ELEMENTIS

Elementis plc
Annual report and accounts 2007

07

A GLOBAL SPECIALTY CHEMICALS COMPANY

Elementis is a global specialty chemicals company comprising three businesses: Specialty Products, Surfactants and Chromium. Both Specialty Products and Chromium hold leading market positions in their chosen sectors. Elementis employs more than 1,000 people at sites in the US, UK, the Netherlands and China and is listed on the UK London Stock Exchange.

An overview of our expertise, products, markets, customers and locations is outlined below.

ELEMENTIS SPECIALTY PRODUCTS

We are a leading manufacturer of rheology control additives, especially organoclay additives that are used to enhance the performance of our customers' products.

Our main products include rheology control agents for solvent and water based coatings applications, as well as applications in the construction, oil drilling and personal care markets.

These primary products are supported by a complete line of dispersing agents, defoamers, interfacial tension modifiers and colourant dispersions, enabling us to provide our customers with comprehensive solutions to their rheology requirements.

We are a global business with manufacturing sites in the US, UK, the Netherlands and China.

ELEMENTIS SURFACTANTS

We are a producer of surface active ingredients that are used in a broad range of applications including oilfield chemicals, pulp and paper and household products.

We have our production facility in Delden, the Netherlands, which is shared with Elementis Specialty Products.

ELEMENTIS CHROMIUM

We are a leading producer of chromium chemicals with production facilities in the UK and US.

We enjoy a significant presence in all major product and market segments including merchant Sodium Dichromate, Liquid Chrome Sulphate for leather treatment, Chromic Oxide for metallurgical, pigmentary, ceramic and refractory applications and Chromic Acid for metal and timber treatment.

We operate three major facilities in Eaglescliffe, UK, and at Castle Hayne and Corpus Christi, US.

REVIEW OF THE YEAR

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

SHAREHOLDER INFORMATION

Highlights from continuing operations

- Operating profit before exceptional items up 21 per cent.
  - Improved operating profit in all three business segments.
- Revenue up 4 per cent on a constant currency basis.
- Diluted earnings per share before exceptional items up 31 per cent.
- Sale of Pigments completed at a price of £71 million.
- Net borrowings reduced by £84.4 million to £16.2 million.
- Full year dividend up by 12.5 per cent to 2.7 pence.

Financial summary

	2007	2006
Sales*	**£299.8m**	£302.0m
Operating profit*	**£38.1m**	£31.5m
Profit before tax*	**£33.8m**	£24.8m
Profit after tax*	**£32.0m**	£24.8m
Diluted earnings per share*	**7.2p**	5.5p
Profit for the year	**£48.1m**	£31.7m
Diluted earnings per share	**10.8p**	7.0p
Dividend to shareholders		
– final proposed	**1.4p**	1.2p
– full year	**2.7p**	2.4p

* from continuing operations and before exceptional items

Chairman's statement
Robert Beeston

I am pleased to report that the Group has continued to make solid progress in 2007, with improvements in both earnings and cash flow. In addition the Group made a significant strategic step forward on 31 August by completing the sale of its Pigments business. This has further strengthened the Group's balance sheet and provides a firm base for future profitable growth.

Results
Operating profit from continuing operations, and before exceptional items, improved by 21 per cent to £38.1 million and all three businesses again contributed to the improvement. Good demand in all of our major end markets was a key driver in 2007, with the exception of the North American architectural coatings and construction sectors which were impacted by the slowdown in US housing. Specialty Products experienced good demand in industrial coatings and oilfield, and made solid progress in sales to Europe and Asia, while Chromium benefited from a one time energy rebate of £1.4 million and changes in Chinese tax regulations prompted improved demand for chrome oxide and chromic acid. Surfactants made steady progress through further product optimisation and operating efficiencies. The Group's operating margin improved to 12.7 per cent (2006: 10.4 per cent) led by Specialty Products where operating margins are now over 20 per cent (2006: 17.3 per cent).

Revenue from continuing operations was £299.8 million in 2007, an increase of 4 per cent on a constant currency basis.

Net debt came down by £84.4 million to £16.2 million in 2007 and the Group has also agreed a ten year funding plan with the UK Pension Trustees which will eliminate the current funding deficit over the funding period and provide greater certainty to the Group in its future cash flow planning. The Group's combined deficits for retirement benefit obligations at the end of 2007 under IAS 19 was £21.5 million versus £37.3 million a year earlier.

Diluted earnings per share from continuing operations, before exceptional items, improved by 31 per cent to 7.2 pence as a result of the higher operating profit. The Group recorded exceptional items of £12.5 million (2006: £1.7 million) related to the gain on sale of the Pigments business and the recent restructuring exercise. Diluted earnings per share from continuing and discontinued operations, after exceptional items, was 10.8 pence versus 7.0 pence in 2006.

Dividend
The Board is recommending a final dividend of 1.4 pence taking the total return to shareholders for the year to 2.7 pence, an increase of 12.5 per cent. Subject to approval at the Annual General Meeting, the dividend will be paid on 30 May 2008 to members on the register at the close of business on 2 May 2008. The Board intends to continue to review the dividend policy as earnings performance permits.

"We have made a strong start to the year, building on the solid growth achieved in 2007, and expect to maintain progress in 2008 in line with our expectations."

"Our people have been instrumental in implementing a significant amount of positive change in the Group over the recent period, affecting both them and their families, and so I would again like to offer my sincere thanks to all of them for their contributions to the Group's excellent performance."

The Board

The Board is responsible for overseeing the Company's strategy in addition to monitoring performance. Through its own actions and those of the Board committees, the Board continues to meet its commitment to high standards of corporate governance. The Board seeks to implement these standards in such a manner that they provide real benefit for shareholders, employees and customers. Matthew Peacock stepped down from the Board on 31 January 2008 and Ken Minton has indicated his intention to leave the Board in April 2008. Matthew and Ken have been on the Board since 2005 and have made significant contributions to the Group's strategy and success, and for that I would like to thank them on behalf of myself and the other directors. The remaining Board members represent a good balance of industry, geography and functional experience, and so I feel it necessary to add only one new director in 2008 as replacement for the two who are leaving. We are actively engaged in a process to identify a suitable individual and expect to make an announcement during the first half of 2008.

Health, safety and environment

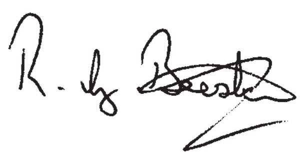
The Board is actively engaged in monitoring this important aspect of our business, and I am happy to report that our performance in this area remains in the upper quartile of industry standards. We remain committed to achieving the very best results and reporting in an open and transparent manner.

People

Our people have been instrumental in implementing a significant amount of positive change in the Group over the recent period, affecting both them and their families, and so I would again like to offer my sincere thanks to all of them for their contributions to the Group's excellent performance.

Outlook

The Group has achieved a great deal over the last 24 months and now has a robust platform of good quality earnings and a strong balance sheet on which to move forward. We have made a strong start to the year, building on the solid growth achieved in 2007, and expect to maintain progress in 2008 in line with our expectations.



Robert Beeston
Chairman
26 February 2008

Business review

Group Chief Executive's report
David Dutro

"The Group has continued to make excellent progress in both earnings and cash flow in 2007. We have improved the base level of earnings, stabilised results from the Chromium business and improved cash flow. In addition, the sale of the Pigments business, announced earlier in the year, was successfully completed on 31 August at a price of £71 million and together with cash flow generated from continuing operations has significantly reduced the Group's debt. These accomplishments have resulted in a strong balance sheet and put the Group in a firm position to drive profitable growth, and this is where we are focussing our attention. The Specialty Products business provides an ideal platform for growth, having a strong technology base, a broad geographic footprint, diverse markets and a wide range of applications. The combination of product leadership, technical expertise and customer understanding provides true market advantage, and we are seeking to make prudent investments that will leverage these inherent qualities."

David Dutro
Group Chief Executive
26 February 2008

Principal activities

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 Company and its subsidiaries are the manufacture and sale of specialty chemicals. The Group is comprised of three businesses: Elementis Specialty Products, which manufactures rheological additives, compounded products and colourants; Elementis Surfactants, which manufactures surface active ingredients used primarily in the formulation of detergents; and Elementis Chromium, which manufactures chromium chemicals.

The Group's corporate headquarters are in London, UK and its operational headquarters are based in Hightstown, New Jersey, USA. Each division of the Group is managed on a global basis with operations at over 20 locations in 6 countries.

Elementis aims to manage its businesses responsibly. Its key responsibility to shareholders is to achieve a sustainable long-term return on the capital employed in the businesses and to be able to invest for future growth. The Group also takes seriously its responsibility to employees, customers and suppliers and for the impact its operations have on the environment and targets best practice in each of these areas.

"[T]he Group has developed separate strategies for each [of our] business[es] which are focussed on improving financial performance and improving the long-term return on the capital employed...The cornerstone of each strategy is superior customer service and alignment with market leaders."

Objectives

Elementis Specialty Products is the Group's largest and most profitable division. It has attractive growth opportunities and the objectives for this division are to increase the rate of sales growth, to achieve volume growth and to enhance operating margins. This organic growth strategy will be supplemented by selective acquisitions as appropriate, where a complementary technology, product line or target market can be identified.

Elementis Surfactants is the smallest division in the Group and achieves a lower return on its capital employed due to its market positioning. The objectives for this division are to focus its efforts on higher margin products and to maintain tight control on its operating costs.

Elementis Chromium successfully reduced its minimum operating rate in 2006 by reducing capacity in the UK. Its strategy is to increase sales volumes whilst effectively managing its supply chain to reduce its sensitivity to cyclical fluctuations.

Strategic developments

Background

Each of the three divisions has distinct characteristics and the Group has developed separate strategies for each business which are focussed on improving financial performance and improving the long-term return on the capital employed in the businesses. The cornerstone of each strategy is superior customer service and alignment with market leaders.

Elementis Specialty Products

Elementis Specialty Products has four manufacturing sites in North America, two sites in Europe and a smaller facility in China.

The division's products are purchased on the basis of performance rather than specification and are typically a small percentage of the cost of the end product. The business provides strong technical support to its customers, and its end-use markets are consumables.

The priorities of this division are:

- To increase the rate of sales growth without compromising margins.
- To achieve volume growth from new product development and a wider geographical focus.
- To enhance margins through improved productivity, procurement, supply chain efficiencies and enhanced product mix.

Specialty Products manufactures solvent based rheological products and low solvent and compounded products. In the low solvent market, it has technological strength and the competition is more fragmented. This market lends itself to new product development while the solvent based products present the opportunity for increased market share in Asia and Eastern Europe. Future volume growth in Specialty Products will be more focussed on the low solvent and compounded market.

Elementis Surfactants

Elementis Surfactants was acquired in 2004 as part of the Sasol Servo business and it operates from a facility shared with Elementis Specialty Products at Delden, The Netherlands. It is a specialty surfactant manufacturer offering innovative products to the market and creating tailor-made solutions for its customers. Its products are used primarily in the formulation of detergents. Since the acquisition activities have been reorganised by reducing or eliminating low margin business and improving the productivity of its manufacturing site in the Netherlands. Its strategy is to continue to move to higher margin products while at the same time lowering its cost base.

Elementis Chromium

Supply and demand has been more balanced in the global Chromium market over the last two years, following a period of excessive supply through the early part of this decade.

Following a number of years of earnings volatility, it was decided, in 2005, to reduce production capacity in the UK and reduce fixed costs proportionately. This strategic action materially reduced the worldwide minimum operating rate for Elementis Chromium and reduced the division's sensitivity to cyclical fluctuations.

The business relies on the key raw materials of chromite ore and soda ash. A continuous supply of these materials, whilst effectively managing any price increases, is core to its strategy. In addition, the business seeks to optimise its global production to meet demand and flex its capacity as appropriate to reduce earnings volatility.

Group revenue
from continuing operations*

£299.8m

Operating profit
from continuing operations*

£38.1m

*before exceptional items

Business review
Group Chief Executive's report

Business environment
Structure
A large part of the Group's management team, including the Group Chief Executive, is based in Hightstown, New Jersey, US, while the Chairman and Finance Director and his staff are based in London, UK. The management team meets monthly and reports to the Board at each of its meetings.

Sales and marketing
Elementis Specialty Products
Elementis Specialty Products holds a market leading position in solvent based rheological additives and is seeking to grow its market share in low solvent and compounded products. The division is also aiming to increase its market share in Asia and Eastern Europe. The division's sales and marketing strategy is based on thoroughly understanding its customers' needs, providing excellent customer service, technical support and product innovation and thereby responding to each customer's specific requirements.

In 2007, approximately 74 per cent of its products were rheological additives (2006: 73 per cent) and the balance comprised colourants, additives and surfactants. The coatings market represented about 65 per cent of sales (2006: 65 per cent) and the next largest market was oil drilling at 13 per cent (2006: 13 per cent). Geographically, sales to Europe were 46 per cent of the total in 2007 (2006: 43 per cent), North America represented 33 per cent (2006: 37 per cent) and the balance was sold to the rest of the world.

Elementis Surfactants
The main market for Elementis Surfactants is currently Western Europe. It is seeking to penetrate markets in Asia and Latin America. In addition, the business is aiming to reduce production of large volume commodity surfactants and tolling activities and to increase its market share in higher value specialty surfactants for the agrochemical, feed, plastic and resin markets.

In 2007, approximately 55 per cent (2006: 50 per cent) of its products were surfactants and the balance comprised additives for the pulp and paper market and production chemicals for the oilfield industry. In terms of sales, the three largest segments were leather and textile, domestic detergents and industrial cleaning. Geographically, 89 per cent of sales were to Europe (2006: 95 per cent) and the balance was sold to North America and the rest of the world.

Elementis Chromium
Elementis Chromium aims to offer its customers competitively priced, quality products combined with good customer service and strong technical support. It has the largest market share in the chromium industry and operates from modern manufacturing facilities. Health, safety and a strong record of environmental care are important in differentiating this business from its competitors.

> "The division's sales and marketing strategy is based on thoroughly understanding its customers' needs, providing excellent customer service, technical support and product innovation and thereby responding to each customer's specific requirements."

Elementis Specialty Products

"Elementis Chromium aims to offer its customers competitively priced, quality products combined with good customer service and strong technical support."

In 2007, sales of its products comprised: chromic acid, chromic oxide, merchant dichromate and chrome sulphate. Geographically, 47 per cent of sales were in North America (2006: 47 per cent), 29 per cent in Europe (2006: 26 per cent) and the balance to the rest of the world. The division made 73 per cent of its sales in 2007 directly to customers (2006: 75 per cent) and the balance was sold through distributors and agents.

Competition

Elementis Specialty Products operates in a market with several technologies. It has numerous competitors ranging from large multi-national companies to family owned private entities.

Elementis Surfactants is active in numerous applications, technologies, chemistries and industries, and therefore it has a large number of competitors ranging from large multi-national companies to small and family owned private producers.

Elementis Chromium competes with one large multi-national public company and a number of privately owned producers.

Supply chain

The key raw materials for Elementis Specialty Products are quaternary amines and hectorite clay for which Elementis owns and operates a mine. Elementis Surfactants primarily uses ethylene oxide, propylene oxide, nonylphenol ethoxylate and fatty alcohols to manufacture its products. These are primarily sourced from third parties. Elementis Chromium's key raw materials are soda ash and chrome ore. All businesses purchase energy in the form of natural gas, fuel oil and electricity. Elementis Chromium is the largest energy user in the Group.

Elementis is committed to paying its suppliers according to agreed terms. The Group's policy is to agree terms of payment at the start of business with each supplier and to adhere to those terms, subject to satisfactory performance by the supplier.

Elementis has identified that there is a risk inherent in its supply chain in maintaining a sufficiently broad base of suppliers able to deliver high quality products to schedule. In certain markets the Group is limited to a small number of suppliers and as part of the Group's risk review, an overdependence on any particular supplier is reviewed and, where possible, mitigating action is taken. Elementis is also exposed to the risk of raw material price increases, particularly in markets where there are a small number of suppliers or with regards to energy where the price is driven by oil price and regional supply and demand issues. In 2007 Elementis entered into agreements with suppliers to lock in the price of approximately 70 per cent of its energy costs for the year. Elementis Chromium agreed prices for soda ash and chrome ore at the start of the year subject to its volume requirements and certain market factors.

Computer systems

High performing information technology ('IT') systems are important to the successful running of the Group's businesses. The Specialty Products and Chromium divisions have implemented an Enterprise Resource Planning ('ERP') system and are supported by two shared service centres, based in Hightstown, New Jersey, US for North American operations and Eaglescliffe, UK for European operations.

Underpinning the success of ERP is a reliable IT infrastructure which focusses on delivering a secure, stable and cohesive architecture through server replacement, software upgrades and network simplification. An IT infrastructure that adapts to change and responds to the evolving requirements of the business activities is an important component in achieving the strategic goals of Elementis.

The Group's IT strategy strives to protect the integrity and security of its data, network and systems through various tools such as encryption, authorisation, anti-virus programmes and proactive monitoring. A continued investment in IT signifies its commitment to utilising technology for achieving corporate objectives in an ever-changing, global market.

Regulatory issues, health, safety and environment

Elementis is committed to preventing harm to its employees, third parties and the environment in a sustainable manner. The Health, safety and environment report, which forms part of this Business review, is set out on pages 18 to 21.

The raw materials which the Group's businesses use and the products that they produce are subject to demanding regulations concerning product safety in all parts of the world. These regulations, which also cover product testing and risk assessment requirements, are subject to review and revision, as is happening in Europe with the REACH (Registration, Evaluation and Authorisation of Chemicals) regulations. The Group is assessing the potential impact of these requirements on its businesses and planning to ensure compliance when the regulations come fully into force.

Business review

Financial review
Brian Taylorson, Finance Director

Introduction
IFRS requires separate disclosure of items of income and expense which are material by virtue of their nature or amount. These items are considered to be most appropriately disclosed as exceptional.

The Board considers that the information presented in the tables in the Business review provide useful financial information relating to the performance of the Group. This information should not be considered as an alternative, but as a supplementary to the full IFRS income statement presented on page 38.

Group results
Group revenue from continuing operations was £299.8 million in 2007 which, after adjusting for currency movements, represents an increase of 4 per cent over the previous year, and all three businesses showed an increase on this basis. Market trends were generally positive for each of the businesses with good demand in most sectors except for the North American coatings and construction markets which were impacted by the slowdown in US housing. Volumes were higher in Specialty Products and Chromium but lower in Surfactants, and pricing was improved in all three businesses compared to the previous year. Revenue including discontinued businesses was £359.5 million (2006: £395.9 million) reflecting the fact that the Pigments business was sold part way through the year.

Group operating profit from continuing operations before exceptional items increased by 21 per cent to £38.1 million (2006: £31.5 million), and all three businesses contributed to the increase. The Group operating margin on the same basis increased to 12.7 per cent (2006: 10.4 per cent), and the result benefited from a one time energy rebate of £1.4 million at Chromium in the first half of 2007, and from £2.9 million (2006: £1.8 million) of currency hedging gains.

Diluted earnings per share from continuing operations, before exceptional items, was 7.2 pence compared to 5.5 pence in the previous year. The increase was largely driven by the increase in operating profit. After exceptional gains of £12.5 million, which are described below, diluted earnings per share was 10.8 pence versus 7.0 pence in 2006.

