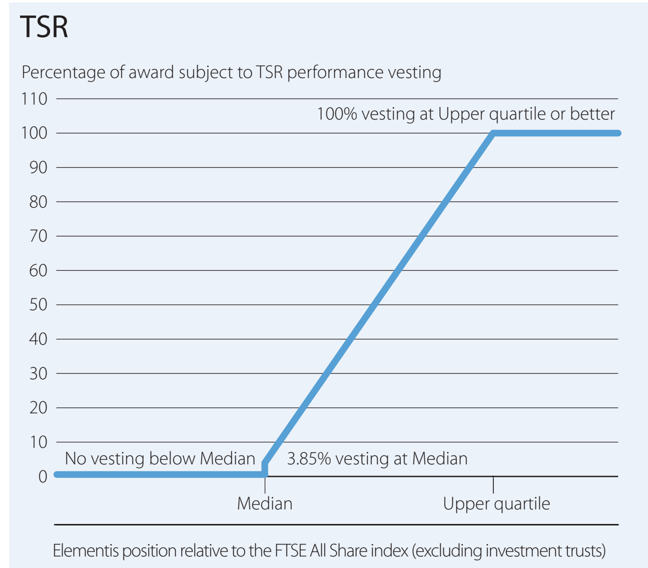
Determination of 2010 LTIP awards

The awards made in 2010, shown in the table above as having a vesting date of 22 April 2013, will vest in full on that date. The performance conditions (EPS and TSR, split 50:50) relate to the three financial years ended 31 December 2012. Under the EPS condition, all of the awards subject to that condition will vest in full if EPS for the 2012 financial year was 7.5 pence or more (equivalent to 11.54 cents based on the £:$ exchange rate on the date of award). Under the TSR condition, all of the awards subject to that condition will vest in full if the Company's TSR performance (against the FTSE All Share index excluding investment trusts) in the three financial years ended 31 December 2012 was at or above upper quartile. The Company's EPS for 2012 was 23.3 cents and it was ranked fifth out of 412 companies for TSR performance in the above period and, therefore, since both conditions have been met in full, all 2010 awards will be vesting.

LTIP awards granted in the year

LTIP awards made in 2012 are set out in the previous table. The 2012 LTIP awards are subject to EPS and TSR performance conditions (split 50:50), as in the previous year, and the vesting schedule for each is shown in the charts below.





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 + 4 per cent to RPI + 10 per cent, respectively. 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).

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 10 per cent over any ten year period in relation to the Company's issued share capital, with a further limitation of 5 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 5.6 per cent and for discretionary plans 4.0 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 Consolidated financial statements.

Retirement benefits

The table below shows the breakdown of the retirement benefits of the executive directors, comprising employer contributions to defined contribution plans, benefits under defined benefit schemes and salary supplements paid in cash. For a description of these schemes and an explanation of which scheme each executive director participates in, see the policy report.

The amount shown for David Dutro under defined contribution plans reflects total employer contributions in 2012. The amounts paid under these plans were £53,848 (2011: £53,893) equivalent to 6.3 per cent (2011: 6.0 per cent) of his total pensionable remuneration (comprising basic salary and bonus payments) in 2012.

The payment of a salary supplement is explained in the policy report on page 52.

In the case of the defined benefit schemes, the transfer values for David Dutro and Brian Taylorson 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.

Directors' retirement benefits

Name	Defined contribution plans		Salary supplements		Defined benefit schemes						
	2012 £'000	2011 £'000	2012 £'000	2011 £'000	Accrued benefits 31.12.12 £'000	Increase in accrued benefits 2012 £'000	Increase in accrued benefits (net of inflation) 2012 £'000	Transfer value of increases in accrued benefits less directors' contributions 2012 £'000	Total transfer value at 31.12.11 £'000	Total transfer value at 31.12.12 £'000	Increase in transfer value less directors' contributions 2012 £'000
David Dutro	54	54	94	90	9	–	–	–	66	67	2
Brian Taylorson	–	–	160	136	50	7	6	138	1,221	1,357	129

Directors' shareholdings

As at 31 December 2012, 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 31.12.12	Ordinary shares 31.12.11
Robert Beeston	50,000	50,000
Ian Brindle	31,172	31,172
Andrew Christie	10,000	10,000
David Dutro[1]	294,912	264,224
Chris Girling	5,000	5,000
Kevin Matthews	11,633	11,633
Brian Taylorson[2]	331,096	381,096

1. David Dutro retained 30,688 shares (2011: 13,903) following the exercise of savings-based share options in 2012.
2. Brian Taylorson made a charitable donation of 50,000 shares in 2012.

As at 26 February 2013, the Trustee of the Company's Employee Share Ownership Trust ("ESOT") held nil shares (2011: 1,165,719). 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.

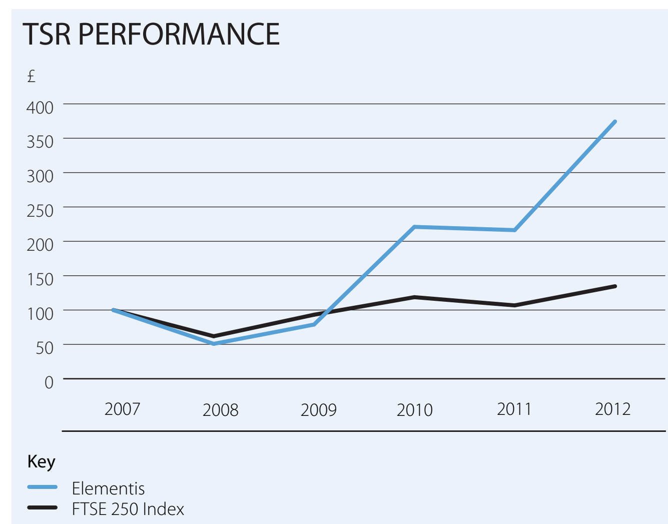
As at 26 February 2013, no person who was then a director had any interest in any derivative or other financial instrument relating to the Company's shares and, so far as the Company is aware, none of their connected persons had such an interest. Between 31 December 2012 and 26 February 2013 there was 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.

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.

Total shareholder return performance

The graph below illustrates the Company's total shareholder return ("TSR") for the five years ending 31 December 2012, 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 2012, of £100 invested in Elementis on 31 December 2007 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.



Other information about the Committee's membership and operation

Committee composition

The Chairman and members of the Committee are shown on page 36, together with their biographical information. Four meetings were held during 2012 and were attended by all Committee members. All meetings were also attended by the Chairman of the Company and the Senior Independent Director, to ensure that all non-executive Board members were 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 or, if they are, they do not participate in the decision making process.

As reported elsewhere in this Annual Report, the Board refreshment process will result in two new non-executive directors being appointed in 2013 and this is likely to lead to a change in the Committee's composition. Further details will be announced by the Company as and when it is appropriate to do so.

Terms of reference

A full description of the Committee's terms of reference is available on the Company's website and the following is a summary of its responsibilities:

- Determining the levels of remuneration for the Chairman and executive directors and keeping these under review.
- Making awards under the annual bonus scheme and LTIP, including setting performance targets.
- Monitoring and making recommendations on the structure and level of remuneration for senior executives, ensuring that these are appropriately linked to the Group's strategy and aligned with the Board's risk profile.

Evaluation, training and development

On an annual basis the Committee's effectiveness is reviewed as part of the evaluation of the Board. Following the evaluation last year, there were no major issues to report.

During 2012 Committee members attended various external seminars on the latest developments on executive remuneration and all Board members received briefings from the company secretary and the Committee's remuneration advisers throughout the year, to keep them updated on topical matters and developments relating to executive remuneration.

Remuneration advisers

The Committee's external advisers are New Bridge Street ("NBS") who were appointed after a tender in 2008. The Committee is satisfied that there is no over-reliance on NBS, who have no connection with the Company other than as remuneration advisers. Total fees paid to NBS in 2012 amounted to less than $20,000 and consisted mainly of fees for advisory services in connection with the adoption by shareholders of a new 2012 executive share option scheme last year.

Operation of the Committee

The Committee's work during these meetings and throughout the year included:

- Review and approval of the 2011 Directors' remuneration report;
- Approval of bonus payments made in 2012.
- Consideration of the Government's proposals on disclosures in the Directors' remuneration report.
- Review and approval of an annual increase to the executive directors' basic salaries.
- Review of the structure and operation of the annual bonus scheme and LTIP, as well as the approval of awards under both schemes, including setting associated performance targets.

Auditable section of the report on remuneration

The sections and tables that constitute the auditable part of this report as defined in the Companies Act 2006 are as follows: sections relating to "Determination of annual bonus outcome" and "Determination of 2010 LTIP awards"; and tables headed "Directors' remuneration", "Directors' share options/LTIP awards", "Directors' retirement benefits" and "Directors' shareholdings".

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
26 February 2013

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 2012 set out on pages 62 to 105. 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' responsibility statement set out on page 41, 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 2012 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 Finance report set out on pages 26 and 27 with respect to internal control and risk management systems in relation to financial reporting processes and in the Director's report on page 39 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 report has not been prepared by the Company

Under the Listing Rules we are required to review:
- the directors' statement, set out on page 38, in relation to going concern;
- the part of the Corporate governance report on page 42 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.

Myles Thompson (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
26 February 2013

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2012

	Note	2012 Before exceptional items $million	2012 Exceptional items (note 5) $million	2012 After exceptional items $million	2011 Before exceptional items $million	2011 Exceptional items (note 5) $million	2011 After exceptional items $million
Revenue	2	**757.0**	–	**757.0**	760.5	–	760.5
Cost of sales		**(465.6)**	–	**(465.6)**	(473.6)	–	(473.6)
Gross profit		**291.4**	–	**291.4**	286.9	–	286.9
Distribution costs		**(80.6)**	–	**(80.6)**	(82.7)	–	(82.7)
Administrative expenses		**(66.9)**	–	**(66.9)**	(67.1)	27.5	(39.6)
Operating profit	2	**143.9**	–	**143.9**	137.1	27.5	164.6
Finance income	3	**2.0**	–	**2.0**	2.6	–	2.6
Finance costs	4	**(4.7)**	–	**(4.7)**	(5.2)	–	(5.2)
Profit before income tax		**141.2**	–	**141.2**	134.5	27.5	162.0
Tax	6	**(34.1)**	–	**(34.1)**	(39.7)	1.8	(37.9)
Profit for the year		**107.1**	–	**107.1**	94.8	29.3	124.1
Attributable to:							
Equity holders of the parent		**107.1**	–	**107.1**	94.8	29.3	124.1
Non-controlling interests		–	–	–	–	–	–
		107.1	–	**107.1**	94.8	29.3	124.1
Earnings per share							
Basic (cents)	9			**23.7**			27.8
Diluted (cents)	9			**23.3**			27.2

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

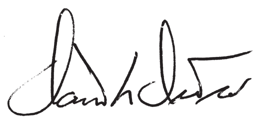
for the year ended 31 December 2012

	2012 $million	2011 $million
Profit for the year	**107.1**	124.1
Other comprehensive income:		
Exchange differences on translation of foreign operations	**1.4**	1.3
Actuarial loss on pension and other post-retirement schemes	**(67.3)**	(44.7)
Effective portion of changes in fair value of cash flow hedges	**(0.5)**	(0.8)
Fair value of cash flow hedges transferred to income statement	**0.8**	(0.9)
Deferred tax associated with pension and other post-retirement schemes	**5.1**	8.1
Other comprehensive income	**(60.5)**	(37.0)
Total comprehensive income for the year	**46.6**	87.1
Attributable to:		
Equity holders of the parent	**46.6**	87.1
Non-controlling interests	–	–
Total comprehensive income for the year	**46.6**	87.1

CONSOLIDATED BALANCE SHEET
at 31 December 2012

	Note	2012 31 December $million	2011 31 December $million
Non-current assets			
Goodwill and other intangible assets	10	**342.6**	335.1
Property, plant and equipment	11	**197.2**	163.8
Deferred tax assets	16	**12.4**	7.4
Total non-current assets		**552.2**	506.3
Current assets			
Inventories	12	**128.8**	119.8
Trade and other receivables	13	**119.1**	99.1
Derivatives		**–**	0.8
Cash and cash equivalents	20	**63.1**	48.2
Total current assets		**311.0**	267.9
Total assets		**863.2**	774.2
Current liabilities			
Bank overdrafts and loans	19	**(5.6)**	(6.2)
Trade and other payables	14	**(100.3)**	(88.3)
Derivatives		**(0.4)**	(1.0)
Current tax liabilities		**(8.7)**	(4.6)
Provisions	15	**(6.6)**	(7.9)
Total current liabilities		**(121.6)**	(108.0)
Non-current liabilities			
Loans and borrowings	19	**(13.5)**	(15.8)
Derivatives		**–**	(0.4)
Retirement benefit obligations	23	**(136.0)**	(94.8)
Deferred tax liabilities	16	**(75.4)**	(67.7)
Provisions	15	**(33.9)**	(35.7)
Government grants		**(0.6)**	(1.0)
Total non-current liabilities		**(259.4)**	(215.4)
Total liabilities		**(381.0)**	(323.4)
Net assets		**482.2**	450.8
Equity			
Share capital	17	**43.7**	43.4
Share premium	18	**14.7**	12.7
Other reserves	18	**130.3**	125.8
Retained earnings	18	**291.9**	267.3
Total equity attributable to equity holders of the parent		**480.6**	449.2
Non-controlling interests		**1.6**	1.6
Total equity		**482.2**	450.8

The financial statements on pages 62 to 100 were approved by the Board on 26 February 2013 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 interest $million	Total equity $million
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
Balance at 1 January 2012	**43.4**	**12.7**	**(29.0)**	**(7.8)**	**162.6**	**267.3**	**449.2**	**1.6**	**450.8**
Comprehensive income Profit for the year	**–**	**–**	**–**	**–**	**–**	**107.1**	**107.1**	**–**	**107.1**
Other comprehensive income Exchange differences	**–**	**–**	**1.4**	**–**	**–**	**–**	**1.4**	**–**	**1.4**
Fair value of cash flow hedges transferred to the income statement	**–**	**–**	**–**	**0.8**	**–**	**–**	**0.8**	**–**	**0.8**
Effective portion of changes in fair value of cash flow hedges	**–**	**–**	**–**	**(0.5)**	**–**	**–**	**(0.5)**	**–**	**(0.5)**
Actuarial loss on pension scheme	**–**	**–**	**–**	**–**	**–**	**(67.3)**	**(67.3)**	**–**	**(67.3)**
Tax credit on actuarial loss on pension scheme	**–**	**–**	**–**	**–**	**–**	**5.1**	**5.1**	**–**	**5.1**
Transfer	**–**	**–**	**–**	**–**	**(0.8)**	**0.8**	**–**	**–**	**–**
Total other comprehensive income	**–**	**–**	**1.4**	**0.3**	**(0.8)**	**(61.4)**	**(60.5)**	**–**	**(60.5)**
Total comprehensive income	**–**	**–**	**1.4**	**0.3**	**(0.8)**	**45.7**	**46.6**	**–**	**46.6**
Transactions with owners Issue of shares by the Company and the ESOT	**0.3**	**2.0**	**–**	**–**	**–**	**0.5**	**2.8**	**–**	**2.8**
Share based payments	**–**	**–**	**–**	**–**	**3.6**	**–**	**3.6**	**–**	**3.6**
Deferred tax on share based payments recognised within equity	**–**	**–**	**–**	**–**	**–**	**10.6**	**10.6**	**–**	**10.6**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(32.2)**	**(32.2)**	**–**	**(32.2)**
Total transactions with owners	**0.3**	**2.0**	**–**	**–**	**3.6**	**(21.1)**	**(15.2)**	**–**	**(15.2)**
Balance at 31 December 2012	**43.7**	**14.7**	**(27.6)**	**(7.5)**	**165.4**	**291.9**	**480.6**	**1.6**	**482.2**

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2012

	Note	2012 $million	2011 $million
Operating activities:			
Profit for the year		**107.1**	124.1
Adjustments for:			
Finance income		**(2.0)**	(2.6)
Finance costs		**4.7**	5.1
Tax charge		**34.1**	37.9
Depreciation and amortisation		**21.3**	19.9
Decrease in provisions		**(1.9)**	(3.2)
Pension contributions net of current service cost		**(27.9)**	(22.0)
Share based payments		**4.2**	2.6
Exceptional items		**–**	(27.5)
Cash flow in respect of exceptional items		**(3.7)**	31.8
Operating cash flow before movement in working capital		**135.9**	166.1
Increase in inventories		**(6.1)**	(17.8)
(Increase)/decrease in trade and other receivables		**(16.2)**	12.8
Increase/(decrease) in trade and other payables		**9.4**	(4.2)
Cash generated by operations		**123.0**	156.9
Income taxes paid		**(13.1)**	(8.0)
Interest paid		**(3.6)**	(4.2)
Net cash flow from operating activities		**106.3**	144.7
Investing activities:			
Interest received		**1.1**	0.9
Disposal of property, plant and equipment		**1.5**	2.1
Purchase of property, plant and equipment		**(38.3)**	(22.5)
Purchase of business		**(24.0)**	–
Acquisition of intangible assets		**(0.7)**	(0.4)
Net cash flow from investing activities		**(60.4)**	(19.9)
Financing activities:			
Issue of shares by the Company and the ESOT		**2.8**	3.9
Dividends paid		**(32.2)**	(21.9)
Receipt of unclaimed dividends		**0.3**	–
Purchase of shares by the ESOT		**–**	(2.2)
Decrease in borrowings		**(3.3)**	(97.9)
Net cash used in financing activities		**(32.4)**	(118.1)
Net increase in cash and cash equivalents		**13.5**	6.7
Cash and cash equivalents at 1 January		**48.2**	40.8
Foreign exchange on cash and cash equivalents		**1.4**	0.7
Cash and cash equivalents at 31 December	20	**63.1**	48.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2012

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 101 to 105.

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 38.