Net borrowings decreased by £84.4 million in the year to £16.2 million following the disposal of Pigments which reduced debt by around £66 million and was complemented by £26.4 million of free cash flow from operations.

Elementis Specialty Products
The dominant theme in Specialty Products during 2007 has been one of robust demand in all major sectors, except for North American coatings. Overall volumes for the business increased by 3 per cent versus the previous year with sales to the oilfield and construction sectors showing particularly strong gains. Management has also continued to focus

"Group operating profit from continuing operations before exceptional items increased by 21 per cent to £38.1 million (2006: £31.5 million), and all three businesses contributed to the increase."

Revenue

	2007 £million	2006 £million
Continuing operations		
Specialty Products	**141.6**	144.8
Surfactants	**46.3**	46.1
Chromium	**115.9**	116.8
Inter-segment	**(4.0)**	(5.7)
	299.8	302.0
Discontinued operations		
Pigments	**59.7**	93.9
	359.5	395.9

on improving operating efficiency with an emphasis on manufacturing and supply chain management, and this has contributed to operating margins improving to over 20 per cent versus 17 per cent in 2006. Accelerating new product pipeline has also been a priority and a new colourant viscosity stabiliser is currently being tested by over 25 customers and should begin to contribute to sales in 2008.

Sales in 2007 were £141.6 million compared to £144.8 million in 2006 which, on a constant currency basis, is an increase of 3 per cent. Volumes increased by 3 per cent and average pricing improved by a similar amount, but relatively lower sales to the higher margin North American region somewhat reduced the positive impact of price and volume. In coatings, which accounts for around 65 per cent of total sales, volumes increased by 4 per cent compared to the previous year with gains in Europe (3 per cent) and Asia (7 per cent), more than compensating for the weaker demand in North America where volumes were lower by 7 per cent. Sales to architectural coatings were mostly affected by the slowdown in North America, but sales volumes in industrial coatings remained at a similar level to the previous year. Industrial sales volumes were strong in Europe (up 13 per cent) which more than offset weaker architectural sales (down 7 per cent). Both architectural and industrial segments showed good volume gains in Asia. Oilfield sales volumes improved by 6 per cent over the previous year with strong gains in North America due to the continued drilling activity, plus the application of new technical approaches by drilling companies to access areas such as oil bearing shales. In construction, volumes were strongly ahead in Europe (up 15 per cent) as a result of a buoyant market and some new applications for defoamers and hectorite products. Consumer sales volumes improved by 1 per cent with good gains in Europe, due to growth in antiperspirants and colour cosmetics, compensating for lower growth in North America where growth in antiperspirants and agricultural applications was offset by weaker demand in paintballing.

Operating profit before exceptional items was £28.8 million in 2007, which is an increase of 15 per cent (2006: £25.0 million) with currency having a negligible effect due to the Group's hedging programme. Improved sales contributed about 9 per cent with the balance coming from reductions in variable costs, where energy costs were almost £1.0 million lower than the previous year due to management's decision to take fixed price contracts towards the end of 2006. Variable logistics and some raw material costs were also marginally lower than the previous year. Fixed costs were more or less unchanged versus 2006 as efficiencies in selling, general and administration costs offset modest inflation in manufacturing costs.

Elementis Surfactants

The Surfactants business has continued a process of optimising the product portfolio by reducing sales of lower margin commodity products, and focussing on more differentiated applications where there is greater opportunity to improve pricing in response to raw material inflation. Consequently, sales have continued to decline in areas such as textiles, leather and pulp and paper but increased in agriculture, plastics and feed. In addition, there is a strong focus on operational efficiency and cost management in the business to help improve margins.

Sales in 2007 were £46.3 million compared to £46.1 million in the previous year, with currency having a negligible effect. Volumes were 8 per cent lower than the previous year due to the product optimisation programme, but also due to lower sales into the oilfield sector where the stronger Euro made the product offering less competitive in a predominantly US dollar market. Average pricing across all products improved by almost 9 per cent as pricing initiatives were launched in lower margin sectors and in response to rising raw material costs.

Operating profit before exceptional items was £0.9 million in 2007 versus £0.6 million in 2006, with no material impact from currency movements. Improved pricing more than offset the effects of lower volumes and higher raw material costs, and fixed costs were maintained at 2006 levels.

Business review
Financial review

Operating profit

	2007			2006		
	Operating profit £million	Exceptional items £million	Adjusted operating profit £million	Operating profit £million	Exceptional items £million	Adjusted operating profit £million
Continuing operations						
Specialty Products	**29.3**	**(0.5)**	**28.8**	25.9	(0.9)	25.0
Surfactants	**1.4**	**(0.5)**	**0.9**	0.3	0.3	0.6
Chromium	**15.0**	**(0.8)**	**14.2**	13.3	(1.4)	11.9
Central costs	**(5.2)**	**(0.6)**	**(5.8)**	(6.0)	—	(6.0)
	40.5	**(2.4)**	**38.1**	33.5	(2.0)	31.5

Group results continued

Elementis Chromium

In Chromium, 2007 was a year of positive market dynamics and the first full year of trading since a number of strategic changes were made in the first quarter of 2006. At that time 50 per cent of production capability at the Eaglescliffe, UK site was mothballed and the business increased its hedging activities in energy and currency. This was done with a view to creating a more stable earnings environment, and also included a greater focus on sustainable sales and better optimisation of production capacity. Market demand for chrome chemicals was favourable in 2007, particularly in the second half of the year assisted by changes in tax regulations in China. During the second quarter the Chinese government eliminated VAT rebates on a broad list of materials, including chrome metal, chrome oxide and chromic acid, which reduced the competitiveness of Chinese exporters and thereby increased demand for those products in North America and Europe. Strength in demand has allowed selling prices to increase in line with raw materials, where chrome ore costs have been rising as a result of continued Chinese demand for steel.

Sales in 2007 were £115.9 million (2006: £116.8 million), which is an increase of 13 per cent after adjusting for currency movements of £7.6 million and the impact of the UK plant closure in March 2006 of £7.0 million. A 12 per cent increase in sales volume was the main contributor to the year on year improvement, driven by sales of chromic acid and chrome oxide following the changes in China. Average selling prices were 4 per cent higher than the previous year due to price increases implemented in the second half of the year, but were offset by a slightly less favourable product mix.

Geographic sales trends showed strong volume gains in North America and in Europe following the changes in China, while sales volumes to Asia Pacific were lower than the previous year as Chinese exporters refocussed their attention back to their home market.

Operating profit before exceptional items in 2007 was £14.2 million versus £11.9 million in the previous year. The business benefited from a one time energy rebate of energy costs in the US as a result of an electricity industry reorganisation in the State of Texas, which amounted to £1.4 million. Otherwise the improvement in sales contributed over £9.0 million to operating profit, more than offsetting increases in fixed and variable costs of around £8.0 million. In variable costs, chrome ore prices increased by almost 40 per cent over the previous year. Energy costs, excluding the one time rebate, were slightly lower than the previous year due to the timing of hedging activity, where fixed price contracts were concluded by the beginning of 2007. Manufacturing fixed costs were also higher due to an extensive maintenance programme in the second half of 2007, which was implemented in order to ensure the reliability of plant operations during a period of high capacity utilisation.

Currency movements reduced operating profit by £0.9 million, with the impact being significantly lower due to hedging activities.

Revenue from continuing operations

	Revenue 2006 £million	Effect of exchange rates £million	Increase 2007 £million	**Revenue 2007 £million**
Specialty Products	144.8	(6.9)	3.7	**141.6**
Surfactants	46.1	(0.3)	0.5	**46.3**
Chromium	116.8	(7.6)	6.7	**115.9**
Inter-segment	(5.7)	0.6	1.1	**(4.0)**
	302.0	(14.2)	12.0	**299.8**

Operating profit from continuing operations

	Operating profit* 2006 £million	Effect of exchange rates £million	Increase 2007 £million	**Operating profit* 2007 £million**
Specialty Products	25.0	(0.1)	3.9	**28.8**
Surfactants	0.6	(0.1)	0.4	**0.9**
Chromium	11.9	(0.7)	3.0	**14.2**
Central costs	(6.0)	—	0.2	**(5.8)**
	31.5	(0.9)	7.5	**38.1**

* before exceptional items

Central costs
Central costs are costs that are not identifiable as expenses of a particular business, and are comprised of expenditures of the Board of Directors and the corporate office. In 2007 central costs have been reduced by £0.2 million.

Exceptional items
Exceptional items after taxation were £12.5 million in the year (2006: £1.7 million). The Group made a gain on disposal of its Pigments business of £16.3 million (2006: £nil). The Pigments business was sold for gross proceeds of £70.7 million on 31 August 2007.

Past service credits and curtailment gains following changes to the Group's post retirement medical benefit schemes were £2.0 million (2006: £3.7 million) and the release of restructuring provisions previously charged as exceptional was £1.1 million (2006: £1.0 million). Tax charges of £6.9 million (2006: £1.3 million), primarily in relation to the business disposal, were included within exceptional items.

Interest
Continuing operations

	2007 £million	2006 £million
Finance income	**0.4**	0.2
Finance cost of borrowings	**(6.4)**	(7.8)
	(6.0)	(7.6)
Pension finance income	**2.3**	1.7
Discount on provisions	**(0.6)**	(0.8)
	(4.3)	(6.7)

Interest on continuing operations decreased by £2.4 million in the year. Lower borrowings following the disposal of the Pigments business on 31 August 2007 reduced interest on net borrowings by £1.6 million. Interest income from pension schemes increased by £0.6 million due to a lower pension deficit.

Interest cover, the ratio of operating profit before exceptional items to interest on net borrowings, was 6.7 times in 2007 (2006: 4.6 times).

Taxation
Tax charge

	£million	Effective rate per cent
Before exceptional items	2.0	5.3
Exceptional items	6.9	35.5
Total	**8.9**	**15.6**

Tax charges amount to £8.9 million in the year (2006: £1.4 million). Tax on continuing operations before exceptional items was £1.8 million (2006: £nil), which represents 5.3 per cent of profit before taxation. The tax charge on discontinued operations was £0.2 million (2006: £0.5 million). The disposal of the Group's global Pigments business utilised losses in the US and resulted in the recognition of an exceptional deferred tax charge of £5.8 million. A further £1.1 million of taxation was charged to exceptional items in relation to past service credits on post retirement medical benefits and the release of unutilised provisions.

Earnings per share
Note 9 sets out a number of calculations of earnings per share. To better understand the underlying trading performance of the Group, earnings per share reported under IFRS is adjusted for items classified as exceptional and for discontinued operations. Diluted earnings per share from continuing and discontinued operations and before exceptional items increased by 19 per cent to 8.0 pence (2006: 6.7 pence).

Diluted earnings per share from continuing and discontinued operations reported under IFRS was 54 per cent above 2006 at 10.8 pence (2006: 7.0 pence).

Discontinued operations
Discontinued operations representing the Pigments business which was sold on 31 August 2007, contributed £3.6 million to the profit for the year before exceptional items (2006: £5.2 million). Pigments' sales in the eight months ended 31 August 2007 were £59.7 million (2006: £93.9 million) and its operating profit before exceptional items was £4.3 million (2006: £6.1 million). Interest and taxation were £0.7 million (2006: £0.9 million). The business was sold for gross proceeds of £70.7 million with net assets of £46.6 million. After deducting costs incurred in the disposal and net debt transferred to the purchaser, the gain on disposal was £16.3 million.

Free cash flow
from operations

£26.4m

Business review
Financial review

Net borrowings
at 31 December 2007

£16.2m

Distribution to shareholders
During 2007 the Group paid a final dividend in respect of the year ended 31 December 2006 of 1.2 pence per share. An interim dividend of 1.3 pence per share was paid on 5 October 2007 and the Board is proposing a final dividend of 1.4 pence per share which will be paid on 30 May 2008.

Cash flow
The cash flow is summarised below:

	2007 £million	2006 £million
Ebitda[1]	**54.8**	52.4
Change in working capital	**0.2**	(13.0)
Capital expenditure	**(8.9)**	(13.2)
Other	**0.9**	0.2
Operating cash flow	**47.0**	26.4
Pension	**(10.6)**	(7.8)
Interest and tax	**(7.6)**	(8.7)
Exceptional items	**(1.6)**	(10.8)
Other	**(0.8)**	(0.4)
Free cash flow	**26.4**	(1.3)
Dividends	**(11.1)**	(10.1)
Acquisitions and disposals	**66.8**	1.4
Currency fluctuations	**2.3**	8.8
Movement in net borrowings	**84.4**	(1.2)
Net borrowings at start of year	**(100.6)**	(99.4)
Net borrowings at end of year	**(16.2)**	(100.6)

1 Ebitda – earnings before interest, tax, exceptional items, depreciation and amortisation

Ebitda increased by 5 per cent to £54.8 million in the year (2006: £52.4 million). After adjusting for discontinued activities which contributed £6.1 million (2006: £9.6 million), Ebitda from continuing operations increased by 14 per cent. Working capital cash flow, which increased in 2006 to support the Chromium business and fund growth in Specialty Products, improved by £13.2 million in 2007. Working capital management in the year reduced debtor days by 5 to 53 and increased creditor days by 1 to 68 days.

Capital expenditure decreased by £4.3 million to £8.9 million which represents 72 per cent of depreciation (2006: 89 per cent). Pension contributions net of service cost increased by £2.8 million mainly due to higher payments to UK schemes.

Free cash flow, defined as cash flow available to finance returns to shareholders, repayment of debt or new investments, increased by £27.7 million to £26.4 million in 2007. This, together with net proceeds from businesses disposed of £66.8 million (2006: £1.4 million), reduced borrowings by £84.4 million (2006: increase of £1.2 million) to £16.2 million at 31 December 2007 (2006: £100.6 million).

Balance sheet

	2007 £million	2006 £million
Intangible fixed assets	**147.9**	151.6
Other net assets	**98.2**	148.3
	246.1	299.9
Equity	**229.9**	199.3
Net borrowings	**16.2**	100.6
	246.1	299.9
Gearing[2] (per cent)	**7**	34

2 the ratio of net borrowings to equity plus net borrowings

The disposal of the Pigments business and the strong performance from continuing operations were the main contributors to a £30.6 million increase in equity in the year. Debt reduction from operating cash flow and business disposals reduced gearing to 7 per cent (2006: 34 per cent). Other net assets were £50.1 million lower than previous year, primarily due to the Pigments disposal.

Currency fluctuations did not have a significant effect on equity during the year and the main exchange rates relevant to the Group are set out below:

	2007		2006	
	Year end	Average	Year end	Average
US dollar	**1.99**	**2.00**	1.96	1.84
Euro	**1.36**	**1.46**	1.48	1.47

Pensions and other post retirement benefits
Retirement benefit obligations decreased by £15.8 million in the year to £21.5 million (2006: £37.3 million). Total contributions to pension and post retirement benefit schemes amounted to £13.5 million (2006: £12.0 million). Actuarial gains of £0.8 million (2006: £8.6 million) and curtailment gains and settlements of £2.0 million (2006: £3.7 million) also reduced the liability. Net finance income of £2.2 million (2006: £1.6 million) offset the current service cost of £2.1 million (2006: £2.4 million).

"Free cash flow... increased by £27.7 million to £26.4 million in 2007. This, together with net proceeds from businesses disposed of £66.8 million... reduced borrowings by £84.4 million... to £16.2 milllion..."

During the year, based on the most recent actuarial valuation on 30 September 2005, the Group agreed to pay £6.4 million per annum to fund the deficit in the UK scheme over a ten year period. Arrangements with the UK trustees are subject to review in line with the scheme's triennial valuations.

Critical accounting policies

The analysis of the Group's results and its financial position is based on the consolidated financial statements, which have been prepared in accordance with IFRS as adopted by the EU. 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. Actual results may differ from these estimates under different assumptions or conditions.

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. Additional information on the accounting policies of the Group is set out in note 1 to the financial statements.

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.

The Group had a provision for environmental issues of £14.0 million at 31 December 2007 (2006: £15.8 million). Approximately one quarter of the provision relates to continuing businesses and the remainder relates to businesses previously owned by the Group. 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.

Pension and other post retirement benefits

The Group accounts for pension and other post retirement benefits in accordance with IAS 19. The Group has pension scheme assets of £451.8 million (2006: £447.5 million) and liabilities of £472.6 million (2006: £484.1 million). The actuarial evaluation of these assets and liabilities is based on assumptions in respect of inflation, future salary increases, discount rates, returns on equities and bonds and mortality rates. 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.

Goodwill and other intangible assets

Under IFRS, goodwill is capitalised and tested for impairment annually or when changes in circumstances indicate that its carrying value may not be recoverable. Other intangible assets are capitalised and amortised over their useful economic lives.

Changes to the assumptions used in impairment testing could have a material impact on the financial position of the Group and on the result for the year.

Financial instruments and derivative instruments

Under IAS 39, financial instruments are recorded initially at fair value. Subsequent measurement of those instruments reflects the designation of each financial instrument. Gains or losses on derivative financial instruments designated as cash flow hedges and assessed as effective for the period, are taken to equity in accordance with IAS 39. Gains and losses taken to equity are reflected in the income statement when the hedged cash flow impacts income or its occurrence ceases to be probable.

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.

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.

Group operating margin
from continuing operations

12.7%

Group return on operating capital employed

24.6%

Business review
Financial review

Critical accounting policies continued
Taxation
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. These temporary differences result in deferred tax assets and liabilities which are included within the balance sheet. Deferred tax assets and liabilities are measured using tax rates expected to apply when the temporary differences reverse.

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. Deferred tax assets are not recognised where it is more likely than not that the asset will not be realised in the future. This evaluation requires judgements to be made including the forecast of future taxable income.

Property, plant and equipment
Items of property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. 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.

Key performance indicators
The Group's key performance indicators are a standard set of measures against which each business reports on a monthly basis. Incentive plans include targets against the annual operating plan for operating profit and operating cash flow.

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 to sales before exceptional items. The Group achieved an operating profit from continuing operations before exceptional items of £38.1 million for the year ended 31 December 2007 (2006: £31.5 million). This is an increase of 20.9 per cent on the previous year. The Group's operating margin from continuing operations was 12.7 per cent compared to 10.4 per cent in 2006.

2. Trade working capital to sales ratio
The trade working capital to sales ratio is defined as trade working capital divided by sales expressed as a percentage. Trade working capital comprises inventories, trade and other receivables and trade and other payables but specifically excludes prepayments, capital or interest related receivables or payables, business acquisition related payables or receivables and items classified as other receivables and other payables. The Group's trade working capital to sales ratio at 31 December 2007 was 21.9 per cent (2006: 22.8 per cent).

3. Return on operating capital employed
The return on operating capital employed 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 return on operating capital employed was 24.6 per cent for the year ended 31 December 2007 (2006: 18.8 per cent).

"Health, safety, environmental ('HSE') and property damage risks are managed conscientiously to a high standard... [T]he Company has an established incident reporting and investigation system... corrective actions are backed by annual improvement plans...[and]... regular equipment and site audits."

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 continuing operations in 2007 (2006: three) and in discontinued operations, there was one LTA (2006: two).