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, comprising customer lists, trademarks, patents and non-compete clauses, are amortised over their estimated useful lives which range from 5-10 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2012 continued

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, 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 adopted IFRS 3 (revised), Business Combinations, for business combinations where the acquisition date was 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. Acquisition costs are accounted for as an expense in the period incurred. For acquisitions that were made by the Group between 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2012 continued

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 geographic 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 2012, and have not been applied in preparing these consolidated financial statements, but that become mandatory for the Group's 2013 financial statements are as follows:

Amendment to IAS 19 Employee Benefits

The amendments to IAS 19 Employee Benefits make substantial changes to the recognition, measurement and disclosure of retirement benefit obligations. The most significant change is that the expected return on plan assets, currently calculated using management's estimate of the return on the appropriate assets, will be replaced by a figure calculated by applying the liability discount rate to the pension plan assets. Additionally, past service costs may no longer be amortised over the average period until the benefits become vested and therefore are recognised earlier. The Group estimates that had the revised standard been applied in the current financial year the profit before tax figure would have been $7.8 million lower.

Amendments to IAS1 'Presentation of Items of Other Comprehensive Income'

The amendments require an entity to present the items of other comprehensive that may be recycled to profit or loss in the future if certain conditions are met, separately from those that would never be recycled to profit or loss.

Amendments to IFRS7 'Disclosures – Offsetting Financial Assets and Financial Liabilities'

The amendments require disclosure of include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

IFRS 13 Fair Value Measurement

This standard explains how to measure fair value and introduces enhanced fair value disclosure.

The Group has not yet determined the potential impact of Amendments to IAS1, Amendments to IFRS 7 and IFRS 13 on the 2013 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. In accordance with the provisions of IFRS 8, the Group's chief operating decision maker is the Board of Directors. 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. 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 below 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 below as central costs.

Segmental analysis for the year ended 31 December 2012

	2012					
	Specialty Products $million	Surfactants $million	Chromium $million	Segment totals $million	Central costs $million	Total $million
Revenue	458.7	72.5	240.1	771.3	–	771.3
Internal revenue	–	–	(14.3)	(14.3)	–	(14.3)
Revenue from external customers	458.7	72.5	225.8	757.0	–	757.0
Operating profit before exceptionals	90.4	5.1	63.7	159.2	(15.3)	143.9
Head office cost allocations	(0.3)	(0.3)	(0.9)	(1.5)	1.5	–
Profit/(loss) before interest	90.1	4.8	62.8	157.7	(13.8)	143.9
Finance income	–	–	–	–	2.0	2.0
Finance expense	–	–	–	–	(4.7)	(4.7)
Taxation	–	–	–	–	(34.1)	(34.1)
Profit/(loss) for the period	90.1	4.8	62.8	157.7	(50.6)	107.1
Fixed assets	465.6	18.5	66.9	551.0	(11.2)	539.8
Inventories	67.7	7.0	54.1	128.8	–	128.8
Trade and other receivables	62.8	11.2	38.4	112.4	6.7	119.1
Deferred tax assets	–	–	–	–	12.4	12.4
Cash and cash equivalents	–	–	–	–	63.1	63.1
Segment assets	596.1	36.7	159.4	792.2	71.0	863.2
Trade and other payables	(46.4)	(12.8)	(29.4)	(88.6)	(11.7)	(100.3)
Operating provisions	–	–	–	–	(28.6)	(28.6)
Other liabilities	–	–	(11.9)	(11.9)	–	(11.9)
Bank overdrafts and loans	–	–	–	–	(19.1)	(19.1)
Derivatives	–	–	–	–	(0.4)	(0.4)
Current tax liabilities	–	–	–	–	(8.7)	(8.7)
Retirement benefit obligations	–	–	–	–	(136.0)	(136.0)
Deferred tax liabilities	–	–	–	–	(75.4)	(75.4)
Government grants	–	–	–	–	(0.6)	(0.6)
Segment liabilities	(46.4)	(12.8)	(41.3)	(100.5)	(280.5)	(381.0)
Net assets	549.7	23.9	118.1	691.7	(209.5)	482.2
Capital additions	26.3	3.4	7.8	37.5	1.5	39.0
Depreciation and amortisation	(11.9)	(2.3)	(6.6)	(20.8)	(0.5)	(21.3)

Information by geographic area	North America $million	United Kingdom $million	Rest of Europe $million	Rest of the World $million	Total $million
Revenue from external customers	274.5	31.7	196.3	254.5	757.0
Non current assets	394.4	43.7	33.6	68.1	539.8
Capital additions	30.3	2.3	4.9	1.5	39.0
Depreciation and amortisation	(13.5)	(1.0)	(3.3)	(3.5)	(21.3)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2012 continued

2 Operating segments (continued)

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 geographic area	North America $million	United Kingdom $million	Rest of Europe $million	Rest of the World $million	Total $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)

3 Finance income

	2012 $million	2011 $million
Interest on bank deposits	**0.8**	0.7
Expected return on pension scheme assets	**43.0**	47.7
Interest on pension scheme liabilities	**(41.8)**	(45.8)
Pension and other post retirement liabilities	**1.2**	1.9
	2.0	2.6

4 Finance costs

	2012 $million	2011 $million
Interest on bank loans	**3.4**	4.0
Unwind of discount on provisions	**1.3**	1.2
	4.7	5.2

5 Exceptional items

	2012 $million	2011 $million
Refund of EU Commission fine	–	34.5
Curtailment losses on pension schemes	–	(7.0)
	–	27.5
Deferred tax asset	–	1.8
	–	29.3

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.

There were no exceptional items in 2012.

In 2011 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 was booked in respect of curtailment losses in respect of the Dutch pension scheme, along with an associated deferred tax credit of $1.8 million.

6 Income tax expense

	2012 $million	2011 $million
Current tax:		
Overseas corporation tax	**15.6**	9.8
Adjustments in respect of prior years:		
United Kingdom	–	–
Overseas	**(1.1)**	0.5
Total current tax	**14.5**	10.3
Deferred tax:		
United Kingdom	**3.7**	2.1
Adjustment in respect of prior year	–	(1.8)
Overseas	**15.1**	27.7
Adjustments in respect of prior years	**0.8**	(0.4)
Total deferred tax	**19.6**	27.6
Income tax expense for the year	**34.1**	37.9
Comprising:		
Before exceptional items	**34.1**	39.7
Exceptional items*	–	(1.8)
	34.1	37.9

* see Note 5

The tax charge on profit represents an effective tax rate on profit before exceptional items for the year ended 31 December 2012 of 24.2 per cent (2011: 29.5 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.

6 Income tax expense (continued)

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

	2012 $million	2012 per cent	2011 $million	2011 per cent
Profit before tax	**141.2**	**–**	162.0	–
Tax on ordinary activities at 24.5 per cent (2011: 26.5 per cent)*	**34.6**	**24.5**	42.9	26.5
Difference in overseas effective tax rates	**14.3**	**10.1**	10.4	6.4
Income not chargeable for tax purposes	**(5.8)**	**(4.1)**	(9.1)	(5.6)
Expenses not deductible for tax purposes	**0.2**	**0.1**	0.8	0.5
Tax losses and other deductions	**(8.7)**	**(6.2)**	(8.0)	(4.9)
Tax rate adjustments to deferred tax	**1.8**	**1.3**	1.7	1.0
Adjustments in respect of prior years	**(0.3)**	**(0.1)**	(0.8)	(0.5)
Share options tax credit	**(2.0)**	**(1.4)**	–	–
Tax charge and effective tax rate for the year	**34.1**	**24.2**	37.9	23.4

* tax rate reflects reduction in UK corporation tax rate from 26 per cent to 24 per cent with effect from April 2012

7 Profit for the year

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

	2012 $million	2011 $million
Employee costs	**98.8**	100.6
Net foreign exchange (gains)/losses	**(1.2)**	0.9
Research and development costs	**7.2**	7.8
Government grants	**(0.4)**	(0.4)
Depreciation of property, plant and equipment	**19.7**	18.5
Amortisation of intangible assets	**2.1**	1.9
Total depreciation and amortisation expense	**21.8**	20.4
Cost of inventories recognised as expense	**368.8**	378.3
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	**0.5**	0.4
Audit related assurance services (half year review)	**0.1**	0.1
Taxation compliance services	**0.2**	0.2
Other tax advisory services	**0.6**	0.2
Other assurance services	**–**	0.1

8 Employees

	2012 $million	2011 $million
Employee costs:		
Wages and salaries	**87.0**	88.9
Social security costs	**7.6**	8.2
Pension costs	**4.2**	3.5
	98.8	100.6

	Number	Number
Average number of FTE employees*:		
Specialty Products	**883**	877
Surfactants	**161**	168
Chromium	**266**	271
Central	**13**	14
Total	**1,323**	1,330

* full-time equivalent including 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:

	2012 $million	2011 $million
Earnings:		
Earnings for the purpose of basic earnings per share	**107.1**	124.1
Exceptional items net of tax	**–**	(29.3)
Adjusted earnings	**107.1**	94.8

	2012	2011
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	**451.8**	446.5
Effect of dilutive share options	**8.6**	9.9
Weighted average number of shares for the purposes of diluted earnings per share	**460.4**	456.4

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:

	2012 cents	2011 cents
Earnings per share:		
Basic	**23.7**	27.8
Diluted	**23.3**	27.2
Basic before exceptional items	**23.7**	21.2
Diluted before exceptional items	**23.3**	20.8

IFC – 03 COMPANY OVERVIEW
04 – 35 BUSINESS REVIEW
36 – 61 CORPORATE GOVERNANCE
62 – 105 FINANCIAL STATEMENTS
106 – 108 SHAREHOLDER INFORMATION

10 Goodwill and other intangible assets

	Goodwill $million	Brand $million	Other intangible assets $million	Total $million
Cost:				
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 1 January 2012	304.8	17.4	20.0	342.2
Exchange differences	1.5	0.5	0.5	2.5
Acquisition of subsidiary	4.4	–	2.0	6.4
Additions	–	–	0.7	0.7
At 31 December 2012	**310.7**	**17.9**	**23.2**	**351.8**
Amortisation:				
At 1 January 2011	–	–	5.2	5.2
Charge for the year	–	–	1.9	1.9
At 1 January 2012	–	–	7.1	7.1
Charge for the year	–	–	2.1	2.1
At 31 December 2012	**–**	**–**	**9.2**	**9.2**
Carrying amount:				
At 31 December 2012	**310.7**	**17.9**	**14.0**	**342.6**
At 31 December 2011	304.8	17.4	12.9	335.1
At 1 January 2011	305.3	17.9	14.9	338.1

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 $307.3 million, including $4.4 million from the Watercryl acquisition (see Note 29), and Elementis Surfactants $3.4 million. There is no goodwill associated with Elementis Chromium.

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. In this exercise a range of discount rates from 9.0 per cent to 13.8 per cent (2011: 9.0 per cent to 11.8 per cent) was used.

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 seventeen years based on estimated growth rates of 0-2.5 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 Deuchem and Fancor acquisitions. The Group considers these to have significant and on-going 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 5-10 years.

11 Property, plant and equipment

	Land & buildings $million	Plant & machinery $million	Fixtures, fittings & equipment $million	Under construction $million	Total $million
Cost:					
At 1 January 2011	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
Additions	0.1	0.3	–	37.9	38.3
Exchange differences	2.6	10.3	0.2	0.3	13.4
Acquisitions	5.0	7.8	2.0	–	14.8
Disposals	(9.3)	(5.0)	(7.2)	–	(21.5)
Reclassifications	8.7	14.5	3.1	(26.3)	–
At 31 December 2012	**153.3**	**514.9**	**45.4**	**24.0**	**737.6**
Accumulated depreciation:					
At 1 January 2011	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
Charge for the year	3.5	14.9	1.3	–	19.7
Exchange differences	1.9	9.9	0.2	–	12.0
Disposals	(9.0)	(4.1)	(7.0)	–	(20.1)
Reclassifications	–	–	–	–	–
At 31 December 2012	**96.6**	**407.1**	**36.7**	**–**	**540.4**
Net book value:					
At 31 December 2012	**56.7**	**107.8**	**8.7**	**24.0**	**197.2**
At 31 December 2011	46.0	100.6	5.1	12.1	163.8
At 1 January 2011	48.6	98.4	5.7	10.4	163.1

Group capital expenditure contracted but not provided for in these financial statements amounted to $nil (2011: $7.2 million).

Land and buildings comprised the following:

	2012 $million	2011 $million
Freehold property	**153.0**	145.9
Short leasehold properties	**0.3**	0.3
	153.3	146.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2012 continued

12 Inventories

	2012 $million	2011 $million
Raw materials and consumables	**61.9**	46.0
Work in progress	**9.7**	13.6
Finished goods and goods purchased for resale	**57.2**	60.2
	128.8	119.8

Inventories are disclosed net of provisions for obsolescence of $7.8 million (2011: $6.2 million).

13 Trade and other receivables

	2012 $million	2011 $million
Trade receivables	**108.9**	89.3
Other receivables	**4.8**	1.1
Prepayments and accrued income	**5.4**	8.7
	119.1	99.1

14 Trade and other payables

	2012 $million	2011 $million
Trade payables	**47.9**	42.0
Other taxes and social security	**1.4**	2.8
Other payables	**5.2**	4.1
Accruals and deferred income	**45.8**	39.4
	100.3	88.3

15 Provisions

	Environmental $million	Chromium UK closure $million	Self insurance $million	Total $million
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 1 January 2012	22.7	18.6	2.3	43.6
Charge to income statement	1.3	–	0.7	2.0
Utilised during the year	(2.5)	(3.7)	(0.1)	(6.3)
Currency translation differences	0.4	0.8	–	1.2
At 31 December 2012	**21.9**	**15.7**	**2.9**	**40.5**
Due within one year	3.9	2.5	0.2	6.6
Due after one year	18.0	13.2	2.7	33.9

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 2012 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 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 1 January 2012	19.6	(22.7)	(85.9)	1.2	27.5	(60.3)
(Charge)/credit to the income statement	(1.3)	4.6	(7.0)	(5.0)	(10.9)	(19.6)
Credit to other comprehensive income	5.1	–	–	–	–	5.1
Credit to retained earnings	–	–	–	10.6	–	10.6
Currency translation differences	–	(0.1)	–	1.3	–	1.2
At 31 December 2012	**23.4**	**(18.2)**	**(92.9)**	**8.1**	**16.6**	**(63.0)**
Deferred tax assets	**3.3**	**0.5**	**–**	**6.6**	**2.0**	**12.4**
Deferred tax liabilities	**20.1**	**(18.7)**	**(92.9)**	**1.5**	**14.6**	**(75.4)**

At 31 December 2012 the full amount of ACT previously written-off, available for offset against future UK profits, was $41.1 million (2011: $39.2 million). Additional tax losses for which no deferred tax asset has been recognised and for which there is no expiry date were $4.4 million (2011: $4.2 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

	2012 $million	2011 $million
At 1 January	**43.4**	43.2
Issue of shares	**0.3**	0.2
At 31 December	**43.7**	43.4

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

18 Share premium, other reserves and retained earnings

	Share premium $million	Other reserves $million	Retained earnings $million	Total $million
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 gain on pension scheme	–	–	(44.7)	(44.7)
Exchange differences	–	1.3	–	1.3
Tax credit on actuarial gain on pension scheme	–	–	8.1	8.1
Increase in fair value of derivatives	–	(1.7)	–	(1.7)
Transfer	–	(3.1)	3.1	–
Balance at 1 January 2012	12.7	125.8	267.3	405.8
Issue of shares	2.0	–	0.5	2.5
Share based payments	–	3.6	–	3.6
Profit for the year	–	–	107.1	107.1
Dividends paid	–	–	(32.2)	(32.2)
Actuarial loss on pension scheme	–	–	(67.3)	(67.3)
Exchange differences	–	1.4	–	1.4
Tax credit on actuarial loss on pension scheme	–	–	5.1	5.1
Deferred tax on share based pay recognised within equity	–	–	10.6	10.6
Decrease in fair value of derivatives	–	0.3	–	0.3
Transfer	–	(0.8)	0.8	–
Balance at 31 December 2012	**14.7**	**130.3**	**291.9**	**436.9**

Other reserves comprise:

	Capital redemption reserve $million	Translation reserve $million	Hedging reserve $million	Share options reserve $million	Total $million
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)
At 1 January 2012	158.8	(29.0)	(7.8)	3.8	125.8
Share based payments	–	–	–	3.6	3.6
Exchange differences	–	1.4	–	–	1.4
Decrease in fair value of derivatives	–	–	0.3	–	0.3
Transfer	–	–	–	(0.8)	(0.8)
Balance at 31 December 2012	**158.8**	**(27.6)**	**(7.5)**	**6.6**	**130.3**

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

	2012 $million	2011 $million
Bank loans	19.1	22.0

The borrowings are repayable as follows:

	2012	2011
On demand or within one year	5.6	6.2
In the second year	12.3	1.7
In the third year	1.0	11.7
In the fourth year	0.2	1.7
After more than five years	–	0.7
	19.1	22.0

The weighted average interest rates paid were as follows:

	2012 per cent	2011 per cent
Bank loans	2.0	4.4

Of the US dollar borrowings, $11.0 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 2011	14.2	7.8	22.0
31 December 2012	**13.0**	**6.1**	**19.1**

20 Cash and cash equivalents

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

	2012 $million	2011 $million
Cash and cash equivalents	63.1	48.2

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 $203.5 million (2011: $201.9 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 obligations. 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 is to maximise investment returns, without excessive risk taking, in order to meet partially the Group's unfunded benefit obligations; management is assisted by external advisors 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 ("ROCE") including goodwill, as defined on page 25. 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 (2011: 0.3 per cent) of ordinary shares, or 2.7 per cent (2011: 3.5 per cent) assuming that all outstanding options vest or are exercised.

Current dividend policy is to pay a progressive dividend of approximately one third of earnings per share before exceptional items. Additionally if the Group finishes the year in a net balance sheet cash position, and there are no immediate investment plans for that cash, the Group may recommend an additional special dividend of up to 50 per cent of the net cash amount. These dividend policies remain under review to ensure that they remain appropriate to the circumstances and strategy of the Group.