5. Contribution margin
Contribution, which is defined as sales less all variable costs, divided by sales and expressed as a percentage is the definition of contribution margin. The Group's contribution margin in 2007 was 33.5 per cent (2006: 32.7 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 2007 the operating cash flow was £47.0 million (2006: £26.4 million).

Principal risks and uncertainties
The Group has a process that identifies certain risks that could affect the business operations and hence the financial results of Elementis. These risks are reviewed by the Board annually and further information about this process is given in the statement on internal control on page 29.

Some risks are relatively well understood and, to a certain extent, predictable. Data on other, often emerging, risks may be sparse. As a result, some risks may be treated in an overly cautious manner, while on others the assessment may be over optimistic. Finally, there will be risks that are unknown currently or, like epidemics and pandemics, beyond the Company's ability to control.

Commercial risk
The economic climate can create some uncertainties for the Group's businesses but its geographic spread of customers and its breadth of product applications reduce the Group's exposure to local economic downturns.

In the chemical industry, significant increases in raw material prices and energy costs can be detrimental to a company's financial results. With regard to raw materials, the Group aims to continually improve efficiencies of use and, where possible, to explore using alternative sources of raw materials. Supply chain trends are monitored and where appropriate long-term contracts are secured with existing suppliers. Alternative sources of supply are also identified to minimise the effect of any disruption from supplier failure. The Company also maintains a strategic stock of raw materials to mitigate against the effect of any short term disruption to supply. Fixed price contracts are used to provide greater certainty on energy costs.

Operational and hazard risk
The Group is highly dependent on IT systems for managing its businesses and has an on-going review programme in place to ensure that systems are maintained adequately and any repairs or upgrades are made as necessary. Elementis is confident that it has a high level of resilience in its IT systems and infrastructure, and that IT management has adopted good industry practices for protecting against malicious attacks. There remains, however, the threat of disruption to voice and data infrastructure, which is a risk common to many organisations.

Health, safety, environmental ('HSE') and property damage risks are managed conscientiously to a high standard, as our HSE performance statistics show within the HSE report, but it is still possible that an accident may occur at a manufacturing facility, with risk of harm to people or the environment. To reduce this risk the Company has an established incident reporting and investigation system including near miss reporting. Lessons are learnt from root cause analysis and specific corrective actions are backed by annual improvement plans on a site and global basis. These are backed up by regular equipment and site audits to mitigate against loss arising from faulty equipment or processes.

Some of the Group's manufacturing facilities are located in parts of the world where natural hazards such as hurricanes, tornados, earthquakes and floods are a predictable risk. Good design and management of all facilities is backed by a close collaboration with our property insurers. This provides a good level of confidence that property is protected from damage and consequent business interruption. Nevertheless accidents can happen and Elementis has insurance to protect against catastrophic loss.

The Group has taken steps to be prepared to initiate effective business continuity to reassure shareholders, customers and other stakeholders that, in the unlikely event of a major incident or crisis, Elementis would remain viable in business.

Business review
Financial review

Principal risks and uncertainties continued
Operational and hazard risk continued
During 2007 Elementis continued with its development of a comprehensive business continuity plan ('BCP'), which is being introduced across all sites. The BCP is appropriate for the major risks identified and would provide critical guidance for risks not yet identified. For example, the BCP covers key generic actions such as communications to provide accurate and timely information to interested parties and hence preserve reputation. The BCP has been tested and is subject to continual updating and improvement so that it remains viable.

Financial risk
Implementing a BCP does not render insurance unnecessary. Elementis maintains a comprehensive insurance programme with limits and deductibles that are set to optimise the total cost of risk borne by the Group.

Elementis works closely with underwriters and the Group's insurance brokers to ensure that appropriate cover is in place. The management of risk is undertaken through focussed risk reduction measures, attention to limits of cover, claims management, programme structure and insurance premiums.

As with all businesses there is a risk of failure of financial controls. Elementis uses an external controls assurance provider to perform an internal audit function and conduct a comprehensive programme of internal audits across the Group. Significant issues and corrective actions are reported to the Audit Committee and reviewed subsequently for compliance.

Regulatory and legal risk
Chemical companies are subject to regulations governing the chemicals, processes and equipment used. The trend globally is for increasingly stringent environmental performance and protection of health. Elementis is committed to responding to these challenges but there is a risk that tighter requirements may involve costs that reduce profitability or may even make production of a particular product uneconomic.

For example, the REACH regulations which affect the manufacture and import of chemicals products in the EU and potentially subject manufacturers to costly registration and testing that will have to be borne by the Company or passed on to customers. Elementis has active REACH management programmes at business level with appropriate reporting to the Board.

"During 2007 Elementis continued with its development of a comprehensive business continuity plan ('BCP')... The BCP has been tested and is subject to continual updating and improvement so that it remains viable."

"Treasury activities are governed by policies and procedures approved and monitored by the Board. The Group operates a central treasury function which manages and monitors external and internal funding requirements..."

Other risks faced by the Company include governance and compliance risk. Lack of Board oversight and processes or ineffective management teams can lead to significant financial loss or loss of strategic direction. These risks are mitigated by regular Board meetings with comprehensive agenda, regular evaluations of Board and management team members and regular Board reviews of strategy, business plans and compliance programmes.

Breach of anti-trust or safety laws or failure to obtain operating permits can lead to a major financial loss or public censure or both thereby damaging the creditworthiness and or reputation of the Company, and the latter can damage the Company's long and short-term market value. These risks are mitigated by our compliance, insurance and risk management programmes, including regular HSE compliance audits, supported by external advisers and the Internal Audit service.

In terms of the key legal risks, there remains a risk of toxic tort and environmental claims from historical or ongoing operations. Despite the insurance in place there is always the possibility of an underinsured or uninsured claim and in the extreme an insured limit might be exceeded. However, Elementis has a robust programme in place to actively manage and defend against the threat of legal action or claims relating to its products or manufacturing facilities. The programme is led by the Group General Counsel who is supported by an in-house team and professional advisers. Litigation reports are reviewed periodically by the Board.

Treasury policies and objectives

Treasury activities are governed by policies and procedures approved and monitored by the Board. The Group operates a central treasury function which manages and monitors external and internal funding requirements and the following treasury risks:

- Credit risk,
- Liquidity risk,
- Market risk.

These risks and the Group's policies to manage these risks are set out in note 23.

Brian Taylorson
Finance Director
26 February 2008

Lost time accident rate per 100,000 hours

0.10

Total recordable incident rate per 200,000 hours

0.62

Health, safety and environment report

Leadership

The Chief Executive takes leadership of health, safety and environment ('HSE') issues at Board level with direct lines of reporting from the operational facilities. This includes formal monthly reports on HSE performance and rapid notification of HSE incidents wherever they occur throughout the world. A manufacturing council, comprising senior manufacturing and HSE managers, reviews performance monthly, sets standards and initiates improvements.

The Board of Elementis reviews HSE performance at its meetings.

Elementis HSE Policy

Elementis conducts business globally with a high level of concern for the health and safety of our employees, contractors, customers, neighbours and general public and for the environment in which we operate.

Elementis seeks to identify and eliminate occupational health hazards, is committed to providing a safe work place for all employees and strives for zero injuries as part of our continual improvement process.

Elementis operates facilities to minimise 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.

Elementis recognises the importance of communication with all interested parties and is committed to open dialogue with our neighbours, contractors, customers, and the general public about our operations.

The Board and senior management of Elementis are committed to this policy and continually monitor performance to ensure its implementation.

Commitment

Elementis is committed to preventing harm to people and the environment in a sustainable way. Good performance in protecting the health and safety of our employees, contractors, customers, neighbours and the general public, and for the environment in which we operate allows the Group to focus on developing, manufacturing and selling its products without the cost, in both human and financial terms, of accidents and incidents.

Social responsibility

Elementis recognises the international standards for human rights and strives to ensure equality of opportunity and fair rewards for expertise and knowledge at all its locations globally. The Company has a Code of Business Conduct and Ethics and an Anti-Corruption Policy. The Company also has a customer service policy with key account management operated to ensure that the views of our customers can be taken on board with regard to HSE matters.

Lost time accidents ('LTAs')

Using the UK Health & Safety Executive's definition of LTA (greater than three days lost, not including day of accident), the continuing operations of Elementis globally had two LTAs in 2007 compared with three in 2006. Over the years the rate has reduced to 0.10 LTA per 100,000 hours worked. There was one LTA during last year in discontinued operations (2006: two). If discontinued operations were included in the LTA rate, it would increase marginally to 0.11 LTA per 100,000 hours worked.

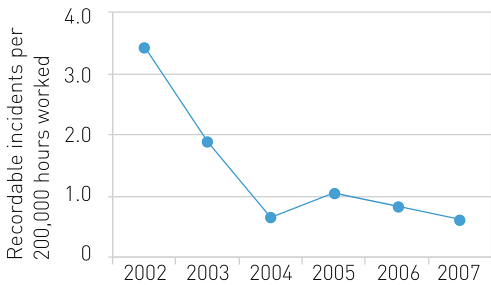
Recordable incidents

Using 'Recordable Incidents' as a standard measure, which is used by the American Chemistry Council ('ACC'), 2007 was our safest year ever. Recordable incidents are workplace injuries and illnesses that require medical treatment beyond first aid, including LTAs.

The Total Recordable Incident Rate for the year was 0.62 per 200,000 hours (0.65 if including discontinued operations), which is the best performance in Elementis' history. Based on the ACC's average member rate, our performance now ranks with companies that are generally viewed as 'best in industry'.

The chart below illustrates our performance and how far we have come. This clearly demonstrates that the Elementis culture has the right discipline and focus on safety as we continue to drive towards an injury-free workplace.

Total Recordable Incident Rate
Continuing operations



"Elementis is committed to preventing harm to people and the environment in a sustainable way. Good performance in protecting the health and safety of our employees, contractors, customers, neighbours and the general public, and for the environment in which we operate allows the Group to focus on developing, manufacturing and selling its products without the cost, in both human and financial terms, of accidents and incidents."

Safety goal: Our goal remains zero recordable incidents, with continual improvement in the health and safety of our employees leading to year on year improvement in safety performance.

Commitment to the environment

As well as complying with environmental reporting requirements, Elementis records and categorises incidents according to the seriousness of the impact for monitoring purposes, so that continuous improvements can be made. Tier 1 incidents have no impact on the environment, such as minor spills that can be completely cleaned up. Tier 2 incidents have a minor impact and Tier 3 has some impact on the environment.

In 2007 the continuing operations of Elementis had one Tier 3 incident, compared with zero in 2006. The incident involved a tank rupture at a site that required clean up but was not subject to any regulatory action. There was also one Tier 2 incident, compared with six in 2006. There was also one Tier 3 incident in discontinued operations: an operational problem that led to a short term emission of sulphur dioxide above the permitted quantity.

Environmental goal: Our goal remains zero incidents that create harm to the environment, and a continual improvement in environmental performance.

The rest of the information contained in this HSE report relates to continuing operations only.

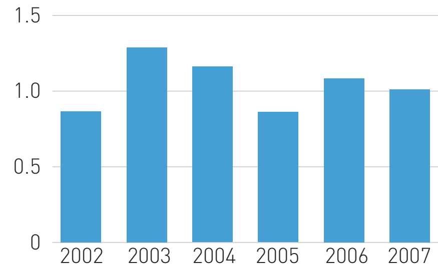
Emissions, discharges and waste

Emissions to air, discharges to water and waste disposal are regulated by external authorities and controlled carefully within Elementis. Emissions are, in part, a function of production output. The following charts are normalised to production output to take account of the way the Company's production volumes have changed over the years. Note that even then changes in product mix can have an affect on the emissions, discharges or waste per tonne. As is standard practice in the chemical industry, some emission and discharge values may be based on samples rather than continuous monitoring. Despite good practice and working to recognised procedures it is possible that non-representative samples may be taken on occasions.

Emissions to air

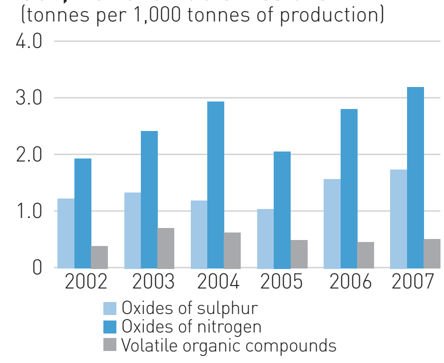
Elementis continues to seek to reduce, wherever it can, its emissions of carbon dioxide, a 'greenhouse gas' which facilitates global warming and leads to other consequences of climate change. Higher levels of production output in the Chromium business last year increased the absolute quantities emitted but our rate of emissions remained similar to 2006 (see accompanying chart).

CO_2 emissions
(tonnes per tonne of production)



Emissions of the oxides of sulphur and nitrogen ('SOx') and ('NOx'), which can cause acid rain, increased marginally although the business still operates within regulatory limits. Volatile organic compounds ('VOCs'), which can damage soil and groundwater or combine with NOx to cause smog, remained constant (see accompanying chart).

SOx, NOx and VOC emissions
(tonnes per 1,000 tonnes of production)

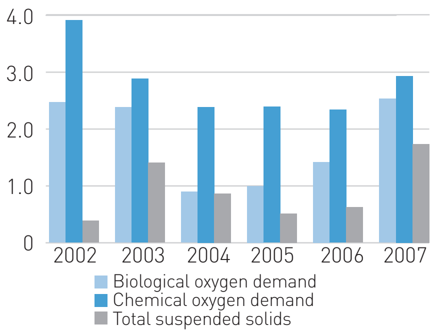


Health, safety and environment report

Discharges to water

Levels rose slightly in 2007 mainly due to increased production at sites that have a disproportionate effect on the overall total (see accompanying chart).

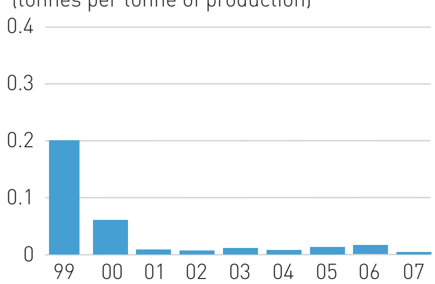
Discharges to water
(tonnes per 1,000 tonnes of production)



Solid waste

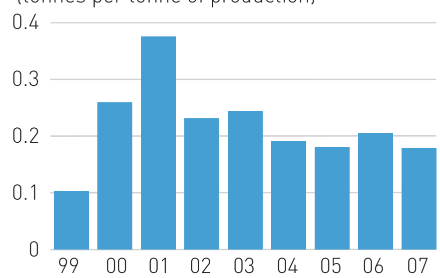
The Company is committed to minimise the quantity of all types of waste. The quantity of hazardous waste resulting from operations in Elementis has reduced significantly over the last nine years (see accompanying chart). The low level that remains is highly controlled and subject to licensed disposal.

Hazardous waste generated
(tonnes per tonne of production)



There is also non-hazardous waste arising from operations. Amounts initially increased due to substitution of the previously emitted hazardous waste, but since then there has been a steady decline. Recycling is used where possible but it should be noted that most of the waste is the residual oxides of iron, magnesium and aluminium in the naturally occurring chromite ore after the chromium has been extracted for use in chromium chemical manufacturing.

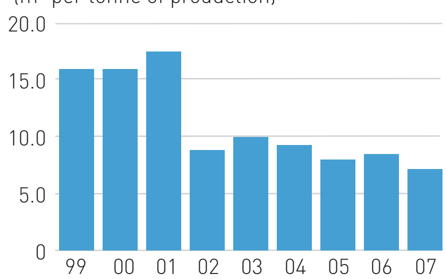
Non-hazardous waste generated
(tonnes per tonne of production)



Water consumption

With the exception of the hectorite mine in the US, 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 it. Water consumption is minimised where possible by treatment and recycling. The accompanying chart shows that water consumption has followed a declining trend in recent years.

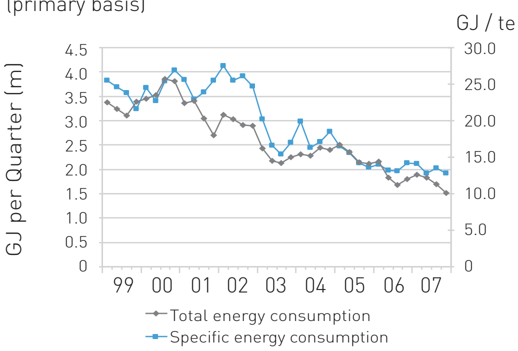
Water consumption
(m^3 per tonne of production)



Energy consumption

Conserving energy is important for sustainable development. As an expensive resource, energy efficiency also has a significant effect on the cost of production. Since 1999 the Group has been recording all energy use. The accompanying chart is normalised to gigajoules ('GJ') and gigajoules per tonne ('GJ/te') to provide consistent energy units. This shows that over the last nine years the Group's consumption of energy (left hand scale) has reduced by around 57 per cent in total, and the consumption per tonne of production (right hand scale) has reduced by approximately 50 per cent.

Elementis energy
(primary basis)



Product stewardship

Elementis recognises its responsibility to ensure that its products are safe for the intended use, transport and the environment throughout the product life cycle. Safe use is guided by long experience of many of our products in conjunction with third party studies and regulatory requirements. Information is provided via technical bulletins, safety data sheets and labelling – all backed up by discussion with our customers and suppliers, and participation with industry associations.

In the US, Elementis Specialties is a member of the industry initiative Responsible Care® and complies with the stringent demands of membership. This means that, for example, our procurement policies include criteria that take into consideration HSE factors. Other manufacturing locations elsewhere in the world adopt similar practices.

The Company is fully engaged in the REACH programme for registering substances (our products) manufactured in Europe and imported products where applicable.

HSE hazards and risks

Elementis is committed to identifying hazards and reducing risk to people and the environment. Corporate audits are conducted to assess compliance.

New equipment and plant is subject to HSE review including where appropriate hazard and operability studies (HAZOP). A formal modification control system is employed to ensure that changes to plant are approved with due consideration of risk as well as financial cost.

The Company has a set of policies to cover life critical activities such as working at heights and in confined spaces. Many sites are certified to external standards such ISO 14001 and OHSAS 18001.

A well established mandatory incident reporting system records HSE incidents (including near-misses) worldwide throughout Elementis. A structured investigation process is then adopted to establish root causes and implement effective corrective actions. Learning from these incidents is then shared across the Company to help prevent similar incidents occurring elsewhere and, in the case of repeat occurrences, to identify trends for further action.

Behavioural safety programmes and a mandatory scheme of routine plant inspections by management ensures that working practices and plant conditions are maintained in good order.

Major hazards and risks (including those from natural perils) are identified and included in the Company's risk management process (referred to in page 15 of the Business review section of this Annual Report).

Continual improvement in HSE

Each site has an annual plan with HSE objectives that should have a positive impact on safety. These plans are drawn up in conjunction with the manufacturing council who then monitors performance and provide guidance to achieve the desired results. Additionally, the Audit Committee approved the inclusion of HSE reporting within the scope of the internal audit programme for 2008.

Community well-being

Elementis works with local communities to provide information on its activities and be a responsible neighbour. The Company provides focussed support for children and disadvantaged groups, and encourages employees to be active in their communities through volunteer work or fundraising.

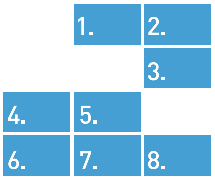
For example, a long-term activity has been the Ecology Site on land owned by Elementis Chromium at Eaglescliffe in the UK. Employee volunteers have been working there for over ten years to create a conservation site, protecting a variety of vulnerable species, and providing a nature study resource for children and other groups. The success of this has led to the development of a partnership with two local schools to provide Forest School classrooms. These schools have dedicated sites to build camps. They use these as bases for carrying out a range of activities that provide a calming influence on children with emotional and behavioural difficulties to help build self-esteem and confidence.

Board of directors







1. Robert Beeston, age 66
Chairman N

Robert Beeston joined the Board and was appointed Chairman of Elementis in September 2006. He is Chairman of the Nomination Committee, non-executive chairman of Cookson Group plc and the senior independent director and chairman of the remuneration committee of D S Smith plc. From 1992 until 2002 he was chief executive officer of FKI plc. He spent 18 years with Dowty Group before joining John Brown Plastics Machinery (UK) Ltd as managing director. In 1985, he was appointed managing director of BTR Valve Group, a position he held for six years before joining FKI plc.

2. David Dutro, age 52
Group Chief Executive

David Dutro joined the Board and 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, 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.

3. Brian Taylorson, age 52
Finance Director

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

4. Ian Brindle, age 64
Non-executive Director A,N

Ian Brindle was appointed to the Board as a non-executive director in June 2005 and is Chairman of the Audit Committee. He retired in 2001 from his role as UK chairman of PricewaterhouseCoopers and is currently the Deputy Chairman of the Financial Reporting Review Panel and was a member of the Accounting Standards Board between 1992 and 2001. He is a non-executive director of Spirent Communications plc and serves as the senior independent director on the board of 4imprint Group plc.

5. Chris Girling, age 54
Non-executive Director A,N,R

Chris Girling was appointed to the Board as a non-executive director in April 2005. He was group finance director of Carillion plc, a construction and support service group, from 1999 to April 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 an independent trustee for a city law firm's pension fund and a non-executive director of ARCO Limited and Inetec Limited.

6. Kevin Matthews, age 44
Non-executive Director A,N,R

Kevin Matthews was appointed a non-executive director in February 2005. He is chief executive officer of Oxonica plc, a UK-based nanotechnology company, a role he has held since 2001. He joined Oxonica from Rhodia Consumer Specialties Limited and previously held roles with Albright & Wilson UK Limited and ICI Chemicals and Polymers. He holds a D.Phil in organic chemistry.

7. Ken Minton, CBE, age 71
Senior Independent Director N,R

Ken Minton joined the Board and was appointed Senior Independent Director in June 2005. He is Chairman of the Remuneration Committee and has served on the board of several FTSE 250 companies, including as a non-executive director of Tomkins plc and ten years as chief executive of Laporte PLC. He is currently a non-executive director of PayPoint plc and executive chairman of 4imprint Group Plc. Ken Minton served as the UK representative to CEFIC (the European Chemical Industry Council) from 1988 to 1995 and is a past president of the Society of Chemical Industry ('SCI'). He was awarded the SCI Centenary Medal and received a CBE in 1995 for services to the chemical industry.

8. Matthew Peacock, age 46
Non-executive Director A,N,R

Matthew Peacock, who stepped down from the Board on 31 January 2008, was appointed a non-executive director in June 2005. He is a founding partner of Hanover Investors, a specialist turnaround investment firm. He began his career with Credit Suisse in New York and was previously head of the International M&A team at Barclays de Zoete Wedd. Since then, he has had 17 years of boardroom experience leading investments across a wide range of industry sectors. He is currently non-executive chairman of Renold PLC and a non-executive director of SMG PLC.

Key to membership of committees
A Audit Committee
N Nomination Committee
R Remuneration Committee

Directors' report

Report and financial statements
The directors submit their report and the audited financial statements for the year ended 31 December 2007.

Principal activities, business review and future development
The principal activities of the Company and its subsidiaries (the 'Group') are the manufacture and sale of specialty chemicals.

The Chairman's statement and Business review, the latter of which forms a part of this report, contain a fair review of the development, performance and position of the Group, as well as of principal risks and uncertainties, including policies on financial risk, and likely future developments. The Health, safety and environment report summarises the Group's approach to health and safety, environmental and community matters.

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

Results
The Group's profit for the year attributable to equity holders of the parent amounted to £48.0 million (2006: £31.6 million).

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

Directors
The present directors of the Company are Robert Beeston, Ian Brindle, David Dutro, Chris Girling, Kevin Matthews, Ken Minton and Brian Taylorson. With the exception of David Dutro, who was appointed on 17 January 2007, all of these directors served on the Board throughout the financial year. Past directors include Edward Bramson who retired as a director at the end of the 2007 Annual General Meeting on 26 April 2007 and Matthew Peacock who served throughout the financial year and stepped down from the Board on 31 January 2008.

The interests of directors in the share capital of the Company are set out in the Directors' remuneration report.

At the 2008 Annual General Meeting, Brian Taylorson and Kevin Matthews will retire in accordance with the Company's Articles of Association and offer themselves for re-election by shareholders. Kevin Matthews does not have a service contract with any Group company. Brian Taylorson has a service contract with the Company, which does not have a fixed term but provides for a notice period from the Company of 12 months.

Kevin Matthews as a non-executive director has undergone a formal performance evaluation and his performance continues to be effective and to demonstrate commitment to his role including commitment of time for Board and committee meetings and his other duties. The Board recommends the re-elections of Kevin Matthews and Brian Taylorson.

Employment policies
The Group Chief Executive is the Board member responsible for employee matters and he is assisted by a Vice-President of Global Human Resources.

The Group is committed to the principle of equal opportunity in employment, regardless of a person's race, creed, colour, nationality, gender, age, marital status, sexual orientation, religion or disability, and will not tolerate discrimination in any form. Employment policies are fair, equitable and consistent with the skills and abilities of the employee and the needs of the Group's businesses.

These policies ensure that everyone is accorded equal opportunity for recruitment, training and promotion. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

The Board expects the Group to conduct its operations based on sound ethical practices which are open and free from discrimination and harassment. It has adopted and disseminated throughout the Group a Code of Business Conduct and Ethics that is supported by appropriate policies and procedures, including clear guidelines on matters such as competition law, bribery and policies on whistleblowing. Web-based, modular training courses are required to be completed by all management level staff.

Employee communications and involvement
It is Group policy to communicate with all employees on major matters to encourage them to take a wider interest in the affairs of their employing company and the Group and to make them aware of the financial and economic factors affecting the Company's performance. This is done in a variety of ways including informal consultations, bulletins and briefing sessions. There are well established procedures, including regular meetings with recognised unions, to ensure that the views of employees are taken into account in making decisions likely to affect their interests. Managers throughout the Group have a responsibility to keep their staff informed of developments and matters of interest. The Company operates a savings-related share option scheme allowing UK and US employees an opportunity to become shareholders, details of which are set out in Note 26 to the Financial Statements on pages 67 and 68.

Going concern and Directors' responsibility statement
The directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future and confirm that the Company and the Group are going concerns. For this reason they continue to adopt the going concern basis in preparing these financial statements.

The Directors' responsibilities statement and statement on internal control are set out in the Corporate governance report.

Information required by section 992 of the Companies Act 2006

The Company's share capital consists of ordinary shares, as set out in Note 39 to the Financial Statements on page 74. 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 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.

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

There are no significant agreements to which the Company is a party which take effect, alter or terminate in the event of change of control of the Company. There are no agreements providing for compensation for directors or employees on change of control.

Substantial shareholders

As at 22 February 2008 the Company had been notified of the following interests in 3 per cent or more of the voting rights in its issued ordinary share capital:

	Ordinary shares	Percentage of issued ordinary share capital
Schroder plc	45,271,027	10.14
Lloyds TSB Group plc	27,011,725	5.52
Legal & General Group plc	23,857,424	5.34
Prudential plc group of companies	22,474,023	5.03
AXA S.A.	22,193,645	5.02
JP Morgan Chase & Co.	19,986,929	4.52
Barclays plc	19,462,605	4.36

Auditor

A resolution to re-appoint KPMG Audit Plc as auditors of the Company will be proposed at the forthcoming Annual General Meeting to be held on 24 April 2008.

Each director in office at the date of this Directors' report confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and that 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 £5,150 for charitable purposes (2006: £1,447). The Company made no political donations during the year (2006: £nil).

Policy on payment of suppliers

The Company and the Group's policy concerning payment to suppliers is 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 2007 represented 68 days (2006: 67 days) of annual purchases. 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. No director or officer was in receipt of any indemnity from the Company during the year.

Annual General Meeting

The eleventh Annual General Meeting of the Company will be held on 24 April 2008. The Notice of Meeting is included in a separate document sent to shareholders.

By order of the Board

Wai Wong
Company Secretary
26 February 2008

Corporate governance

Corporate governance statement
The Board is committed to maintaining high standards of corporate governance.

The Company has throughout the year ended 31 December 2007 applied fully all the provisions of Section 1 of the Combined Code of Corporate Governance (June 2006) as issued by the Financial Reporting Council (the 'Combined Code').

The Board
Composition
The Board currently consists of a non-executive Chairman, Group Chief Executive, Finance Director and four non-executive directors. The roles of the Chairman and Group Chief Executive are separate and clearly defined. Non-executive directors are appointed for an initial term of three years, and all directors are required under the Articles to retire and offer themselves for re-election at least every three years.

Matthew Peacock stepped down from the Board at the end of January 2008 and Ken Minton, Senior Independent Director, will retire at the conclusion of the 2008 Annual General Meeting ('AGM'). Ian Brindle will be appointed Senior Independent Director in his place. The Nomination Committee has appointed The Miles Partnership to assist with the recruitment of an additional non-executive director and the Board considers that the structure and composition of the Board will then be appropriate to take the Company through to the next stage of its development.

Board independence
The Board considers all the non-executive directors to be independent, notwithstanding the fact that Ian Brindle and Ken Minton currently have other directorships in common and that when he was a director Matthew Peacock was a principal of Hanover Investors which until June 2007 was a shareholder of the Company. The Board is satisfied that each director exercises independent judgement and believes no individual or group dominates decision making.

Board operation
The Board operates within a framework of controls used to minimise risks and has a formal schedule of matters specifically reserved to it for decision. These include strategic and annual operating plans, the approval of financial statements, acquisitions and disposals, major non-recurring projects and major capital expenditures. The Board regularly reviews management performance and sets values and standards to ensure that its obligations to its shareholders and others are understood and met. It also delegates specific responsibilities with written terms of reference to the Board Committees described on page 27.

Information of an appropriate quality is issued in a timely manner to assist the Board in performing its duties. New directors receive appropriate induction tailored to their needs. This includes visits to manufacturing facilities and meetings with senior management to assist them in building an understanding of how the Group operates and the issues that it faces. New directors are advised of their legal and other duties and other obligations as directors of a listed company. All members of the Board 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.

Directors are encouraged to undertake such activities and training as is appropriate or may be required or desirable in order to carry out their duties. At least one meeting of the Board each year is held at an operating division's offices. Last year, the Board had one of its meetings at the Hightstown office in New Jersey, USA and a group of non-executive directors, including the Chairman, together with the Finance Director visited the hectorite mine at Newberry Springs in California. Inspecting operating facilities and interacting with staff help non-executive directors to better understand the risks faced by the business, including environmental, social and governance risks.

Board Performance Evaluation
The Board is supportive of the principles and provisions of the Combined Code on Board Performance Evaluation and towards the end of last year carried out an evaluation of its performance, including the performance of its committees and of individual directors, using comprehensive assessment questionnaires. The results of the questionnaires were reviewed by the Board and the Chairman also met with Board members individually. The Board believes that the performance of non-executive directors continues to be effective and demonstrates commitment to their role including commitment of time for Board and committee meetings and their other duties.

During the year the Senior Independent Director chaired a meeting of the non-executive directors to review the performance of the Chairman without him being present, and concluded that the Chairman was fully effective in his role.

Attendance at Board and Committee meetings during 2007:

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Directors as at 31 December 2007				
Robert Beeston, Chairman	8/8		2/2*	
David Dutro, Group Chief Executive	7/8			
Brian Taylorson, Finance Director	8/8			
Ian Brindle	8/8	5/5*	2/2	
Chris Girling	8/8	5/5	2/2	4/4
Kevin Matthews	8/8	5/5	2/2	3/4
Ken Minton, Senior Independent Director	8/8		2/2	4/4*
Matthew Peacock	6/8	4/5	1/2	2/4
Past Directors during the financial year				
Edward Bramson	2/4			

* denotes Chairman of the Committee

Communication with shareholders
The Board has developed a comprehensive programme to ensure that effective communication with shareholders, analysts and the financial press is maintained throughout the year. Through the annual and interim reports, results and other announcements, as well as through presentations to institutional shareholders and the dissemination of information via the Group's website at www.elementis.com, the Board seeks to present its strategy and performance in an objective and balanced manner.

Shareholders attending the AGM are invited to ask questions during the meeting and also to meet the directors after the formal business of the meeting has concluded. The Chairmen of the Audit and Remuneration Committees are also available to answer questions from any shareholder at the meeting. Full details of proxy votes cast on each resolution are made available to shareholders at the meeting and are made available on the Company's website after the meeting.

The Board receives regular reports on any meetings held with shareholders or analysts, and the Chairman and Senior Independent Director are also available for contact by shareholders at any time.

Board Committees
The Board has established Audit, Nomination and Remuneration Committees, all with defined terms of reference, modelled closely on those set out in the Combined Code, which are available from the Company Secretary or can be found on the Company's website at www.elementis.com.

Audit Committee
The members of the Audit Committee (the 'Committee') during 2007 and their attendance records are shown in the table above. Ian Brindle is the Chairman of the Committee but he will be replaced by Chris Girling in this role at the conclusion of the 2008 AGM. Ian Brindle will remain a member of the Audit Committee after the AGM, together with Chris Girling and Kevin Matthews.

The Committee has two members with 'recent and relevant financial experience' when one is recommended by the Combined Code. Ian Brindle's qualification is based on his career with PricewaterhouseCoopers and his current role at the Financial Reporting Review Panel, and Chris Girling was most recently Group Finance Director at FTSE 250 listed Carillion plc.

A description of the remit and work of the Audit Committee
The Committee has delegated authority from the Board for:

- monitoring the integrity of the financial statements and reviewing significant accounting policies, judgements and estimates contained within them;
- reviewing the effectiveness of internal control and risk management systems, including control over financial reporting;
- reviewing the effectiveness of the internal audit function, including of the risk management programme;
- reviewing the Group's policies and practices concerning business conduct, ethics and integrity and on whistleblowing; and
- overseeing all aspects of the relationship with the external auditors, including their appointment, the audit process, the supply of non-audit services and monitoring their effectiveness and independence.

The Audit Committee met five times during 2007. Findings and recommendations at each of its meetings are given to the Board. The Committee met to review the annual and interim reports and financial statements and also to receive half yearly reports from the internal audit providers, PricewaterhouseCoopers ('PwC'), as well as representations from management. During the year it reviewed the effectiveness of the internal and external audit activities through meetings and interviews with management and key finance staff, approved the scope of work of and fees for both internal and external auditors, and concluded that, owing to the complexity and international nature of the Group's businesses, the internal audit function was best served by continuing to outsource to PwC, given their global expertise and resources. The Committee also reviewed the Group's risk management programme as part of the full Board's review of risk management in November 2007.

Corporate governance

Audit Committee continued

The Committee keeps under review the objectivity and independence of the external auditors and the nature and extent of the non-audit services which they provide. The Committee has adopted a policy which prohibits certain types of non-audit work from being performed by the Company's auditors, particularly where auditor objectivity and independence could be at risk. The Company's policy is that any appointment of the external auditors to undertake non-audit work is subject to the approval of the Audit Committee unless it falls below a threshold in which case the Finance Director has delegated authority from the Committee to approve such appointments. The threshold is where any individual non-audit engagement fee is no greater than 15 per cent of the annual Group audit fee and the total cost of non-audit engagements in the same financial year do not exceed 50 per cent of the annual Group audit fee. The external auditors were appointed during the year to undertake tax work for the Group. It was thought that their knowledge of the Group's business processes and controls makes them best placed to undertake this work cost-effectively on the Group's behalf. The Committee believes that notwithstanding the tax advisory services they provided during the year, the external auditors' objectivity is not impaired. The Committee also reviewed its policy on whistleblowing during the year.

Nomination Committee

The members of the Nomination Committee (the 'Committee') and their attendance records are shown on page 27. Robert Beeston is the Committee's Chairman. The Committee is responsible for:

- reviewing the size and composition of the Board, together with the skills, knowledge and experience of its members and making recommendations for change as necessary;
- carrying-out an annual performance evaluation of the Board and its Committees and members; and
- succession planning for the Board and leadership team.

The Committee met twice in 2007 to discuss changes to the Board and review the results of the Board Performance Evaluation exercise. It concluded that, for the time being, the recruitment of one additional non-executive director would be sufficient to give the Board the balance, structure, skills and experience it needs. The procedures applied by the Committee in the recruitment a new non-executive director follow closely those set out in the Combined Code provisions.

Remuneration Committee

Details about the Remuneration Committee are set out in the Directors' remuneration report on page 30.

Statement of directors' responsibilities

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

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the Company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRS, as adopted by the EU, to present fairly the financial position and performance of the Group. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and 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 IFRS as adopted by the EU;
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

Under applicable law and regulations, the directors are also responsible for preparing a Business review, Directors' report, Directors' remuneration report and Corporate governance statement that comply 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.

Internal control

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can therefore only provide reasonable, and not absolute, assurance against material misstatement or loss.

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

The key features of the Group's internal control system are:

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 and legal matters are controlled centrally with reports reviewed by the Board as appropriate. Site-level policies and procedures are set by Divisional Management appropriate to the needs of each business unit.

Risk identification and review

Key identified risks, both financial and non financial, are reviewed by the Board as well as by Divisional Management on an ongoing basis, which is supported by the work of the Audit Committee and the Internal Audit service, which is provided by PricewaterhouseCoopers LLP ('PwC'). A formal annual review of risks and controls is carried out by both the Management Team and the Board, and the meetings last year, which included presentations from senior managers, were held in September and November respectively.

The Management Team, which comprises the executive directors, divisional managing directors and functional business leaders, meets on a regular basis to review each division's performance, strategy and risk management. Their work is supported by a central risk management unit whose terms of reference include supporting corporate governance requirements, recommending business risk strategy and developing policies and procedures for risk management and internal controls. PwC's work covers the monitoring of the effectiveness of internal controls and the design of processes to test the effectiveness of controls.

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

Financial reporting

There is a comprehensive Group-wide system of financial reporting. Figures reported include profit, cash flows, capital expenditure, balance sheet and relevant performance indicators. Each operating division prepares an annual operating plan which is approved by the Board. Thereafter a formal re-forecasting exercise is undertaken three times a year. Actual monthly results are monitored against budget, forecasts and the previous year's results. Any significant variances are investigated and acted upon as appropriate.

Investment appraisal

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

Audit Committee

The Audit Committee plays a critical role within the Company's system of internal control and risk management and a full description of its work is given on pages 27 and 28.