	2012 $million	2011 $million
Recognised in profit or loss		
Interest income on bank deposits	**0.8**	0.7
Net pension interest	**1.2**	1.9
Financial income	**2.0**	2.6
Net change in fair value of cash flow hedges transferred from equity	**1.2**	(0.3)
Interest on bank loan	**(3.4)**	(4.0)
Financial costs	**(2.2)**	(4.3)
Net financial costs	**(0.2)**	(1.7)

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

	2012 $million	2011 $million
Recognised directly in equity		
Effective portion of changes in fair value of cash flow hedge	**(0.5)**	(0.8)
Fair value of cash flow hedges transferred to income statement	**0.8**	(0.9)
Effective portion of change in fair value of net investment hedge	**0.4**	3.6
Foreign currency translation differences for foreign operations	**1.0**	(2.3)
Recognised in		
Hedging reserve	**0.3**	(1.7)
Translation reserve	**1.4**	1.3

Derivatives used for hedging included within current assets amounted to $ nil at 31 December 2012 (2011: $0.8 million) and $0.4 million within current liabilities (2011: $1.4 million).

21 Financial risk management (continued)

Loans and borrowings

	2012 $million	2011 $million
Current liabilities		
Unsecured bank loan	**1.0**	4.0
Secured bank loan	**4.6**	2.2
Non-current liabilities		
Unsecured bank loan	**10.0**	10.0
Secured bank loan	**3.5**	5.8

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Year of maturity	2012 Face value $million	2012 Carrying amount $million	2011 Face value $million	2011 Carrying amount $million
Unsecured bank loan	Multi	2014	**10.0**	**10.0**	10.0	10.0
Unsecured bank loan	USD	2013	**1.0**	**1.0**	4.0	4.0
Secured bank loan	USD	2013-2017	**2.0**	**2.0**	0.2	0.2
Secured bank loan	TWD	2013-2015	**6.1**	**6.1**	7.8	7.8
Total interest-bearing liabilities			**19.1**	**19.1**	22.0	22.0

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 $10.3 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	
	2012 $million	2011 $million
Trade receivables	**108.9**	89.3
Cash and cash equivalents	**63.1**	48.2
	172.0	137.5

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

	Carrying amount	
	2012 $million	2011 $million
North America	**29.7**	30.5
Europe	**34.9**	24.7
Rest of the World	**44.3**	34.1
	108.9	89.3

Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross 2012 $million	Impairment 2012 $million	Gross 2011 $million	Impairment 2011 $million
Not past due	**98.4**	**(1.0)**	83.3	(1.0)
Past due 0-30 days	**10.9**	**(0.2)**	6.7	–
Past due 31-120 days	**1.0**	**(0.2)**	0.6	(0.3)
Past due > 1 year	**0.3**	**(0.3)**	–	–
Total	**110.6**	**(1.7)**	90.6	(1.3)

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

	2012 $million	2011 $million
Balance at 1 January	**1.3**	1.4
Impairment loss recognised	**0.2**	(0.1)
Acquisition fair value adjustment	**0.2**	–
Balance at 31 December	**1.7**	1.3

The provision for impairment relates primarily to customers of Elementis Chromium who, due to their payment history and geographic location, are assessed as having a higher exposure to credit risk than is acceptable. A provision is therefore deemed to be appropriate. During the year an additional provision of $0.2 million has been set up as a fair value adjustment in respect of certain debtors acquired as part of the Watercryl transaction.

Liquidity risk

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

	31 December 2012				
	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	**11.0**	**(11.0)**	**(10.0)**	**(1.0)**	**–**
Secured bank loan	**8.1**	**(8.1)**	**(0.3)**	**(4.3)**	**(3.5)**
Trade and other payables*	**54.5**	**(54.5)**	**(54.5)**	**–**	**–**
	73.6	**(73.6)**	**(64.8)**	**(5.3)**	**(3.5)**

* excludes derivatives

	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

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.

21 Financial risk management (continued)

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:

	2012					2011				
	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	–	18.5	8.1	7.8	2.6	0.8	22.1	11.3	8.1	2.7
Liabilities	–	(18.5)	(8.0)	(7.9)	(2.6)	–	(21.3)	(10.9)	(7.8)	(2.6)
Interest rate swaps:										
Assets	–	0.3	0.1	0.1	0.1	–	0.8	0.2	0.2	0.4
Liabilities	(0.3)	(0.6)	(0.2)	(0.2)	(0.2)	(0.6)	(1.4)	(0.3)	(0.3)	(0.8)
Forward gas contracts:										
Assets	–	1.2	0.5	0.7	–	–	2.1	0.9	1.2	–
Liabilities	(0.1)	(1.3)	(0.6)	(0.7)	–	(0.8)	(2.9)	(1.3)	(1.6)	–
	(0.4)	(0.4)	(0.1)	(0.2)	(0.1)	(0.6)	(0.6)	(0.1)	(0.2)	(0.3)

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:

	2012					2011				
	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	–	15.7	7.8	7.9	–	0.6	16.2	8.1	8.1	–
Liabilities	(0.2)	(15.9)	(7.9)	(8.0)	–	–	(15.6)	(7.8)	(7.8)	–
Interest rate swaps:										
Assets	–	0.3	0.1	0.1	0.1	–	0.8	0.2	0.2	0.4
Liabilities	(0.3)	(0.6)	(0.2)	(0.2)	(0.2)	(0.6)	(1.4)	(0.3)	(0.3)	(0.8)
Forward gas contracts:										
Assets	–	1.2	0.5	0.7	–	–	2.1	0.9	1.2	–
Liabilities	(0.1)	(1.3)	(0.6)	(0.7)	–	(0.8)	(2.9)	(1.3)	(1.6)	–
	(0.6)	(0.6)	(0.3)	(0.2)	(0.1)	(0.8)	(0.8)	(0.2)	(0.2)	(0.4)

Currency risk

Exposure to currency risk

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

	2012			2011		
	USD $million	Euro $million	Other $million	USD $million	Euro $million	Other $million
Trade receivables	**62.7**	**30.1**	**16.1**	49.8	26.9	12.6
Trade payables	**(24.4)**	**(12.9)**	**(10.6)**	(22.4)	(11.7)	(7.9)
Gross balance sheet exposure	**38.3**	**17.2**	**5.5**	27.4	15.2	4.7
Forward exchange contracts	**–**	**(15.9)**	**–**	–	(15.6)	–
Net exposure	**–**	**1.3**	**5.5**	–	(0.4)	4.7

The main exchange rates relevant to the Group are set out in the Business review on page 23.

Sensitivity analysis

A 10 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 2012		
GBP	**2.0**	**2.9**
Euro	**(1.7)**	**(4.0)**
RMB	**(3.0)**	**(1.1)**
TWD	**(3.0)**	**0.3**
31 December 2011		
GBP	0.5	2.4
Euro	(0.8)	(5.4)
RMB	(5.5)	(1.1)
TWD	(1.9)	0.2

A 10 per cent strengthening of USD against all currencies will have increased/(decreased) the carrying amount of variable rate instruments as follows:

	Carrying amount	
	2012 $million	2011 $million
Variable rate instruments		
Financial liabilities	**(0.6)**	(0.8)

21 Financial risk management (continued)

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.

		2012 Profit or loss		2011 Profit or loss
	100bp increase $million	100bp decrease $million	100bp increase $million	100bp decrease $million
Variable rate instruments	–	–	–	–

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 2012		31 December 2011	
	Carrying amount $million	Fair value $million	Carrying amount $million	Fair value $million
Trade and other receivables	**113.7**	**113.7**	90.4	90.4
Cash and cash equivalents	**63.1**	**63.1**	48.2	48.2
Derivative contracts used for hedging:				
Assets	–	–	0.8	0.8
Liabilities	**(0.4)**	**(0.4)**	(1.4)	(1.4)
Unsecured bank facility	**(11.0)**	**(11.0)**	(14.0)	(14.0)
Secured bank loan	**(8.1)**	**(8.1)**	(8.0)	(8.0)
Trade and other payables*	**(100.3)**	**(100.3)**	(88.3)	(88.3)
	57.0	**57.0**	27.7	27.7
Unrecognised gain/(loss)	–	–	–	–

* 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.

	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
31 December 2012				
Trade and other receivables	**–**	**–**	**113.7**	**113.7**
Cash and cash equivalents	**63.1**	**–**	**–**	**63.1**
Derivative contracts used for hedging	**(0.4)**	**–**	**–**	**(0.4)**
Unsecured bank facility	**(11.0)**	**–**	**–**	**(11.0)**
Secured bank loan	**(8.1)**	**–**	**–**	**(8.1)**
Trade and other payables*	**–**	**–**	**(100.3)**	**(100.3)**
	43.6	**–**	**13.4**	**57.0**
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*	–	–	(88.3)	(88.3)
	25.6	–	2.1	27.7

* 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:

	2012 per cent	2011 per cent
Derivatives	**4.1 – 7.8**	4.1 – 7.1
Borrowings	**2.6 – 2.9**	2.6 – 2.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2012 continued

22 Operating leases

	2012 $million	2011 $million
Minimum lease payments under operating leases recognised as an expense in the year	4.0	4.5

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

	2012 $million	2011 $million
Within one year	0.7	1.9
In the second to fifth years inclusive	1.8	1.0
After five years	23.3	24.9
	25.8	27.8

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 the 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 2011 for the UK scheme and at 31 December 2012 for the US and Netherlands schemes. The assumed life expectancies on retirement are:

	UK		US		Netherlands	
	2012 years	2011 years	2012 years	2011 years	2012 years	2011 years
Retiring at 31 December 2012						
Males	22	22	19	19	22	19
Females	24	23	21	21	23	21
Retiring in 20 years						
Males	25	24	19	21	23	19
Females	26	25	21	22	24	21