By order of the Board

Wai Wong
Company Secretary
26 February 2008

Directors' remuneration report

Remuneration Committee

The Remuneration Committee ('the Committee'), which is chaired by Ken Minton, determines the remuneration of the Chairman and the executive directors, and recommends and monitors the structure and level of remuneration for senior executives.

The Committee met four times in 2007 and its members and their attendance records are shown on page 27. At the conclusion of the 2008 Annual General Meeting, subject to his re-election, Kevin Matthews will be appointed Chairman of the Committee in place of Ken Minton who will retire from the Board. The Committee will then comprise Kevin Matthews and Chris Girling, which is the minimum number required for smaller companies under the Combined Code.

Members of the Committee have no personal financial interest other than as shareholders in the matters to be decided and no day-to-day involvement in the running of the business of the Group.

Advisers to the Committee

The Vice President, Global Human Resources is the internal adviser to the Committee and provides information and advice to facilitate discussion and decision making on remuneration matters. He also provides the Company and its subsidiaries with services which include the setting of employment policies, recruitment of senior managers and overall responsibility for all major issues involving human resources.

The Committee was assisted by PricewaterhouseCoopers LLP in relation to the proposed 2008 Long-Term Incentive Plan and the annual review of salaries of the executive directors.

Annual General Meeting

A resolution to approve this report will be tabled at the Annual General Meeting ('AGM'). The Chairman of the Committee is available to answer questions from shareholders on the decisions of the Committee.

Remuneration policy and practice

The policy of the Committee for the current and subsequent years is to set basic salaries at a level which is competitive with that of comparable businesses enabling the Company to attract and retain people with relevant ability, experience and skills. To ensure that executive directors align their interests to those of shareholders a substantial proportion of the overall remuneration package is linked to individual and corporate performance through participation in short-term and long-term incentive schemes.

The Committee does not consider corporate performance on environmental, social and corporate governance issues when setting the remuneration of executive directors. The Committee believes that management should aspire to achieving high standards in both safety and environmental performance without the need for incentives. It is also not appropriate to remunerate executive directors on the basis of corporate governance performance as corporate governance standards are set by the Board as a whole.

Salaries, fees and benefits

Salaries for executive directors are determined by the Committee and are reviewed annually by it, taking into account individual performance over the previous 12 months, external benchmark salary data and pay and employment conditions elsewhere in the Group. David Dutro was awarded a 30 per cent increase to his basic salary, from 1 January 2008, to bring his pay into line with the median pay that chief executives of similar sized companies get both in the US and UK. Brian Taylorson's basic salary was increased by three per cent from 1 January 2008.

Benefits relate to the provision of a car, life assurance and medical cover. Additionally, as is standard in the US, David Dutro receives benefits covering dental costs, accidental death and disablement, and long-term disability. Information about pension benefits and share incentive schemes is provided further below.

Fees for non-executive directors are determined by the Board, having regard to fees paid to non-executive directors in other UK quoted companies, the time commitment and responsibilities of the role. No share options are held by non-executive directors and individuals cannot vote on their own remuneration.

Service contracts

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

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

The total amount that would be payable to David Dutro for early termination by the Company of his service agreement is between 50 per cent and 100 per cent of the aggregate of (i) his basic annual salary and (ii) any bonus which he may be eligible to receive.

The total amount that would be payable to Brian Taylorson for early termination by the Company of his service agreement is between also 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 contributions and any pension cash salary supplement, (iii) the cost of providing private medical insurance for him, his spouse and children aged under 21 for the 12 months following termination, and (iv) his monthly car allowance for a 12 month period.

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

Name	Date of appointment	Date of expiry
Robert Beeston	21/9/06	20/9/09
Edward Bramson	6/6/05	5/6/08
Ian Brindle	6/6/05	5/6/08
Chris Girling	29/4/05	28/4/08
Kevin Matthews	16/2/05	15/2/08
Ken Minton	6/6/05	5/6/08
Matthew Peacock	6/6/05	5/6/08

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. Ken Minton will retire at the conclusion of the AGM. Kevin Matthews' appointment was recently renewed for a further three years from 16 February 2008 and he will retire and offer himself for re-election at the AGM. It is the Board's intention to renew the appointments of Ian Brindle and Chris Girling for a second three-year term when their respective appointments expire.

Short-term incentive arrangements

The 2007 Annual Bonus Scheme for David Dutro and Brian Taylorson was based on the achievement of earnings per share ('EPS') performance hurdles contained in the operating plan, at threshold, target and upper levels. At the target level, the bonus provided for a value of 70 per cent of basic salary at the time the payment is made, and at upper level a further 30 per cent of basic salary can be added.

There is an additional element in which both executive directors can share, together with three other senior executives, equally up to a maximum of 25 per cent of the equivalent earnings pool for achieved EPS over and above upper level, subject to a maximum cap which for the executive directors was equivalent to 73 per cent of their average basic annual salary. The amount paid to each executive director under this element was equivalent to less than 15 per cent of their average basic annual salary. The 2008 Annual Bonus Scheme follows a similar design and structure.

In December, the Committee decided to award the executive directors a special bonus of £25,000 each for the work they did in securing the sale of the Pigments division. The Committee considers that there were exceptional circumstances which justify this special bonus payment. As reported in previous Annual Reports, restructuring initiatives implemented in the Pigments division by management over recent years resulted in steadily improving results in a highly competitive environment, and the unsolicited offer for the business confirms this. The price obtained (gross proceeds of £70.7 million) represents an attractive multiple of 2006 operating profit (earnings before interest and tax) of 11.5 times, and demonstrates the value delivered to shareholders. Despite regulatory hurdles from several competition authorities, the transaction was completed earlier than expected as a result of management's intensified efforts to further strengthen the Group's balance sheet and, in line with declared strategic intent, focus more of the Group's resources on growing the more profitable Specialties business.

The total amount of bonus payments made in respect of 2007 for David Dutro and Brian Taylorson is shown in the Directors' remuneration table on page 33.

1998 Executive Share Option Schemes

The 1998 Approved and Unapproved Executive Share Option Schemes (the '1998 Schemes') are discretionary option schemes under which senior management below Board level were granted options to purchase shares in the Company. The price at which options may be exercised is the average market price over the five working days preceding the grant and there is no discount. Options are capable of exercise after three years and within ten years of the date of grant; those granted since 1995 are subject to EPS performance targets. The 1998 Schemes have now expired and no further options will be granted. However, subject to the rules of the Schemes, certain awards continue to remain exercisable.

2003 Executive Share Option Schemes

The 2003 Approved and Unapproved Executive Share Option Schemes ('the 2003 Schemes') replaced the 1998 Schemes. The main features of the 2003 Schemes are as follows:

- Options are granted with an exercise price per share based on the Company's share price immediately before the date of grant.
- The value of options at the date of grant will not normally exceed 1.5 times basic salary in any financial year.
- Conditions attached to the exercise of options granted between 2003 and 2007 to executive directors and other senior managers were based partly on the Company's EPS growth relative to inflation and partly on the Company's total shareholder return ('TSR') relative to the comparator companies comprising national and international chemical companies.

The comparator companies for purposes of grants in 2007 were the following:

FTSE All Share Chemicals	Croda International Plc Imperial Chemical Industries PLC (since de-listed) Porvair plc Yule Catto & Co plc
FTSE Eurotop 300 Chemicals	Akzo Nobel NV Ciba Specialty Chemicals DSM NV Degussa AG (since de-listed)
S&P 500 Chemicals	Dow Chemical Company Rohm & Haas Company
Switzerland: Specialty Chemicals	Lonza Group AG
S&P 400 Specialty Chemicals	Ferro Corp HB Fuller Co Minerals Technologies Inc Arch Chemicals Inc Quaker Chemical Corp
France: Chemicals	Rhodia SA

Directors' remuneration report

2003 Executive Share Option Schemes continued

The following targets applied to options granted to executive directors and other senior managers.

Proportion of option grant exercisable as multiplier of base salary	EPS/TSR split	Performance criteria to be met for options to be exercisable
0.0 to 0.7	50% EPS	Annual average EPS growth of 4% + RPI
	50% TSR	TSR at median
0.71 to 1.5	50% EPS	Annual average EPS growth of 4.1% + RPI to 10% + RPI (straight line vesting)
	50% TSR	Median to upper quartile (straight line vesting)

The EPS performance condition and TSR condition apply separately to options granted under the 2003 Schemes.

- The performance conditions will initially be tested after three years. If they are not satisfied, then they may be retested after four years, from the same fixed base point. To the extent they are not met after the end of the fourth financial year, the options will lapse. Options granted in 2006 and subsequently will not be retested.
- The Committee believes that this combination of targets is the most appropriate way of measuring both the total returns to shareholders relative to similar businesses and the Company's underlying financial performance. The assessment of the performance targets was carried out by Hoare Govett Limited.

Grants of options were made under the 2003 Schemes in that year and every year since 2003.

2008 Long-Term Incentive Plan

Following our review into the remuneration and incentive structures and consultation with many of our major shareholders, the Committee is recommending the adoption of a new long-term incentive plan primarily for executive directors and senior executives. Subject to the approval of shareholders at the AGM, the Committee intends to introduce this new long-term incentive plan during 2008 (the '2008 Plan'). This new scheme replaces the performance share plan that was envisaged last year.

The 2008 Plan would be based around three key features: (i) Total Shareholder Return (comprising dividends and increase in the share price) over three years must exceed the performance baseline (being the cost of equity over the same three year period), in order for any awards to vest; (ii) a Plan pool is then calculated as a set percentage of the growth in value of the Company over the performance baseline; and (iii) each participant would have a set entitlement over part of the Plan pool established at the outset.

The Committee believes that providing such a share-based long-term incentive arrangement for the executive directors and senior executives would best align the interests of those executives with shareholders. Participants who receive awards under the 2008 Plan would not also receive new awards under any existing discretionary share incentive plan. Further details about the 2008 Plan, including a summary of the rules, are provided in the circular and explanatory notes attached to the Notice of Meeting enclosed with this Annual Report.

Share ownership guidelines

Shareholding guidelines introduced previously required executive directors to build up a stake in the Company over a period of time that is equal in value to one times their basic annual salaries. Brian Taylorson, who has been Finance Director since 2002, has met this requirement. David Dutro, who was appointed to the Board as Group Chief Executive in January 2007, will also be expected to build up a shareholding equal to his basic annual salary. The proposed 2008 Plan contains a requirement that a proportion of the awards which vest must be retained as shares by the executive directors in order to build up the required shareholding under the Share ownership guidelines.

Savings-Related Share Option Schemes

Under the 1998 UK savings-related share option scheme ('1998 UK SAYE Scheme') all eligible UK employees, including executive directors, can enter into savings contracts with a building society or bank for a period of three or five years and use the proceeds from their savings accounts to acquire shares in the Company on the exercise of their options. The option price at which options may be exercised is the average market price over the five working days preceding the invitation date discounted by a maximum of 20 per cent.

Options granted to executive directors under the 1998 UK SAYE Scheme are not subject to performance conditions, as it is a HM Revenue & Customs approved all-employee scheme, which does not allow for the imposition of performance conditions on the exercise of options. A similar scheme operates for US based employees, including executive directors, and the savings period is typically 24 months, with an option price discounted by a maximum of 15 per cent ('US SAYE Scheme').

The 1998 UK SAYE and US SAYE Schemes expire during 2008 and a replacement UK SAYE scheme is being proposed at the AGM. The new 2008 UK SAYE Scheme will also be HM Revenue & Customs approved and will therefore contain substantially the same provisions as before. A resolution will be proposed at the AGM to authorise the directors to adopt appendices to the new 2008 UK SAYE Scheme in order to allow equivalent arrangements to be made for the benefit of non UK employees. More details about these two new schemes are provided in the accompanying circular and Notice of Meeting.

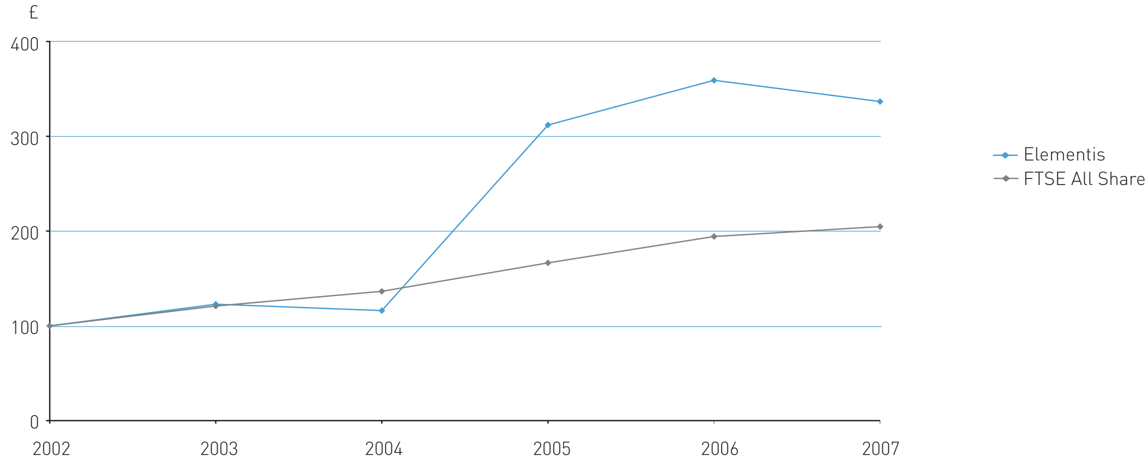
The Committee recommends the adoption at the AGM of both the 2008 Plan and the 2008 UK SAYE Scheme as well as the approval of the resolution to authorise the directors to establish savings based share option schemes for non UK employees.

Total shareholder return performance

The following graph illustrates the Company's total shareholder return for the five years ending 31 December 2007, relative to the FTSE All Share Index.

This graph looks at the value, to the end of 2007, of £100 invested in Elementis on 31 December 2002 compared with that of £100 invested in the FTSE All Share Index.

The Company is a member of the FTSE All Share Index and accordingly this is considered to be the most appropriate broad equity market index for the purpose of measuring the Company's relative performance.



Directors' remuneration table

Directors' emoluments for the year ended 31 December 2007 were:

	Date of appointment (1)	Salary/fees 2007 £'000	Salary/fees 2006 £'000	Benefits (2) 2007 £'000	Benefits (2) 2006 £'000	Bonus 2007 £'000	Bonus 2006 £'000	Total excluding pensions 2007 £'000	Total excluding pensions 2006 £'000
Chairman									
Robert Beeston (3)	26/4/07	**120**	33	**—**	—	**—**	—	**120**	33
Executive Directors									
David Dutro (4)	17/1/07	**249**	—	**18**	—	**374**	—	**641**	—
Brian Taylorson (5) (6)	2/4/02	**275**	275	**16**	28	**350**	436	**641**	739
Non-executive Directors									
Ken Minton	26/4/07	**45**	45	**—**	—	**—**	—	**45**	45
Ian Brindle	27/4/06	**40**	40	**—**	—	**—**	—	**40**	40
Chris Girling	27/4/06	**35**	35	**—**	—	**—**	—	**35**	35
Kevin Matthews	16/2/08	**35**	35	**—**	—	**—**	—	**35**	35
Matthew Peacock (retired 31.1.08)	27/4/06	**35**	35	**—**	—	**—**	—	**35**	35
Edward Bramson (7) (retired 26.4.07)	27/4/06	**—**	—	**—**	—	**—**	—	**—**	—
		834	498	**34**	28	**724**	436	**1,592**	962

Each non-executive director receives a fee of £35,000 p.a. plus an additional £5,000 should he chair a Board committee. Ken Minton as the Senior Independent Director receives an additional £5,000 p.a.

Directors' remuneration report

Directors' remuneration table continued

Notes:

1 For executive directors, this is the date of their service contract, and for the Chairman and 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 a car allowance or company car, life assurance and medical cover.

3 Robert Beeston was appointed on 21 September 2006 and his remuneration in 2006 reflects this.

4 David Dutro as Group Chief Executive received a salary of $500,000 p.a. His emoluments exclude salary supplements paid as compensation for the freezing of the US defined benefit scheme – see below. His basic salary was increased in December to $650,000 p.a. from 1 January 2008.

5 Emoluments for Brian Taylorson also exclude salary supplements paid as compensation for the limitation of pension rights to the HM Revenue & Customs' earnings cap. These are shown in the Directors' retirement benefits table below. His basic salary was increased by 3 per cent from 1 January 2008.

6 The Company has released Brian Taylorson to serve on the Board of Fiberweb plc and fees of £32,000 (2006: £9,000) were paid to him during the year.

7 Edward Bramson waived his right to any emoluments each year since 2005.

Retirement benefits

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

David Dutro also participated in the Supplemental Executive Retirement Plan ('SERP'), which is a supplemental scheme for US executives. This plan was also frozen on 1 May 2006 and he received a one-off settlement of £150,000 in June 2007 in lieu of any benefits payable from this plan.

The ECRRP and SERP were replaced by a US 401(k) Plan, which is a money purchase scheme, and a Non-Qualified Deferred Compensation Plan. Employer contributions in respect of David Dutro under these plans in 2007 were £13,751 in total.

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

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

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

The normal pensionable retirement age for Brian Taylorson is 60.

Directors' retirement benefits table

	Salary supplements 2007 £'000	Salary supplements 2006 £'000	Accrued benefits 31.12.07 £'000	Increase in accrued benefits 2007 £'000	Transfer value of increases in accrued benefits 2007 £'000	Total transfer value at 01.01.07 £'000	Total transfer value at 31.12.07 £'000	Increase in transfer value less directors' contributions 2007 £'000	Increase in accrued benefits (including inflation) 2007 £'000
Executive									
David Dutro	48	—	7	—	—	42	44	2	—
Brian Taylorson	101	91	23	4	85	456	552	90	4

Notes:

Transfer values for David Dutro and Brian Taylorson have been calculated on the basis of actuarial advice in accordance with the UK Institute of Faculty of Actuary's guidance note GN11. 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 market volatility affecting the transfer value at the start of the year as well as the additional value earned in the year. The increase in transfer value less directors' contributions for David Dutro is attributable to the interest credit described above.

Non-executive directors are not entitled to retirement benefits.

Directors' shareholdings

As at 31 December 2007 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 31.12.07	Ordinary shares 31.12.06*
Robert Beeston	**50,000**	—
Ian Brindle	**31,172**	31,172
David Dutro	**10,767**	—
Chris Girling	**5,000**	5,000
Kevin Matthews	**—**	—
Ken Minton	**—**	—
Matthew Peacock	**—**	—
Brian Taylorson	**456,597**	381,096

* or date of appointment if later

David Dutro retained 10,767 shares following the exercise of 331,144 options in 2007. Brian Taylorson retained 75,501 (2006: 281,096) shares following the exercise of 718,358 (2006: 1,258,696) options in 2007.

As at 31 December 2007 and 22 February 2008 the Trustee of the Company's Employee Share Ownership Trust ('ESOT') held 2,676,914 (2006: 19,901) shares and as executive directors David Dutro and Brian Taylorson, as potential beneficiaries under the ESOT, are deemed to have an interest in any shares that become held in the ESOT.

As at 31 December 2007 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 2007 and 22 February 2008 there was no change in the relevant interests of any such director nor, so far as the Company is aware, in the relevant interests of any of their connected persons.

Directors' share options

	Option Type	01.01.07*	Granted during 2007	Exercised during 2007	Lapsed during 2007	31.12.07	Option price (pence)	Earliest exercise date	Expiry date	Price on exercise	Gain on exercise
David Dutro	A	10,846	—	10,767	79	—	46.5	21.03.07	21.06.07	88.8	4,545
	A	—	6,505	—	—	6,505	75.7	28.03.09	28.06.09	—	—
	B	173,539	—	173,539	—	—	29.0	10.04.05	10.04.12	88.3	102,822
	C	146,838	—	146,838	—	—	35.0	23.04.07	23.04.14	88.3	78,191
	C	197,133	—	—	—	197,133	51.3	30.03.08	30.03.15	—	—
	C	250,000	—	—	—	250,000	64.5	02.11.08	02.11.15	—	—
	C	220,277	—	—	—	220,277	85.5	04.04.09	04.04.16	—	—
	C	—	434,673	—	—	434,673	88.0	15.05.10	15.05.17	—	—
Brian Taylorson	A	75,501	—	75,501	—	—	21.9	01.06.07	30.11.07	93	53,666
	C	642,857	—	642,857	—	—	35.0	23.04.07	23.04.14	92	366,428
	C	468,293	—	—	—	468,293	51.3	30.03.08	30.03.15	—	—
	C	482,456	—	—	—	482,456	85.5	04.04.09	04.04.16	—	—
	D	—	34,090	—	—	34,090	88.0	15.05.10	15.05.17	—	—
	C	—	278,410	—	—	278,410	88.0	15.05.10	15.05.17	—	—

* or date of appointment if later

A Savings-related share option scheme.

B 1998 Unapproved Executive Share Option Scheme.

C Executive Share Option Scheme 2003 (Unapproved).

D Executive Share Option Scheme 2003 (Approved).

Directors' remuneration report

Directors' share options continued

The gain made by David Dutro from the exercise of options was £185,558 and by Brian Taylorson was £420,094 (2006: £771,455).

Note 26 to the financial statements contains a detailed schedule of all options granted to directors and employees as at 31 December 2007. All of the share options were granted for nil consideration.

The market price of ordinary shares at 31 December 2007 was 76.0 pence and the range during 2007 was 70.3 pence to 105.3 pence.

David Dutro is also a recipient of awards made in 2004 and 2005 under the Deferred Share Bonus Scheme. Under the Annual Bonus Scheme in operation at the time, certain senior employees were entitled to receive part of their annual bonus payments in the form of deferred shares. David Dutro received an award of 46,495 and 25,078 deferred shares in 2004 and 2005 respectively. These are not subject to further performance conditions and vest three years after the award date. The 46,495 deferred shares which vested this year were sold for 88.3p per share by David Dutro who made a gain of £41,055. The deferred shares that are rewarded under this scheme are in respect of eps-based performance conditions for a single financial year and therefore does not constitute a long-term incentive scheme and accordingly shareholder approval was not required nor sought at the time. Other than the grants made in 2004 and 2005, no further grants have been made and there are no plans to do so in the future.

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. There has been no change in the directors' shareholdings (all of which are beneficial) and their share options between 31 December 2007 and 22 February 2008.

Auditable section of the report on remuneration

The following sections and tables constitute the auditable part of this report as defined in schedule 7A of the Companies Act 1985: Sections relating to 'Short-term incentive arrangements', '1998 Executive Share Option Schemes', '2003 Executive Share Option Schemes', 'Savings-Related Share Option Schemes', tables headed 'Directors' remuneration, Directors' retirement benefits, Directors' shareholdings and Directors' Share Options'.

The Directors' remuneration report has been approved by the Board and was signed on its behalf by:

Ken Minton
Chairman, Remuneration Committee
26 February 2008

Independent auditor's report

to the members of Elementis plc

We have audited the Group and Company financial statements ('the financial statements') of Elementis plc for the year ended 31 December 2007 which comprise the Consolidated income statement, the Consolidated and Company balance sheets, the Consolidated cash flow statement, the Consolidated statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRS') as adopted by the EU, and for preparing the Company financial statements and the Directors' remuneration report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 28.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements. The information given in the Directors' report includes that information presented in the Chairman's statement and Business review that is cross referred from the Principal activities, business review and future development section of the Directors' report.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS regulations;
- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007;
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc

Chartered Accountants, Registered Auditor, 26 February 2008

Consolidated income statement
for the year ended 31 December 2007

	Note	2007 Before exceptional items £million	2007 Exceptional items (note 5) £million	2007 After exceptional items £million	2006 Before exceptional items £million	2006 Exceptional items (note 5) £million	2006 After exceptional items £million
Continuing operations							
Revenue	2	299.8	—	299.8	302.0	—	302.0
Cost of sales		(199.3)	—	(199.3)	(203.1)	—	(203.1)
Gross profit		100.5	—	100.5	98.9	—	98.9
Distribution costs		(39.2)	—	(39.2)	(43.5)	—	(43.5)
Administrative expenses		(23.2)	2.4	(20.8)	(23.9)	2.0	(21.9)
Operating profit	2	38.1	2.4	40.5	31.5	2.0	33.5
Finance income	3	2.7	—	2.7	1.9	—	1.9
Finance costs	4	(7.0)	—	(7.0)	(8.6)	—	(8.6)
Profit before income tax	2	33.8	2.4	36.2	24.8	2.0	26.8
Tax	6	(1.8)	(0.7)	(2.5)	—	(0.9)	(0.9)
Profit for the year from continuing operations		32.0	1.7	33.7	24.8	1.1	25.9
Discontinued operations							
Profit from discontinued operation		3.6	10.8	14.4	5.2	0.6	5.8
Profit for the year		35.6	12.5	48.1	30.0	1.7	31.7
Attributable to:							
Equity holders of the parent		35.6	12.4	48.0	29.9	1.7	31.6
Minority interests		—	0.1	0.1	0.1	—	0.1
		35.6	12.5	48.1	30.0	1.7	31.7
Earnings per share							
From continuing and discontinued operations:							
Basic (pence)	9			10.9			7.1
Diluted (pence)	9			10.8			7.0
From continuing operations:							
Basic (pence)	9			7.6			5.9
Diluted (pence)	9			7.5			5.8

Consolidated balance sheet
at 31 December 2007

	Note	2007 31 December £million	2006 31 December £million
Non-current assets			
Goodwill and other intangible assets	10	**147.9**	151.6
Property, plant and equipment	11	**96.4**	126.1
Interests in associates	12	**0.1**	0.7
Other investments	13	**—**	1.0
Deferred tax assets	18	**—**	7.3
Total non-current assets		**244.4**	286.7
Current assets			
Inventories	14	**49.4**	67.7
Trade and other receivables	15	**52.9**	70.1
Derivatives		**—**	3.0
Cash and cash equivalents		**8.4**	14.5
Total current assets		**110.7**	155.3
Total assets		**355.1**	442.0
Current liabilities			
Bank overdrafts and loans		**—**	(0.7)
Trade and other payables	16	**(51.4)**	(61.8)
Derivatives		**(2.0)**	—
Current tax liabilities		**(3.6)**	(3.3)
Provisions	17	**(0.2)**	(2.4)
Total current liabilities		**(57.2)**	(68.2)
Non-current liabilities			
Loans and borrowings	21	**(24.6)**	(114.4)
Retirement benefit obligations	25	**(21.5)**	(37.3)
Deferred tax liabilities	18	**(3.4)**	—
Provisions	17	**(16.3)**	(19.0)
Government grants		**(1.5)**	(2.2)
Total non-current liabilities		**(67.3)**	(172.9)
Total liabilities		**(124.5)**	(241.1)
Net assets		**230.6**	200.9
Equity			
Share capital	19	**22.3**	22.1
Share premium	20	**5.2**	3.6
Other reserves	20	**66.4**	71.0
Retained earnings	20	**136.0**	102.6
Total equity attributable to equity holders of the parent		**229.9**	199.3
Minority equity interests		**0.7**	1.6
Total equity		**230.6**	200.9

The financial statements on pages 38 to 70 were approved by the Board on 26 February 2008 and signed on its behalf by:

David Dutro
Group Chief Executive

Brian Taylorson
Finance Director

Consolidated cash flow statement
for the year ended 31 December 2007

	Note	2007 £million	2006 £million
Operating activities:			
Profit for the year		48.1	31.7
Adjustments for:			
Investment income		(2.7)	(1.9)
Finance costs		7.0	8.6
Tax charge		2.5	0.9
Depreciation and amortisation		12.4	14.8
Decrease in provisions		(0.3)	(2.2)
Pension contributions net of current service cost		(10.7)	(7.8)
Share based payments		0.9	0.9
Exceptional items		(12.5)	(1.7)
Cash flow in respect of exceptional items		(1.6)	(10.8)
Operating cash flow before movement in working capital		43.1	32.5
Increase in inventories		(0.5)	(9.8)
Increase in trade and other receivables		(1.2)	(1.6)
Increase/(decrease) in trade and other payables		1.9	(1.6)
Cash generated by operations		43.3	19.5
Income taxes paid		(1.2)	(0.7)
Interest paid		(7.0)	(8.3)
Net cash flow from operating activities		35.1	10.5
Investing activities:			
Interest received		0.6	0.3
Disposal of property, plant and equipment		0.4	1.5
Purchase of property, plant and equipment		(8.9)	(13.2)
Disposal of businesses	31	60.6	1.4
Acquisition of intellectual property		(0.5)	—
Other investments		1.1	—
Net cash flow from investing activities		53.3	(10.0)
Financing activities:			
Issue of shares		1.8	2.0
Redemption of B shares		—	(2.1)
Dividends paid		(11.1)	(10.1)
Purchase of own shares		(2.6)	(2.4)
(Decrease)/increase in borrowings repayable after one year		(82.5)	17.9
Net cash (used in)/from financing activities		(94.4)	5.3
Net (decrease)/increase in cash and cash equivalents		(6.0)	5.8
Cash and cash equivalents at 1 January		13.8	8.4
Foreign exchange on cash and cash equivalents		0.6	(0.4)
Cash and cash equivalents at 31 December	22	8.4	13.8

Consolidated statement of recognised income and expense for the year ended 31 December 2007

	2007 £million	2006 £million
Exchange differences on translation of foreign operations	—	(23.0)
Actuarial gain on pension and other post-retirement schemes	**0.8**	8.6
Deferred tax associated with pension and other post-retirement schemes	**(2.4)**	—
Losses on cash flow hedges taken to equity	**(4.6)**	1.9
Net expense recognised in equity	**(6.2)**	(12.5)
Profit for the year	**48.1**	31.7
Total recognised income and expense	**41.9**	19.2
Total recognised income and expense is attributable to:		
Equity holders of the parent	**41.8**	19.1
Minority interests	**0.1**	0.1
	41.9	19.2

Notes to the financial statements
for the year ended 31 December 2007

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 71 to 74.

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 accounting policies set out below have been consistently applied across group companies to all periods presented in these consolidated financial statements. Judgements made by the directors in the application of accounting policies that have a significant effect on the financial statements and considered to be critical accounting policies, are set out in the Business review.

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.

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. As allowed by IAS 21, exchange differences arising since 1 January 2004 from the translation of the net investment in foreign operations and of related hedges are taken to the translation reserve. They are recognised in the income statement upon disposal of the foreign operation. The Group hedges a portion of the translation exposure of its overseas net assets through US dollar 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.

(c) 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.

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 statement 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).

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

Estimates of useful lives of these assets are:

Buildings	10 – 50 years
Plant and machinery	2 – 20 years
Vehicles	2 – 10 years
Fixtures, fittings and equipment	3 – 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.

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.

Intangible assets

(a) 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.

(b) 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.

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

(d) 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. Goodwill is systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

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

Notes to the financial statements
for the year ended 31 December 2007

1 Accounting policies continued

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 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 for any 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 is based on the fair value of consideration received from the sale of goods and services. It excludes sales between Group undertakings, VAT and similar sales based taxes. Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the customer. Revenue from services is recognised in the income statement in proportion to the stage of completion at the balance sheet date.

Investment income and finance costs Investment 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.

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 recognised income and expense 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 recognised income and expense. The Group also operates a small number of defined contribution schemes and the contributions payable during the year are recognised as incurred.

Share based payments The fair value of equity settled share options granted to employees is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an employee 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.

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 trust's purchases of shares in the Company are charged directly to equity.

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

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.

Government grants Grants against capital expenditure from government and other bodies are shown as creditors 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.

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, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially 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 substantially 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.

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

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

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

New standards and interpretations not yet adopted New standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements, but that become mandatory for the Group's 2008 financial statements, are as follows:

IFRIC 11 IFRS 2 Group and Treasury Share Transactions addresses the accounting for share based payment transactions in which some or all of the goods or services received cannot be specifically identified. IFRIC 11, requires retrospective application and the Group has not yet determined the potential effect of the interpretation.

Notes to the financial statements
for the year ended 31 December 2007

2 Segmental information
Business segments
For management and internal reporting purposes the Group is currently organised into three operating divisions – Specialty Products, Surfactants and Chromium. Principal activities are as follows:

Specialty Products – production of rheological additives, compounded products and colourants.

Surfactants – production of surface active ingredients.

Chromium – production of chromium chemicals.

On 31 August 2007 the Group sold its global Pigments business, which manufactured synthetic iron oxides and complementary products. It has been classified as a discontinued operation, with comparatives restated accordingly. Surfactants, which operates from the Elementis Specialty Products site in Delden, The Netherlands, has been classified as a reportable segment in 2007 as its revenue is more than ten per cent of total revenue and for internal purposes, it is reported separately. Comparatives have been restated accordingly.

	2007 Gross £million	2007 Inter-segment £million	2007 External £million	2006 Gross £million	2006 Inter-segment £million	2006 External £million
Revenue from continuing operations						
Specialty Products	**141.6**	**(0.2)**	**141.4**	144.8	(0.3)	144.5
Surfactants	**46.3**	**(0.1)**	**46.2**	46.1	—	46.1
Chromium	**115.9**	**(3.7)**	**112.2**	116.8	(5.4)	111.4
	303.8	**(4.0)**	**299.8**	307.7	(5.7)	302.0

All revenues relate to the sale of goods.

	2007 Before exceptional items £million	2007 Exceptional items £million	2007 After exceptional items £million	2006 Before exceptional items £million	2006 Exceptional items £million	2006 After exceptional items £million
Result from continuing operations						
Specialty Products	**28.8**	**0.5**	**29.3**	25.0	0.9	25.9
Surfactants	**0.9**	**0.5**	**1.4**	0.6	(0.3)	0.3
Chromium	**14.2**	**0.8**	**15.0**	11.9	1.4	13.3
Central costs	**(5.8)**	**0.6**	**(5.2)**	(6.0)	—	(6.0)
	38.1	**2.4**	**40.5**	31.5	2.0	33.5
Investment income	**2.7**	**—**	**2.7**	1.9	—	1.9
Finance costs	**(7.0)**	**—**	**(7.0)**	(8.6)	—	(8.6)
Profit/(loss) before income tax	**33.8**	**2.4**	**36.2**	24.8	2.0	26.8

	2007 Capital expenditure £million	2007 Depreciation and amortisation £million	2006 Capital expenditure £million	2006 Depreciation and amortisation £million
Other information				
Specialty Products	**2.5**	**4.4**	3.2	5.0
Surfactants	**0.5**	**1.8**	0.8	1.8
Chromium	**5.1**	**4.5**	5.5	4.4
Central	**0.1**	**0.5**	0.5	0.5
Total from continuing operations	**8.2**	**11.2**	10.0	11.7

	2007 Total assets £million	2007 Total liabilities £million	2007 Investments in associates £million	2006 Total assets £million	2006 Total liabilities £million	2006 Investments in associates £million
Balance sheet						
Specialty Products	**235.4**	**(21.2)**	**—**	243.9	(21.5)	—
Surfactants	**19.5**	**(9.8)**	**—**	24.8	(8.4)	—
Chromium	**91.4**	**(26.5)**	**0.1**	97.2	(26.9)	0.1
Central	**8.8**	**(67.0)**	**—**	14.4	(156.7)	—
Total from continuing operations	**355.1**	**(124.5)**	**0.1**	380.3	(213.5)	0.1

	2007 £million	2006 £million
Central assets and liabilities comprise:		
Deferred tax assets	**—**	7.3
Property, plant & equipment	**0.9**	0.8
Trade and other receivables	**1.9**	5.2
Cash and cash equivalents	**6.0**	1.1
Central assets	**8.8**	14.4
Retirement benefit obligations	**(19.8)**	(25.2)
Overdrafts, loans and borrowings	**(24.6)**	(108.8)
Provisions	**(10.3)**	(11.1)
Deferred tax liabilities	**(3.4)**	—
Other	**(8.9)**	(11.6)
Central liabilities	**(67.0)**	(156.7)

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods.

	Continuing operations		Discontinued operations		Total	
	2007 £million	2006 £million	2007 £million	2006 £million	2007 £million	2006 £million
Sales revenue by geographical market						
North America	**99.3**	105.4	**32.3**	53.5	**131.6**	158.9
Europe	**138.6**	135.2	**18.9**	26.7	**157.5**	161.9
Rest of the World	**61.9**	61.4	**8.5**	13.7	**70.4**	75.1
	299.8	302.0	**59.7**	93.9	**359.5**	395.9

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment and intangible assets analysed by the geographic area in which the assets are located. Additions to property, plant, equipment and intangible assets include £1.2 million (2006: £nil) in respect of discontinued operations.

	2007 £million	2006 £million
Carrying amount of segment assets		
Geographical analysis		
North America	**229.3**	268.1
Europe	**122.5**	143.4
Rest of the World	**3.3**	23.2
Total segment assets	**355.1**	434.7
Tax assets	**—**	7.3
Total reported assets	**355.1**	442.0

	2007 £million	2006 £million
Additions to property, plant, equipment and intangible assets		
Geographical analysis		
North America	**5.6**	8.5
Europe	**3.6**	4.0
Rest of the World	**0.2**	0.7
	9.4	13.2

Notes to the financial statements
for the year ended 31 December 2007

3 Finance income

	Continuing operations		Discontinued operations		Total	
	2007 £million	2006 £million	**2007 £million**	2006 £million	**2007 £million**	2006 £million
Interest on bank deposits	**0.4**	0.2	**—**	—	**0.4**	0.2
Expected return on pension scheme assets	**26.2**	25.2	**1.1**	1.0	**27.3**	26.2
Interest on pension scheme liabilities	**(23.9)**	(23.5)	**(1.2)**	(1.1)	**(25.1)**	(24.6)
Pension and other post retirement liabilities	**2.3**	1.7	**(0.1)**	(0.1)	**2.2**	1.6
	2.7	1.9	**(0.1)**	(0.1)	**2.6**	1.8

4 Finance costs

	Continuing operations		Discontinued operations		Total	
	2007 £million	2006 £million	**2007 £million**	2006 £million	**2007 £million**	2006 £million
Interest on bank loans	**6.4**	7.8	**0.3**	0.5	**6.7**	8.3
Unwind of discount on provisions	**0.6**	0.8	**0.1**	0.2	**0.7**	1.0
	7.0	8.6	**0.4**	0.7	**7.4**	9.3

5 Exceptional items

	Continuing operations		Discontinued operations		Total	
	2007 £million	2006 £million	**2007 £million**	2006 £million	**2007 £million**	2006 £million
Curtailment gains and past service credits on pension schemes	**1.3**	2.7	**0.7**	1.0	**2.0**	3.7
Release of prior year restructuring provisions	**1.1**	1.0	**—**	—	**1.1**	1.0
Integration and restructuring	**—**	(1.7)	**—**	—	**—**	(1.7)
Disposal of business (note 31)	**—**	—	**16.3**	—	**16.3**	—
	2.4	2.0	**17.0**	1.0	**19.4**	3.0
Tax charge on exceptional items	**(0.7)**	(0.9)	**(6.2)**	(0.4)	**(6.9)**	(1.3)
	1.7	1.1	**10.8**	0.6	**12.5**	1.7

Following the implementation of adopted IFRS, the Group has decided to continue 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.