The principal assumptions used by the actuaries were as follows:

	UK per cent	US per cent	Netherlands per cent
2012			
Rate of increase in salaries	3.90	3.45	2.00
Rate of increase in pensions in payment	2.80	N/A	N/A
Discount rate	4.10	3.65	3.50
Inflation	2.90	2.50	2.00
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

The main assumptions for the PRMB scheme are a discount rate of 3.65 per cent (2011: 4.75 per cent) per annum and a health care cost trend of 6.5 per cent (2011: 6.5 per cent) per annum for claims pre age 65 reducing to 4.5 per cent per annum by 2020 (2011: 4.5 per cent). Actuarial valuations of retirement benefit plans in other jurisdictions have either not been updated for IAS 19 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 & insured annuities per cent	Total
2012					
Long term rate of return					
UK	**7.25**	**3.00**	**4.10**	**3.00**	**–**
US	**8.00**	**–**	**5.50**	**–**	**–**
Netherlands	**–**	**–**	**3.50**	**–**	**–**

Asset value	$million	$million	$million	$million	$million
UK	**336.9**	**–**	**219.2**	**168.6**	**724.7**
US	**68.0**	**–**	**23.6**	**1.8**	**93.4**
Netherlands	**–**	**–**	**60.5**	**–**	**60.5**
Total	**404.9**	**–**	**303.3**	**170.4**	**878.6**

	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	–	–

Asset value	$million	$million	$million	$million	$million
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

23 Retirement benefit obligations (continued)

The net liability was as follows:

	UK pension scheme $million	US pension schemes $million	US PRMB scheme $million	Netherlands pension scheme $million	Total $million
2012					
Total market value of assets	**724.7**	**93.4**	**–**	**60.5**	**878.6**
Present value of scheme liabilities	**(797.6)**	**(136.2)**	**(8.5)**	**(69.0)**	**(1,011.3)**
Net liability recognised in the balance sheet	**(72.9)**	**(42.8)**	**(8.5)**	**(8.5)**	**(132.7)**

	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)

The net pension liability in respect of pension schemes in other jurisdictions at 31 December 2012 was $3.3 million (2011: $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
2012					
Consolidated income statement					
Current service cost	**(0.8)**	**(0.4)**	**(0.1)**	**(1.0)**	**(2.3)**
Expected return on pension scheme assets	**35.3**	**5.9**	**–**	**1.8**	**43.0**
Interest on pension scheme liabilities	**(33.3)**	**(5.8)**	**(0.4)**	**(2.3)**	**(41.8)**
Net finance income/(charge)	**2.0**	**0.1**	**(0.4)**	**(0.5)**	**1.2**
Net income statement	**1.2**	**(0.3)**	**(0.5)**	**(1.5)**	**(1.1)**
Other comprehensive income					
Actual return less expected return on pension scheme assets	**(0.3)**	**4.7**	**–**	**10.9**	**15.3**
Experience gains and losses arising on scheme liabilities	**(11.0)**	**(0.7)**	**(0.5)**	**0.2**	**(12.0)**
Changes in assumptions underlying the present value of scheme liabilities	**(46.5)**	**(12.0)**	**–**	**(12.1)**	**(70.6)**
Actuarial loss recognised	**(57.8)**	**(8.0)**	**(0.5)**	**(1.0)**	**(67.3)**

	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
Curtailment 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)

In addition to the current service cost above, $1.9 million (2011: $1.5 million) was charged to the income statement in respect of defined contribution schemes and smaller defined benefit schemes.

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
2012					
Opening defined benefit obligation	**(712.1)**	**(124.3)**	**(8.2)**	**(53.3)**	**(897.9)**
Service cost	**(0.8)**	**(0.4)**	**(0.1)**	**(1.0)**	**(2.3)**
Interest cost	**(33.2)**	**(5.8)**	**(0.4)**	**(2.3)**	**(41.7)**
Contributions by employees	**(0.1)**	**–**	**–**	**(0.8)**	**(0.9)**
Actuarial losses	**(57.5)**	**(12.7)**	**(0.5)**	**(11.9)**	**(82.6)**
Benefits paid	**40.2**	**7.0**	**0.7**	**1.5**	**49.4**
Curtailments and settlements	**–**	**–**	**–**	**–**	**–**
Exchange differences	**(34.1)**	**–**	**–**	**(1.2)**	**(35.3)**
Closing defined benefit obligation	**(797.6)**	**(136.2)**	**(8.5)**	**(69.0)**	**(1,011.3)**

	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
Curtailments 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)

23 Retirement benefit obligations (continued)

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
2012					
Opening fair value of plan assets	**677.1**	**82.9**	**–**	**45.8**	**805.8**
Expected return	**35.3**	**5.9**	**–**	**1.8**	**43.0**
Actuarial gain/(loss)	**(0.3)**	**4.7**	**–**	**10.9**	**15.3**
Contributions by employer	**21.1**	**6.9**	**–**	**1.8**	**29.8**
Contributions by employees	**0.1**	**–**	**–**	**0.8**	**0.9**
Benefits paid	**(40.2)**	**(7.0)**	**–**	**(1.5)**	**(48.7)**
Exchange differences	**31.6**	**–**	**–**	**0.9**	**32.5**
Closing fair value of plan assets	**724.7**	**93.4**	**–**	**60.5**	**878.6**

	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
2012					
Movement in deficit during the year					
Deficit in schemes at 1 January	**(35.0)**	**(41.4)**	**(8.2)**	**(7.5)**	**(92.1)**
Current service cost	**(0.8)**	**(0.4)**	**(0.1)**	**(1.0)**	**(2.3)**
Contributions	**21.1**	**6.9**	**0.7**	**1.8**	**30.5**
Net interest income/(expense)	**2.0**	**0.1**	**(0.4)**	**(0.5)**	**1.2**
Actuarial loss	**(57.8)**	**(8.0)**	**(0.5)**	**(1.0)**	**(67.3)**
Curtailments and settlements	**–**	**–**	**–**	**–**	**–**
Currency translation differences	**(2.4)**	**–**	**–**	**(0.3)**	**(2.7)**
Deficit in schemes at 31 December	**(72.9)**	**(42.8)**	**(8.5)**	**(8.5)**	**(132.7)**

Employer contributions in 2012 were $21.1 million (2011: $16.3 million) to the UK scheme; $7.6 million (2011: $6.2 million) to US schemes and $1.8 million (2011: $1.5 million) in respect of the Netherlands scheme. Contributions in 2013 are expected to be approximately $26 million. Employers' contributions in 2012 in respect of defined contribution schemes and smaller defined benefit schemes were $1.6 million (2011: $1.0 million).

Year ended 31 December 2012

	UK	US	Netherlands	Total
Difference between expected and actual return on scheme assets				
Amount ($million)	**(0.3)**	**4.7**	**10.9**	**15.3**
Percentage of scheme assets	**0.0%**	**5.1%**	**18.0%**	**1.7%**
Experience gains and losses on scheme liabilities				
Amount ($million)	**(11.0)**	**(1.2)**	**0.2**	**(12.0)**
Percentage of scheme assets	**(1.5)%**	**(1.3)%**	**0.3%**	**(1.4)%**
Total amount recognised in consolidated statement of comprehensive income				
Amount ($million)	**(57.8)**	**(8.5)**	**(1.0)**	**(67.3)**
Percentage of scheme assets	**(8.0)%**	**(9.1)%**	**(1.7)%**	**(7.7)%**

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)%

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%

Historical summary

	2012 $million	2011 $million	2010 $million	2009 $million	2008 $million
Present value of scheme liabilities	**(1,011.3)**	(897.9)	(842.8)	(847.6)	(672.6)
Fair value of plan assets	**878.6**	805.8	778.1	737.0	602.6
Deficit in the plan	**(132.7)**	(92.1)	(64.7)	(110.6)	(70.0)
Experience adjustments arising on plan liabilities	**(12.0)**	(10.3)	3.3	1.7	(13.8)
Experience adjustments arising on plan assets	**15.3**	10.4	46.3	67.5	(114.7)

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 4 per cent

24 Share based payments
The Company has several share incentive 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. Awards of nil cost share options are normally made annually and the maximum value of any grant to an individual is 1.5 times the CEO's basic salary. Awards vest after three years and are subject to EPS and TSR performance conditions over a three year period. Vested awards are then exercisable for up to seven years, subject to the rules of the plan.

For other executives, shareholders approved at the 2012 AGM a new approved and unapproved executive share option scheme ("2012 ESOS"). This scheme replaces the previous approved and unapproved executive share option scheme ("2003 ESOS") which expires in 2013. Under the 2003 and 2012 ESOS, options are usually granted annually to purchase shares in the Company at an exercise price per share based on the Company's average mid-market closing share price on the dealing day preceding the date of grant with no discount applied. The number of options that are granted are based on a percentage of the participant's basic salary. Options vest after three years and are subject to EPS and TSR performance conditions. Vested options are then exercisable for up to seven years, subject to the rules of the schemes.

The Company also operates a 2008 UK Savings-Related Share Option Scheme, which is a save as you earn scheme ("SAYE"), under which UK employees can enter into contracts to save up to a maximum of £250 per month 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 closing share 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 contracts to save up to a maximum of $2,000 per month with a bank or similarly approved institution, 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 average mid-market closing share 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:

	2012	2011
Fair value per option (pence)	**114.3**	93.5
Expected volatility (per cent)	**46.4**	53.0
Risk free rate (per cent)	**0.5**	2.1
Expected dividend yield (per cent)	**2.3**	2.0

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 5 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 $4.0 million (2011: $2.5 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 opposite also shows all outstanding options granted under the 2010 LTIP and the executive and savings related share option schemes.

At 31 December 2012 the following options/awards to subscribe for ordinary shares were outstanding:

Year of grant	Exercise price (p)	Exercisable From	To	At 1 January 2012 '000	Granted '000	Exercised '000	Expired '000	At 31 December 2012 '000
UK savings-related share option scheme								
2008	68.96	01/10/11	31/03/12	8	–	(6)	(2)	–
2009	35.52	01/10/12	31/03/13	418	–	(416)	(2)	–
2009	35.52	01/10/14	31/03/15	47	–	–	–	47
2010	69.28	01/10/13	31/03/14	92	–	(9)	(4)	79
2011	121.66	01/10/14	01/04/15	51	–	–	(2)	49
2011	121.66	01/10/16	01/04/17	4	–	–	–	4
2012	168.06	07/09/15	07/03/16	–	68	–	–	68
2012	168.06	07/09/17	07/03/18	–	5	–	–	5
				620	73	(431)	(10)	252
US savings-related share option scheme								
2010	76.71	27/08/12	27/11/12	355	–	(325)	(30)	–
2011	119.34	26/08/13	26/11/13	292	–	(18)	(9)	265
2012	184.62	30/08/14	30/11/14	–	270	–	–	270
				647	270	(343)	(39)	535
Executive share option scheme/awards granted under the Long term incentive plan*								
2003	24.75	29/04/06	29/04/13	25	–	(25)	–	–
2004	35.00	23/04/07	23/04/14	26	–	–	–	26
2005	51.25	30/03/08	30/03/15	54	–	(54)	–	–
2006	85.50	04/04/09	04/04/16	27	–	–	–	27
2008	71.25	28/04/11	28/04/18	304	–	(283)	–	21
2009	29.50	25/03/12	25/03/19	3,829	–	(3,552)	(17)	260
2009	25.25	29/04/12	29/04/19	100	–	(100)	–	–
2009+	54.00	14/09/12	14/09/19	100	–	(100)	–	–
2010	57.00	06/04/13	06/04/20	2,628	–	–	(57)	2,571
2010*	Nil	22/04/13	22/04/20	3,001	–	–	–	3,001
2011	149.90	04/04/14	04/04/21	967	–	–	(63)	904
2011*	Nil	04/04/14	04/04/21	1,645	–	–	–	1,645
2012	194.30	27/06/15	27/06/22	–	795	–	(22)	773
2012*	Nil	27/06/15	27/06/22	–	1,322	–	–	1,322
				12,706	2,117	(4,114)	(159)	10,550

+ These options were 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 had not until 2011 been previously 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, 2011 and 2012 options shown above include approximately 118,000, 66,000 and 58,000 shadow options respectively.

24 Share based payments (continued)
The weighted average exercise prices of options disclosed in the previous table were as follows:

	2012 Average exercise price (p)	2011 Average exercise price (p)
At 1 January	**38.4**	40.3
Granted	**87.9**	64.0
Exercised	**36.7**	65.2
Expired	**103.5**	52.1
At 31 December	**48.7**	38.4

The weighted average share price at the date of exercise of share options exercised during the year was 201 pence (2011: 154 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 cash/(borrowings)

	2012 $million	2011 $million
Change in net cash resulting from cash flows:		
Increase in cash and cash equivalents	**13.5**	6.7
Decrease in borrowings repayable within one year	**1.4**	0.9
Decrease in borrowings repayable after one year	**1.9**	97.0
	16.8	104.6
Currency translation differences	**1.0**	0.9
Increase in net cash	**17.8**	105.5
Net cash/(borrowings) at beginning of year	**26.2**	(79.3)
Net cash at end of year	**44.0**	26.2

27 Dividends
An interim dividend of 2.45 cents per share (2011: 2.34 cents) was paid on 5 October 2012 and the Group is proposing a final dividend of 5.32 cents per share (2011: 4.66 cents) for the year ended 31 December 2012 and a special dividend of 4.79 cents per share (2011: n/a). The total dividend for the year, excluding the special dividend, is 7.77 cents per share (2011: 7.00 cents) and 12.56 cents per share including the special dividend.

The amount payable for the final dividend and special dividend, based on the anticipated number of qualifying ordinary shares registered on the record date, is $46.4 million.

28 Key management compensation

	2012 $million	2011 $million
Salaries and short term employee benefits	**4.0**	4.5
Other long term benefits	**0.8**	1.0
Share based payments	**2.3**	1.4
	7.1	6.9

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 pages 48 to 60.

29 Acquisition

On 28 September 2012 the Group acquired all the shares of Watercryl Quimica Ltda., a Brazilian coatings additives company, for a cash consideration of BRL 45.6 million. Watercryl was established in 1993 and is a leading supplier of additives to the Brazilian coatings industry, with manufacturing and technical facilities based in Palmital, São Paulo. Transaction costs and expenses totalling $0.9 million have been charged to the income statement.

The acquisition had the following effect on the Group's assets and liabilities:

	Book value at acquisition $million	Provisional fair value adjustments $million	Fair value of assets acquired $million
Property, plant and equipment	0.5	14.5	15.0
Inventories	1.5	–	1.5
Trade and other receivables	1.9	(0.2)	1.7
Trade and other payables	(0.5)	(0.1)	(0.6)
Cash and cash equivalents	0.4	–	0.4
Loans and borrowings	–	–	–
Corporation tax	–	–	–
Deferred tax	–	–	–
	3.8	14.2	18.0
Goodwill			4.4
Intangible			2.0
Consideration paid, satisfied in cash			24.4
Cash acquired			(0.4)
Net cash outflow			24.0

A full fair value process is currently being performed with the assistance of external experts and will be completed during the first half of 2013, as allowed by IFRS 3. This allows for the allocation period to remain open for a period of up to 12 months from the acquisition date. Prior to acquisition, the accounting for Watercryl had been conducted on a basis appropriate for a privately run business operating under local Brazilian generally accepted accounting principles. The initial financial focus post acquisition has been to concentrate on operational issues but the formal valuation process will allow an accurate assessment to be made of the realisable value of the assets acquired, measured under International Financial Reporting Standards, as at the date of acquisition.

A provisional fair valuing exercise has been performed for the 2012 Annual Report using book values at the acquisition date together with a provisonal assessment of fair value adjustments that may be required. The consideration for the acquisition has been allocated against identified net assets with the remaining balance recorded as goodwill and intangibles. The goodwill recognised on acquisition reflects both the capabilities of the Watercryl's personnel and the synergistic opportunities going forward, neither of which can be allocated to an identifiable intangible asset.

Since acquisition Watercryl has contributed $2.5 million to the Group's revenue and $0.2 million to the Group's operating profit before intangible amortisation.

29 Acquisition (continued)

The estimated contribution of Watercryl to the results of the Group, had the acquisition been made on 1 January 2012, and assuming that the fair value adjustments that arose on acquisition would have been the same at the earlier date, are as follows:

	2012 $million
Revenue	9.0
Operating profit after intangible amortisation	2.3

30 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.

As previously reported, Elementis LTP Inc. ("LTP") was named as a defendant in chromium-related litigation in the State of Missouri (the "Missouri Litigation"). The Missouri Litigation developed into the following types of cases: (1) a class action seeking medical monitoring damages for putative class members who live in a four county area; (2) approximately 15 cases involving over 180 individual plaintiffs alleging property and/or personal injury; and (3) a class action seeking property damages for an unspecified number of putative class members. Also as previously reported, (a) in December 2010, the Court entered its order of dismissal of the class action seeking damages for medical monitoring (described in clause (1) above), with no finding of liability or fault against LTP, (b) in December 2011, LTP secured summary judgement in its favour in an individual plaintiff case (described in clause (2) above), and (c) in January 2012, LTP secured summary judgement in its favour in the class action seeking property damages (described in clause (3) above).

The last of the individual plaintiff cases (described in clause (2) above) was dismissed in April 2012, with no finding of liability or fault against LTP. There have been no Missouri Litigation cases remaining outstanding against LTP since April 2012 and, accordingly, management has concluded that there is no longer, and has not been since that date, a contingent liability relating to the Missouri Litigation.

31 Post balance sheet event

On 19 February 2013 the Group purchased the trading assets of Hi-Mar Specialty Chemicals, LLC ("Hi-Mar"), a US coatings additives company, for a cash consideration of $33 million. Hi-Mar was established in 1973 and is a leading supplier of defoamers to the coatings, construction and oilfield drilling industries, with manufacturing and technical facilities based in Milwaukee, Wisconsin. For the 12 months ended 31 December 2012, the acquired business reported, on an unaudited basis, sales of $14.5 million and earnings before interest, tax, depreciation and amortisation of $3.5 million. Identification of the fair value of the assets acquired, including an assessment of any separable intangible assets, and liabilities assumed will be carried out in accordance with IFRS 3 during the next 12 months.