6 Income tax expense

	Continuing operations		Discontinued operations		Total	
	2007 £million	2006 £million	**2007 £million**	2006 £million	**2007 £million**	2006 £million
Current tax:						
Overseas corporation tax	**0.9**	1.2	**1.3**	0.1	**2.2**	1.3
Adjustments in respect of prior years:						
United Kingdom	**0.2**	(0.1)	**—**	—	**0.2**	(0.1)
Overseas	**(1.2)**	(2.3)	**—**	—	**(1.2)**	(2.3)
Total current tax	**(0.1)**	(1.2)	**1.3**	0.1	**1.2**	(1.1)
Deferred tax:						
Overseas	**2.6**	1.1	**5.1**	0.4	**7.7**	1.5
Adjustments in respect of prior years	**—**	1.0	**—**	—	**—**	1.0
Total deferred tax	**2.6**	2.1	**5.1**	0.4	**7.7**	2.5
Income tax expense for the year	**2.5**	0.9	**6.4**	0.5	**8.9**	1.4
Comprising:						
Before exceptional items	**1.8**	—	**0.2**	0.1	**2.0**	0.1
Exceptional items	**0.7**	0.9	**6.2**	0.4	**6.9**	1.3
	2.5	0.9	**6.4**	0.5	**8.9**	1.4

The tax charge on profit before exceptional items from continuing operations represents an effective tax rate on profit before exceptional items for the year ended 31 December 2007 of 5.3 per cent (2006: nil). The rate is lower than the standard UK corporation tax due to the amortisation of goodwill in the US for tax purposes and the utilisation of UK tax losses. Tax on exceptional items comprised taxation of £5.9 million (2006: £nil) in respect of the disposal of Pigments business and £1.0 million in respect of curtailment gains on pension schemes and provision releases (2006: £1.3 million). As a Group involved in overseas operations, the amount of profitability in each jurisdiction, transfer pricing legislation and local tax rate changes, will affect future tax charges.

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

	2007 £million	2007 per cent	2006 £million	2006 per cent
Profit before tax:				
Continuing operations	**36.2**	**—**	26.8	—
Discontinued operations	**20.8**	**—**	6.3	—
	57.0	**—**	33.1	—
Tax on ordinary activities at 30 per cent (2006: 30 per cent)	**17.1**	**30.0**	9.9	30.0
Difference in overseas effective tax rates	**(0.1)**	**(0.2)**	(0.3)	(1.0)
Expenses not deductible for tax purposes	**0.2**	**0.4**	0.2	0.6
Tax losses and other deductions	**(7.3)**	**(12.8)**	(3.7)	(11.2)
Tax benefit from US goodwill deduction	**—**	**—**	(3.9)	(11.8)
Adjustments in respect of prior years	**(1.0)**	**(1.8)**	(0.8)	(2.4)
Tax charge/(credit) and effective tax rate for the year	**8.9**	**15.6**	1.4	4.2

A deferred tax charge of £2.4 million (2006: £nil) has been recognised in equity in the year in respect of actuarial gains and losses.

7 Profit for the year

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

	Continuing operations		Discontinued operations		Total	
	2007 £million	2006 £million	2007 £million	2006 £million	2007 £million	2006 £million
Net foreign exchange losses/(gains)	**(3.0)**	(2.6)	**0.1**	—	**(2.9)**	(2.6)
Research and development costs	**2.8**	3.0	**0.9**	1.4	**3.7**	4.4
Government grants	**(0.1)**	(0.1)	**—**	—	**(0.1)**	(0.1)
Depreciation of property, plant and equipment	**10.9**	11.5	**1.5**	3.1	**12.4**	14.6
Amortisation of intangible assets	**0.3**	0.2	**—**	—	**0.3**	0.2
Total depreciation and amortisation expense	**11.2**	11.7	**1.5**	3.1	**12.7**	14.8
Cost of inventories recognised as expense	**152.0**	154.6	**35.9**	55.0	**187.9**	209.6
Fees available to the Company's auditor and its associates:						
Audit of the Company's financial statements	**—**	—	**—**	—	**—**	—
Audit of the Company's subsidiaries	**0.3**	0.3	**—**	0.1	**0.3**	0.4
Other services relating to taxation	**0.2**	0.1	**—**	—	**0.2**	0.1

8 Employees

	Continuing operations		Discontinued operations		Total	
	2007 £million	2006 £million	2007 £million	2006 £million	2007 £million	2006 £million
Employee costs:						
Wages and salaries	**40.6**	46.4	**6.8**	10.4	**47.4**	56.8
Social security costs	**3.7**	3.5	**1.3**	1.6	**5.0**	5.1
Pension costs	**1.3**	3.3	**1.8**	0.9	**3.1**	4.2
	45.6	53.2	**9.9**	12.9	**55.5**	66.1

	Number	Number	Number	Number	Number	Number
Average number of employees:						
Specialty Products	**515**	555	**—**	—	**515**	555
Surfactants	**168**	154	**—**	—	**168**	154
Chromium	**317**	349	**—**	—	**317**	349
Pigments	**—**	—	**412**	589	**412**	589
Central	**15**	17	**—**	—	**15**	17
Total	**1,015**	1,075	**412**	589	**1,427**	1,664

Notes to the financial statements
for the year ended 31 December 2007

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:

	2007 £million	2006 £million
Earnings:		
Earnings for the purpose of basic earnings per share	**48.0**	31.6
Exceptional items net of tax	**(12.4)**	(1.7)
Adjusted earnings	**35.6**	29.9

	2007	2006
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	**441.9**	439.4
Effect of dilutive share options	**3.3**	7.4
Weighted average number of shares for the purposes of diluted earnings per share	**445.2**	446.8

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:

	2007 £million	2006 £million
Profit for the year attributable to equity holders of the parent	**48.0**	31.6
Profit for the year from discontinued operations	**(14.4)**	(5.8)
Profit/(loss) from continuing operations	**33.6**	25.8
Exceptional items from continuing operations after minority interest	**(1.6)**	(1.1)
Adjusted earnings from continuing operations	**32.0**	24.7

	2007 pence	2006 pence
Earnings per share:		
From continuing and discontinued operations:		
Basic	**10.9**	7.1
Diluted	**10.8**	7.0
Basic before exceptional items	**8.1**	6.8
Diluted before exceptional items	**8.0**	6.7
From continuing operations:		
Basic	**7.6**	5.9
Diluted	**7.5**	5.8
Basic before exceptional items	**7.2**	5.6
Diluted before exceptional items	**7.2**	5.5
From discontinued operations:		
Basic	**3.3**	1.2
Diluted	**3.3**	1.2

10 Goodwill and other intangible assets

	Goodwill £million	Other intangible assets £million	Total £million
Cost:			
At 1 January 2006	170.1	0.8	170.9
Currency translation differences	(18.7)	(0.1)	(18.8)
At 1 January 2007	151.4	0.7	152.1
Currency translation differences	(1.5)	0.1	(1.4)
Acquisition of intellectual property	—	0.5	0.5
Disposal of subsidiaries	(2.5)	—	(2.5)
At 31 December 2007	**147.4**	**1.3**	**148.7**
Amortisation:			
At 1 January 2006	—	0.3	0.3
Charge for the year	—	0.2	0.2
At 1 January 2007	—	0.5	0.5
Charge for the year	—	0.3	0.3
At 31 December 2007	**—**	**0.8**	**0.8**
Carrying amount:			
At 31 December 2007	**147.4**	**0.5**	**147.9**
At 31 December 2006	151.4	0.2	151.6

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 and Elementis Surfactants.

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. The discount rate used in 2007 was 7.7 per cent (2006: 8.2 per cent). The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

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 an estimated growth rate of 2.5 per cent. The rate does not exceed the average long-term growth rate for the relevant markets.

Other intangible assets comprise a favourable supply contract which arose on acquisition of Sasol Servo BV on 30 June 2004 and a patent. The assets are amortised over their estimated finite useful lives, which does not exceed 4 years.

Notes to the financial statements
for the year ended 31 December 2007

11 Property, plant and equipment

	Land & buildings £million	Plant & machinery £million	Fixtures, fittings & equipment £million	Under construction £million	Total £million
Cost:					
At 1 January 2006	84.6	313.6	27.1	7.8	433.1
Additions	0.1	1.5	0.6	11.0	13.2
Exchange differences	(6.9)	(24.0)	3.7	(1.0)	(28.2)
Disposal of subsidiaries	(0.5)	(0.5)	(0.1)	(0.1)	(1.2)
Disposals	(1.4)	(1.6)	(1.5)	(0.2)	(4.7)
Reclassifications	4.0	3.2	0.7	(7.9)	—
At 1 January 2007	79.9	292.2	30.5	9.6	412.2
Additions	0.1	0.8	0.3	7.7	8.9
Exchange differences	0.4	2.9	0.1	(0.1)	3.3
Disposal of subsidiaries	(11.1)	(48.8)	(6.6)	(0.6)	(67.1)
Disposals	—	(0.5)	(0.8)	(0.2)	(1.5)
Reclassifications	0.4	10.9	0.7	(12.0)	—
At 31 December 2007	**69.7**	**257.5**	**24.2**	**4.4**	**355.8**
Accumulated depreciation:					
At 1 January 2006	49.8	227.5	14.7	—	292.0
Charge for the year	2.0	10.0	2.6	—	14.6
Exchange differences	(2.6)	(19.3)	4.5	—	(17.4)
Eliminated on disposals	(0.6)	(1.3)	(1.2)	—	(3.1)
At 1 January 2007	48.6	216.9	20.6	—	286.1
Charge for the year	1.8	8.5	2.1	—	12.4
Exchange differences	0.4	2.4	0.1	—	2.9
Disposal of subsidiaries	(4.9)	(32.0)	(4.2)	—	(41.1)
Eliminated on disposals	—	(0.5)	(0.4)	—	(0.9)
Reclassifications	(0.1)	0.2	(0.1)	—	—
At 31 December 2007	**45.8**	**195.5**	**18.1**	**—**	**259.4**
Net book value:					
At 31 December 2007	**23.9**	**62.0**	**6.1**	**4.4**	**96.4**
At 31 December 2006	31.3	75.3	9.9	9.6	126.1

Group capital expenditure contracted but not provided for in these financial statements amounted to £nil (2006: £0.1 million).

Land and buildings at cost comprised the following:

	2007 £million	2006 £million
Freehold property	**69.5**	77.2
Short leasehold properties	**0.2**	2.7
	69.7	79.9

12 Interests in associates

	2007 £million	2006 £million
Cost of investments in associates	**0.1**	0.7

13 Other investments

	2007 £million	2006 £million
Loans and receivables	**—**	1.0

14 Inventories

	2007 £million	2006 £million
Raw materials and consumables	**16.2**	18.4
Work in progress	**7.0**	7.0
Finished goods and goods purchased for resale	**26.2**	42.3
	49.4	67.7

Inventories are disclosed net of provisions for obsolescence of £1.6 million (2006: £1.8 million).

15 Trade and other receivables

	2007 £million	2006 £million
Trade receivables	**46.7**	61.4
Other receivables	**4.8**	6.4
Prepayments and accrued income	**1.4**	2.3
	52.9	70.1

16 Trade and other payables

	2007 £million	2006 £million
Trade payables	**24.0**	29.5
Other taxes and social security	**0.8**	0.8
Other payables	**4.5**	7.1
Accruals and deferred income	**22.1**	24.4
	51.4	61.8

17 Provisions

	Environmental £million	Restructuring £million	Self insurance £million	Total £million
At 1 January 2007	15.8	2.6	3.0	21.4
Charge to income statement	1.0	(0.1)	0.4	1.3
Unutilised	—	(0.9)	—	(0.9)
Utilised during the year	(1.0)	(1.5)	(0.2)	(2.7)
Currency translation differences	0.1	0.1	(0.1)	0.1
Disposal of subsidiaries	(1.9)	—	(0.8)	(2.7)
At 31 December 2007	**14.0**	**0.2**	**2.3**	**16.5**
Due within one year	—	0.2	—	0.2
Due after one year	14.0	—	2.3	16.3

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. Restructuring provisions at 31 December 2007 relate to redundancy costs which will be paid in the first half of 2008.

Self insurance provisions at 31 December 2007 represent the aggregate of outstanding claims plus a projection of losses incurred but not reported. The restructuring provisions are expected to be utilised during 2008 and self insurance provisions are expected to be utilised within five years.

Notes to the financial statements
for the year ended 31 December 2007

18 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 2006	11.1	(5.8)	—	5.5	—	10.8
(Charge)/credit to the income statement	(3.3)	—	—	—	0.8	(2.5)
Currency translation differences	(1.0)	—	—	—	—	(1.0)
At 1 January 2007	6.8	(5.8)	—	5.5	0.8	7.3
(Charge)/credit to the income statement	(1.5)	(1.3)	(24.4)	(2.7)	22.2	(7.7)
Charge to equity	(2.4)	—	—	—	—	(2.4)
Currency translation differences	(0.2)	0.4	(0.1)	(0.5)	(0.2)	(0.6)
At 31 December 2007	**2.7**	**(6.7)**	**(24.5)**	**2.3**	**22.8**	**(3.4)**

At 31 December 2007 the full amount of ACT previously written-off, available for offset against future UK profits, was £25.8 million (2006: £26.3 million).

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. No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future. There are no significant temporary differences arising in connection with interests in subsidiaries and associates.

During the year the taxable gain on disposal of the Pigments business was significantly reduced by available tax losses in the US. Following the disposal and the likelihood of taxable profits from which timing differences could be deducted, full provision for deferred taxation in the US business is considered appropriate. The Group has therefore recognised a £24.5 million liability in respect of the amortisation of goodwill in the US within tax computations. This is partially offset by a deferred tax asset of £22.8 million on unrelieved tax losses.

19 Share capital

	2007 £million	2006 £million
At 1 January	**22.1**	21.8
Issue of shares	**0.2**	0.3
At 31 December	**22.3**	22.1

Details of share capital are set out in note 39.

20 Share premium, other reserves and retained earnings

	Share premium £million	Other reserves £million	Retained earnings £million	Total £million
Balance at 1 January 2006	1.9	89.5	76.6	168.0
Issue of shares	1.7	—	—	1.7
Share based payments	—	0.9	—	0.9
Retained profit for the year	—	—	31.6	31.6
Dividend paid	—	—	(10.1)	(10.1)
Purchase of own shares	—	—	(2.4)	(2.4)
Redemption of B shares	—	2.1	(2.1)	—
Actuarial gain on pension scheme	—	—	8.6	8.6
Exchange differences	—	(23.0)	—	(23.0)
Increase in fair value of derivatives	—	1.9	—	1.9
Transfer	—	(0.4)	0.4	—
Balance at 1 January 2007	3.6	71.0	102.6	177.2
Issue of shares	1.6	—	—	1.6
Share based payments	—	0.9	—	0.9
Retained profit for the year	—	—	48.0	48.0
Dividends paid	—	—	(11.1)	(11.1)
Purchase of own shares	—	—	(2.6)	(2.6)
Actuarial gain on pension scheme	—	—	0.8	0.8
Tax charge on actuarial gain on pension scheme	—	—	(2.4)	(2.4)
Disposal of business	—	(0.2)	—	(0.2)
Decrease in fair value of derivatives	—	(4.6)	—	(4.6)
Transfer	—	(0.7)	0.7	—
Balance at 31 December 2007	**5.2**	**66.4**	**136.0**	**207.6**

Other reserves comprise:

	Capital redemption reserve £million	Translation reserve £million	Hedging reserve £million	Share options reserve £million	Total £million
At 1 January 2006	81.2	6.6	0.7	1.0	89.5
Share based payments	—	—	—	0.9	0.9
Redemption of B shares	2.1	—	—	—	2.1
Exchange differences	—	(23.0)	—	—	(23.0)
Increase in fair value of derivatives	—	—	1.9	—	1.9
Transfer	—	—	—	(0.4)	(0.4)
At 1 January 2007	83.3	(16.4)	2.6	1.5	71.0
Share based payments	—	—	—	0.9	0.9
Disposal of business	—	(0.2)	—	—	(0.2)
Decrease in fair value of derivatives	—	—	(4.6)	—	(4.6)
Transfer	—	—	—	(0.7)	(0.7)
Balance at 31 December 2007	**83.3**	**(16.6)**	**(2.0)**	**1.7**	**66.4**

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.

Notes to the financial statements
for the year ended 31 December 2007

21 Borrowings

	2007 £million	2006 £million
Bank overdrafts	—	0.7
Bank loans	24.6	114.4
	24.6	115.1

The borrowings are repayable as follows:		
On demand or within one year	—	0.7
In the fourth year	24.6	5.6
In the fifth year	—	108.8
	24.6	115.1

The weighted average interest rates paid were as follows:

	2007 per cent	2006 per cent
Bank overdrafts	5.6	5.6
Bank loans	6.2	6.3

Bank borrowings are unsecured. All borrowings at 31 December 2007 and 31 December 2006 were at floating rates for periods of up to six months and bear interest at the relevant interbank rates plus a margin. The carrying amounts of the Group's borrowings are all denominated in US dollars at 31 December 2007. Group borrowings at 31 December 2006 were denominated as follows:

	Sterling	US Dollar	Euro	Other	Total
31 December 2006					
Bank overdrafts	—	—	—	0.7	0.7
Bank loans	44.3	40.8	23.7	5.6	114.4
	44.3	40.8	23.7	6.3	115.1

22 Cash and cash equivalents

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

	2007 £million	2006 £million
Cash and cash equivalents	8.4	14.5
Bank overdrafts	—	(0.7)
	8.4	13.8

23 Financial risk management

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

- Credit risk,
- Liquidity risk,
- 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.

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 by only investing in liquid securities and only with counterparties that have a credit rating of at least A1 from Standard & Poor's and A from Moody's. Given these high credit ratings, 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 £125.4 million (2006: £49.0 million) of undrawn committed facilities, which expire after more than one year but within four years.

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 buys and sells 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 Euro and the US Dollar. The Group hedges approximately 70 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 USD, 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 USD denominated drawdowns under the syndicated facility, which mitigates the currency risk arising from the translation of subsidiaries' 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. 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 in order to meet partially the Group's unfunded benefit obligations; management is assisted by external advisers in this regard.

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.