PARENT COMPANY STATUTORY ACCOUNTS

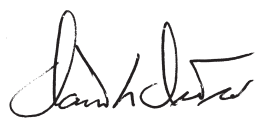
The Group is required to present a separate balance sheet for the parent company, Elementis plc, which continues to adopt UK generally accepted accounting principles. Its accounting policies are set out in Note 1 and its balance sheet is set out below.

ELEMENTIS PLC

Balance Sheet
at 31 December 2012

	Note	2012 £million	2011 £million
Fixed assets			
Investments	3	**761.3**	759.1
Current assets			
Debtors	4	**1.2**	1.2
Creditors: amounts falling due within one year			
Creditors	5	**(0.4)**	(0.2)
Net current assets		**0.8**	1.0
Total assets less current liabilities		**762.1**	760.1
Creditors: amounts falling due after more than one year			
Amounts due to subsidiary undertakings		**(307.2)**	(286.6)
Net assets		**454.9**	473.5
Capital and reserves			
Called up share capital	7	**22.7**	22.5
Share premium account	8	**8.0**	6.8
Capital redemption reserve	8	**83.3**	83.3
Other reserves	8	**81.5**	81.5
Share option reserve	8	**3.9**	2.2
Profit and loss account	8	**255.5**	277.2
Equity shareholders' funds		**454.9**	473.5

The financial statements of Elementis plc on pages 101 to 105 were approved by the Board on 26 February 2013 and signed on its behalf by:



David Dutro
Group Chief Executive

Brian Taylorson
Finance Director

IFC – 03 COMPANY OVERVIEW
04 – 35 BUSINESS REVIEW
36 – 61 CORPORATE GOVERNANCE
62 – 105 FINANCIAL STATEMENTS
106 – 108 SHAREHOLDER INFORMATION

NOTES TO THE COMPANY FINANCIAL STATEMENTS OF ELEMENTIS PLC for the year ended 31 December 2012

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 UK GAAP 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. Where the Company grants options over its own shares to the employees of its subsidiaries it recognises in its individual financial statements an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiaries' financial statements, with the corresponding credit being recognised directly 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

In accordance with 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 loss of £2.4 million (2011: £116.8 million profit) is dealt with in the financial statements of the Company.

3 Investments

	Unlisted shares at cost £million	Unlisted loans £million	Capital contributions £million	Total £million
Cost at 1 January 2012	0.1	759.0	–	759.1
Additions	–	–	2.2	2.2
Net book value 31 December 2012	**0.1**	**759.0**	**2.2**	**761.3**
Net book value 31 December 2011	0.1	759.0	–	759.1

The investment in unlisted loans is with Elementis Holdings Limited, an indirect wholly owned subsidiary. The investments in unlisted shares are in Elementis Group BV and Elementis US Investments Limited, both wholly owned subsidiaries. Capital contributions relate to share-based payment awards made to employees of subsidiary companies.

The principal trading 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 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	The Netherlands
Deuchem Co., Ltd	Additives and resins	Taiwan
Deuchem (Shanghai) Chemical Co. Ltd	Additives and resins	People's Republic of China
Watercryl Quimica Ltda	Coatings additives	Brazil

* 80 per cent owned subsidiary

Notes:
None of the undertakings are held directly by the Company.
Equity capital is in ordinary shares 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

	2012 £million	2011 £million
Corporation tax	**1.2**	1.2

NOTES TO THE COMPANY FINANCIAL STATEMENTS OF ELEMENTIS PLC for the year ended 31 December 2012 continued

5 Creditors: amount falling due within one year

	2012 £million	2011 £million
Accruals and deferred income	**0.4**	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 2012 was £44.9 million (2011: £22.5 million).

The latest full actuarial valuation was carried out at 30 September 2011 and was updated for FRS 17 purposes to 31 December 2012 by a qualified actuary. The contribution for the year was £0.1 million (2011: £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

	2012 Number '000	2012 £million	2011 Number '000	2011 £million
Called-up allotted and fully paid:				
Ordinary shares of 5 pence each				
At 1 January	**449,950**	**22.5**	448,663	22.4
Issue of shares	**3,622**	**0.2**	1,287	0.1
At 31 December	**453,572**	**22.7**	449,950	22.5

During the year a total of 3,622,430 ordinary shares with an aggregate nominal value of £181,122 were allotted and issued for cash to various employees at subscription prices between 25 pence and 119 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 £1.4 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 & loss account £million
At 1 January 2012	6.8	83.3	81.5	2.2	277.2
Retained loss for the year	–	–	–	–	(2.4)
Issue of shares	1.2	–	–	–	–
Share based payments	–	–	–	2.2	–
Transfer	–	–	–	(0.5)	0.5
Dividend paid	–	–	–	–	(19.8)
At 31 December 2012	**8.0**	**83.3**	**81.5**	**3.9**	**255.5**

9 Reconciliation of movements in shareholders' funds

	2012 £million	2011 £million
(Loss)/profit for the financial year	**(2.4)**	116.8
Dividends paid	**(19.8)**	(13.6)
Share based payments	**2.2**	0.3
Ordinary shares issued	**1.4**	0.8
Net (decrease)/increase in shareholders' funds	**(18.6)**	104.3
Opening shareholders' funds	**473.5**	369.2
Closing shareholders' funds	**454.9**	473.5

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.

FIVE YEAR RECORD

	2012 $million	2011 $million	2010 $million	2009 $million	2008 $million
Turnover					
Specialty Products	**458.7**	449.9	410.8	315.2	343.0
Surfactants	**72.5**	94.3	88.1	76.3	96.6
Chromium	**225.8**	216.3	198.5	172.2	317.3
	757.0	760.5	697.4	563.7	756.9
Operations profit before exceptional items					
Specialty Products	**90.1**	89.7	71.8	30.9	55.0
Surfactants	**4.8**	5.4	6.1	0.1	0.9
Chromium	**62.8**	56.1	35.8	13.9	52.4
Central costs	**(13.8)**	(14.1)	(11.4)	(8.7)	(10.0)
	143.9	137.1	102.3	36.2	98.3
Exceptional items	**–**	27.5	–	(76.7)	(38.8)
Profit/(loss) before interest	**143.9**	164.6	102.3	(40.5)	59.5
Net interest payable	**(2.7)**	(2.6)	(6.3)	(7.9)	(6.6)
Profit/(loss) before tax	**141.2**	162.0	96.0	(48.4)	52.9
Tax	**(34.1)**	(37.9)	(21.9)	(9.0)	(15.5)
Profit/(loss) attributable to equity holders of the parent	**107.1**	124.1	74.1	(57.4)	37.4

	2012 $million	2011 $million	2010 $million	2009 $million	2008 $million
Basic					
Earnings/(loss) per ordinary share (cents)	**23.7**	27.8	16.7	(12.9)	8.5
Earnings per ordinary share before exceptional items (cents)	**23.7**	21.2	15.4	4.3	17.2
Diluted					
Earnings/(loss) per ordinary share (cents)	**23.3**	27.2	16.5	(12.9)	8.5
Earnings per ordinary share before exceptional items (cents)	**23.3**	20.8	15.2	4.3	17.2
Dividend per ordinary share (cents)	**12.56**	7.0	4.9	4.5	5.5
Interest cover (times)*	**55.3**	41.5	31.0	14.5	20.0
Equity attributable to equity holders of the parent	**480.6**	449.2	379.7	286.3	385.9
Net cash/(borrowings)	**44.0**	26.2	(79.3)	(106.3)	(92.0)
Weighted average number of ordinary shares in issue during the year (million)	**451.8**	446.5	443.5	443.3	442.6

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

SHAREHOLDER SERVICES

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) 190 383 3113

Website: **www.shareview.co.uk**

Calls to the above numbers cost 8 pence per minute plus network extras. Lines are 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.**

IFC – 03 COMPANY OVERVIEW
04 – 35 BUSINESS REVIEW
36 – 61 CORPORATE GOVERNANCE
62 – 105 FINANCIAL STATEMENTS
106 – 108 SHAREHOLDER INFORMATION

CORPORATE INFORMATION

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Wai Wong

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London
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UK

Registered number
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Auditors
KPMG Audit Plc

Joint Corporate Brokers
UBS Investment Bank
N+1 Singer

FINANCIAL CALENDAR

26 February 2013	Preliminary announcement of final results for the year ended 31 December 2012
25 April 2013	Annual General Meeting and First Interim Management Statement
1 May 2013	Ex-dividend date for final and special dividends for 2012 payable on ordinary shares
3 May 2013	Record date for final and special dividends for 2012 payable on ordinary shares
31 May 2013	Payment of final and special dividends for 2012 on ordinary shares
30 July 2013	Interim results announcement for the half year ending 30 June 2013
4 September 2013*	Ex-dividend date for interim dividend for 2013 payable on ordinary shares
6 September 2013*	Record date for interim dividend for 2013 payable on ordinary shares
4 October 2013*	Payment of interim dividend for 2013 on ordinary shares
31 October 2013*	Second Interim Management Statement

* provisional date

ANNUAL GENERAL MEETING

The Annual General Meeting of Elementis plc will be held on 25 April 2013 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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IFC – 03 COMPANY OVERVIEW
04 – 35 BUSINESS REVIEW
36 – 61 CORPORATE GOVERNANCE
62 – 105 FINANCIAL STATEMENTS
106 – 108 SHAREHOLDER INFORMATION

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