Notes to the financial statements
for the year ended 31 December 2007

23 Financial risk management continued

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 of Directors monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity, excluding minority interests, and the level of dividends to ordinary shareholders.

The Board encourages employees of the Group to hold shares in the Company through the Group's savings-related share option schemes. At present employees hold 0.24 per cent of ordinary shares, or just under 3.14 per cent assuming that all outstanding share options vest or are exercised.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group's target is to achieve a return on shareholders' equity of between 10 and 15 per cent; in 2007 the return was 26.6 per cent (2006: 17.0 per cent). In comparison the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 6.2 per cent (2006: 6.3 per cent).

	2007 £million	2006 £million
Recognised in profit or loss		
Interest income on bank deposits	**0.4**	0.2
Net change in fair value of cash flow hedges transferred from equity	**2.9**	2.6
Financial income	**3.3**	2.8
Financial expenses	**(6.7)**	(8.3)
Net financial costs	**(3.4)**	(5.5)
The above financial income and expenses include the following in respect of assets/(liabilities) not at fair value through income statement:		
Total interest income on financial assets	**0.4**	0.2
Total interest expense on financial liabilities	**(6.7)**	(8.3)
Recognised directly in equity		
Effective portion of changes in fair value of cash flow hedge	**(2.0)**	2.6
Fair value of cash flow hedges transferred to income statement	**(2.6)**	(0.7)
Effective portion of change in fair value of net investment hedge	**1.7**	8.7
Foreign currency translation differences for foreign operations	**(1.7)**	(31.7)
Recognised in		
Hedging reserve	**(4.6)**	1.9
Translation reserve	**—**	(23.0)

Derivatives used for hedging included within current liabilities amounted to £2.0 million at 31 December 2007 (2006: included within current assets £2.6 million). Movements on share capital are set out in note 39.

Loans and borrowings

	2007 £million	2006 £million
Non-current liabilities		
Unsecured bank facility	**24.6**	108.8
Secured bank loan	**—**	5.6
Current liabilities		
Bank overdrafts	**—**	0.7

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Year of maturity	Face value £million	2007 Carrying amount £million	Face value £million	2006 Carrying amount £million
Unsecured bank facility	Multi	2011	**25.1**	**24.6**	109.5	108.8
Secured bank loan	RMB	2008	**—**	**—**	5.6	5.6
Total interest-bearing liabilities						

The unsecured bank facility bears interest at Libor of the currency drawn down plus a margin based on the Group's net borrowings: earnings before interest, tax, depreciation and amortisation (Ebitda). The secured bank loan incurred interest at the Chinese bank rate plus 1 per cent.

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 2007 £million	2006 £million
Held-to-maturity investments	**—**	1.0
Trade and other receivables	**46.7**	61.4
Cash and cash equivalents	**8.4**	13.8
Forward exchange contracts used for hedging:		
Assets	**—**	3.0
	55.1	79.2

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

	Carrying amount 2007 £million	2006 £million
North America	**11.9**	17.2
Europe	**22.1**	30.6
Rest of World	**12.7**	13.6
	46.7	61.4

Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross 2007 £million	Impairment 2007 £million	Gross 2006 £million	Impairment 2006 £million
Not past due	**43.8**	**(0.9)**	54.8	(0.3)
Past due 0–30 days	**3.0**	**—**	6.1	—
Past due 31–120 days	**0.8**	**—**	0.8	—
Total	**47.6**	**(0.9)**	61.7	(0.3)

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

	2007 £million	2006 £million
Balance at 1 January	**0.3**	0.9
Impairment loss recognised	**0.8**	(0.6)
Disposal of business	**(0.2)**	—
Balance at 31 December	**0.9**	0.3

The impairment loss recognised in the year relates to customers primarily of Elementis Chromium which, due to their payment history and geographical location, are assessed as having higher exposure to credit risk than acceptable and that a provision is appropriate.

Notes to the financial statements
for the year ended 31 December 2007

23 Financial risk management continued

Liquidity risk

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

31 December 2007 £million	Carrying amount	Contractual cash flows	6 months or less	6–12 months	1–2 years
Non-derivative financial liabilities:					
Unsecured bank facility	24.6	(24.8)	(24.8)	—	—
Trade and other payables*	29.3	(29.3)	(29.3)	—	—
Derivative financial liabilities:					
Forward exchange contracts used for hedging					
Outflow	2.0	(70.7)	(29.2)	(31.1)	(10.4)
Inflow	—	68.7	28.5	30.1	10.1
	55.9	(56.1)	(54.8)	(1.0)	(0.3)

* excludes derivatives

31 December 2006 £million	Carrying amount	Contractual cash flows	6 months or less	6–12 months	1–2 years
Non-derivative financial liabilities:					
Unsecured bank facility	108.8	(110.3)	(110.3)	—	—
Secured bank loan	5.6	(5.7)	(5.7)	—	—
Trade and other payables*	37.4	(37.4)	(37.4)	—	—
Bank overdraft	0.7	(0.7)	(0.7)	—	—
Derivative financial liabilities:					
Forward exchange contracts used for hedging					
Outflow	—	(58.6)	(25.0)	(26.4)	(7.2)
Inflow	(3.0)	61.6	26.7	27.6	7.3
	149.5	(151.1)	(152.4)	1.2	0.1

* excludes derivatives

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:

£million	2007					2006				
	Carrying amount	Expected cash flows	6 months or less	6–12 months	1–2 years	Carrying amount	Expected cash flows	6 months or less	6–12 months	1–2 years
Forward exchange contracts:										
Assets	—	60.3	20.1	30.1	10.1	2.6	53.8	18.9	27.6	7.3
Liabilities	(2.0)	(62.3)	(20.8)	(31.1)	(10.4)	—	(51.2)	(17.6)	(26.5)	(7.1)
	(2.0)	(2.0)	(0.7)	(1.0)	(0.3)	2.6	2.6	1.3	1.1	0.2

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:

£million	2007					2006				
	Carrying amount	Expected cash flows	6 months or less	6–12 months	1–2 years	Carrying amount	Expected cash flows	6 months or less	6–12 months	1–2 years
Forward exchange contracts:										
Assets	—	60.3	30.1	30.2	—	2.6	53.8	28.3	25.5	—
Liabilities	(2.0)	(62.3)	(31.1)	(31.2)	—	—	(51.2)	(26.4)	(24.8)	—
	(2.0)	(2.0)	(1.0)	(1.0)	—	2.6	2.6	1.9	0.7	—

Currency risk

Exposure to currency risk

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

	2007 Euro £million	2007 USD £million	2007 Other £million	2006 Euro £million	2006 USD £million	2006 Other £million
Trade receivables	**24.0**	**21.4**	**1.3**	32.3	26.6	2.4
Trade payables	**(16.0)**	**(6.6)**	**(1.4)**	(15.5)	(11.5)	(2.5)
Gross balance sheet exposure	**8.0**	**14.8**	**(0.1)**	16.8	15.1	(0.1)
Estimated forecast sales	**131.8**	**175.7**	**—**	135.9	234.9	—
Estimated forecast purchases	**(91.8)**	**(131.7)**	**—**	(87.4)	(207.9)	—
Gross exposure	**48.0**	**58.8**	**(0.1)**	65.3	42.1	(0.1)
Forward exchange contracts	**(44.1)**	**(26.6)**	**—**	(32.1)	(26.5)	—
Net exposure	**3.9**	**32.2**	**(0.1)**	33.2	15.6	(0.1)

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

Sensitivity analysis

A 10 per cent strengthening of GBP against the following currencies at 31 December would have increased/(decreased) equity and income statement the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

	Equity £million	Profit or loss £million
31 December 2007		
USD	**—**	**(2.1)**
Euro	**(0.2)**	**(0.9)**
	(0.2)	**(3.0)**
31 December 2006		
USD	0.2	(0.7)
Euro	0.1	(0.9)
	0.3	(1.6)

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

	Carrying amount 2007 £million	Carrying amount 2006 £million
Variable rate instruments		
Financial liabilities	**(2.2)**	(6.3)

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) income statement by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

	2007 Income statement 100bp Increase £million	2007 Income statement 100bp Decrease £million	2006 Income statement 100bp Increase £million	2006 Income statement 100bp Decrease £million
31 December 2007				
Variable rate instruments	**(0.3)**	**0.3**	(1.2)	1.2

Notes to the financial statements
for the year ended 31 December 2007

23 Financial risk management continued
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 2007 Carrying amount £million	31 December 2007 Fair value £million	31 December 2006 Carrying amount £million	31 December 2006 Fair value £million
Trade and other receivables	**51.5**	**51.5**	67.8	67.8
Cash and cash equivalents	**8.4**	**8.4**	14.5	14.5
Forward exchange contracts used for hedging:				
Assets	**—**	**—**	3.0	2.9
Liabilities	**(2.0)**	**(1.9)**	—	—
Unsecured bank facility	**(24.6)**	**(25.2)**	(108.8)	(109.6)
Secured bank loan	**—**	**—**	(5.6)	(5.7)
Trade and other payables*	**(51.4)**	**(51.4)**	(61.8)	(61.8)
Bank overdraft	**—**	**—**	(0.7)	(0.7)
	(18.1)	**(18.6)**	(91.6)	(92.6)
Unrecognised loss		**(0.5)**		(1.0)

* excludes derivatives

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

Derivatives
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
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
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:

	2007 per cent	2006 per cent
Derivatives	**4.4**	4.8
Borrowings	**5.8**	4.7–6.6

24 Operating leases

	2007 £million	2006 £million
Minimum lease payments under operating leases recognised as an expense in the year	**1.7**	1.9

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

	2007 £million	2006 £million
Within one year	**0.5**	0.5
In the second to fifth years inclusive	**3.6**	4.3
After five years	**0.1**	0.2
	4.2	5.0

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

25 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. Due to curtailment gains and past service credits of £2.0 million (2006: £3.7 million) there was a net credit in respect of post-retirement health care and pensions in the year of £2.1 million (2006: £2.1 million), of which £0.8 million (2006: £1.7 million) related to overseas schemes.

A full actuarial valuation was carried out on 30 September 2005 for the UK scheme and at 31 December 2007 for the US and Netherlands schemes. The UK actuarial valuation has been updated to 31 December 2007 for inclusion within this Annual Report. The trustees of the UK scheme are required to act in the best interest of the funds' beneficiaries. The appointment of trustees to the UK scheme is determined by the trust scheme's documentation. The Group has a policy that one third of all trustees should be nominated by the UK scheme. Investigations have been carried out during the past three years into the mortality experience of the Group's major schemes. The investigations concluded that the current mortality assumptions include sufficient allowance for improvements in mortality rates. The assumed life expectancy on retirement at age 65 are:

	UK		US		Netherlands	
	2007 years	2006 years	**2007 years**	2006 years	**2007 years**	2006 years
Retiring at 31 December 2007						
Males	**20**	19	**19**	19	**19**	19
Females	**23**	22	**21**	21	**21**	21
Retiring in 20 years						
Males	**21**	20	**21**	21	**19**	19
Females	**24**	23	**22**	22	**21**	21

The principal assumptions used by the actuaries were as follows:

	UK per cent	US per cent	Netherlands per cent
2007			
Rate of increase in salaries	**4.20**	**3.70**	**2.00**
Rate of increase in pensions in payment	**3.10**	**—**	**0.50**
Discount rate	**6.00**	**6.25**	**5.75**
Inflation	**3.20**	**3.50**	**2.00**
2006			
Rate of increase in salaries	4.00	3.70	1.50
Rate of increase in pensions in payment	2.90	—	0.25
Discount rate	5.30	5.75	4.75
Inflation	3.00	3.50	1.50
2005			
Rate of increase in salaries	3.70	3.70	1.50
Rate of increase in pensions in payment	2.60	—	0.25
Discount rate	5.00	5.75	4.25
Inflation	2.70	3.50	1.50

Notes to the financial statements
for the year ended 31 December 2007

25 Retirement benefit obligations continued

The main assumptions for the PRMB scheme are a discount rate of 6.25 per cent (2006: 5.75 per cent) per annum and a health care cost trend of 10.00 per cent (2006: 10.00 per cent) and 11.00 per cent (2006: 11.00 per cent) per annum for claims pre age 65 and post age 65 respectively reducing to 4.5 per cent per annum by 2012 (2006: 4.5 per cent). Actuarial valuations of retirement benefit plans in other jurisdictions have not been updated for IAS 19 purposes 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
2007					
Long-term rate of return					
UK	**7.50**	**4.40**	**6.00**	**4.40**	**—**
US	**8.50**	**—**	**6.00**	**—**	**—**
Netherlands	**—**	**—**	**4.50**	**—**	**—**
	£million	£million	£million	£million	£million
Value					
UK	**184.9**	**110.1**	**75.7**	**10.1**	**380.8**
US	**38.3**	**—**	**13.6**	**(0.2)**	**51.7**
Netherlands	**—**	**—**	**19.3**	**—**	**19.3**
Total	**223.2**	**110.1**	**108.6**	**9.9**	**451.8**

	Equities per cent	Gilts per cent	Bonds per cent	Cash & insured annuities per cent	Total
2006					
Long-term rate of return					
UK	7.50	4.30	5.30	4.30	—
US	8.50	—	6.00	—	—
Netherlands	—	—	4.25	—	—
	£million	£million	£million	£million	£million
Value					
UK	200.8	112.4	58.1	7.9	379.2
US	35.8	—	13.7	—	49.5
Netherlands	—	—	18.8	—	18.8
Total	236.6	112.4	90.6	7.9	447.5

The net pension liability was as follows:

	UK pension scheme £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2007					
Total market value of assets	**380.8**	**51.7**	**—**	**19.3**	**451.8**
Present value of scheme liabilities	**(393.6)**	**(53.7)**	**(5.1)**	**(20.2)**	**(472.6)**
Net liability recognised in the balance sheet	**(12.8)**	**(2.0)**	**(5.1)**	**(0.9)**	**(20.8)**

	UK pension scheme £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2006					
Total market value of assets	379.2	49.5	—	18.8	447.5
Present value of scheme liabilities	(397.0)	(59.4)	(7.6)	(20.1)	(484.1)
Net liability recognised in the balance sheet	(17.8)	(9.9)	(7.6)	(1.3)	(36.6)

The net pension liability in respect of pension schemes in other jurisdictions at 31 December 2007 was £0.7 million (2006: £0.7 million).

The following amounts have been recognised in the performance statements:

	UK pension scheme £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2007					
Consolidated income statement					
Current service cost	**(1.5)**	**(0.2)**	**(0.1)**	**(0.3)**	**(2.1)**
Curtailment gains	**0.4**	**—**	**—**	**—**	**0.4**
Past service (cost)/credit	**—**	**(0.8)**	**2.4**	**—**	**1.6**
Expected return on pension scheme assets	**22.9**	**3.6**	**—**	**0.8**	**27.3**
Interest on pension scheme liabilities	**(20.5)**	**(3.2)**	**(0.4)**	**(1.0)**	**(25.1)**
Net finance income/(charge)	**2.4**	**0.4**	**(0.4)**	**(0.2)**	**2.2**
Net income statement	**1.3**	**(0.6)**	**1.9**	**(0.5)**	**2.1**
Statement of recognised income and expense					
Actual return less expected return on pension scheme assets	**(7.0)**	**0.5**	**—**	**(2.2)**	**(8.7)**
Experience gains and losses arising on scheme liabilities	**(2.0)**	**0.5**	**(0.1)**	**0.5**	**(1.1)**
Changes in assumptions underlying the present value of scheme liabilities	**5.1**	**3.0**	**0.3**	**2.2**	**10.6**
Actuarial gain/(loss) recognised	**(3.9)**	**4.0**	**0.2**	**0.5**	**0.8**

	UK pension scheme £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2006					
Consolidated income statement					
Current service cost	(1.7)	(0.8)	(0.1)	(0.6)	(3.2)
Curtailment gains	—	1.7	2.0	—	3.7
Expected return on pension scheme assets	21.8	3.5	—	0.9	26.2
Interest on pension scheme liabilities	(19.7)	(3.4)	(0.6)	(0.9)	(24.6)
Net finance income/(charge)	2.1	0.1	(0.6)	—	1.6
Net income statement	0.4	1.0	1.3	(0.6)	2.1
Statement of recognised income and expense					
Actual return less expected return on pension scheme assets	4.7	1.7	—	(2.3)	4.1
Experience gains and losses arising on scheme liabilities	4.1	0.7	1.2	0.2	6.2
Changes in assumptions underlying the present value of scheme liabilities	1.2	(3.3)	(0.2)	0.6	(1.7)
Actuarial gain/(loss) recognised	10.0	(0.9)	1.0	(1.5)	8.6

In addition to the current service cost above, £1.0 million (2006: £1.0 million) was charged to the income statement in respect of defined contribution schemes. Curtailment gains of £2.0 million (2006: £3.7 million) arose as a result of the disposal of the Pigments business and changes to the PRMB scheme, which due to their nature and size have been classified as exceptional items in the income statement.

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
2007					
Opening defined benefit obligation	**(397.0)**	**(59.4)**	**(7.6)**	**(20.1)**	**(484.1)**
Service cost	**(1.5)**	**(0.2)**	**(0.1)**	**(0.3)**	**(2.1)**
Interest cost	**(20.5)**	**(3.2)**	**(0.4)**	**(1.0)**	**(25.1)**
Contributions by employees	**(0.2)**	**—**	**—**	**(0.3)**	**(0.5)**
Actuarial gains/(losses)	**3.1**	**3.5**	**0.2**	**2.7**	**9.5**
Benefits paid	**22.1**	**5.2**	**0.3**	**0.6**	**28.2**
Curtailments and settlements	**0.4**	**(0.8)**	**2.4**	**—**	**2.0**
Exchange differences	**—**	**1.2**	**0.1**	**(1.8)**	**(0.5)**
Closing defined benefit obligation	**(393.6)**	**(53.7)**	**(5.1)**	**(20.2)**	**(472.6)**

Notes to the financial statements
for the year ended 31 December 2007

25 Retirement benefit obligations continued

	UK pension scheme £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2006					
Opening defined benefit obligation	(403.4)	(67.1)	(11.8)	(20.1)	(502.4)
Service cost	(1.7)	(0.8)	(0.1)	(0.6)	(3.2)
Interest cost	(19.7)	(3.4)	(0.6)	(0.9)	(24.6)
Contributions by employees	(0.2)	—	—	—	(0.2)
Actuarial gains/(losses)	5.3	(2.6)	1.0	0.8	4.5
Benefits paid	22.7	4.6	0.6	0.5	28.4
Curtailments and settlements	—	1.7	2.0	—	3.7
Exchange differences	—	8.2	1.3	0.2	9.7
Closing defined benefit obligation	(397.0)	(59.4)	(7.6)	(20.1)	(484.1)

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**
2007					
Opening fair value of plan assets	**379.2**	**49.5**	**—**	**18.8**	**447.5**
Expected return	**22.9**	**3.6**	**—**	**0.8**	**27.3**
Actuarial gain/(loss)	**(7.0)**	**0.5**	**—**	**(2.2)**	**(8.7)**
Contributions by employer	**7.6**	**4.4**	**—**	**0.5**	**12.5**
Contributions by employees	**0.2**	**—**	**—**	**0.3**	**0.5**
Benefits paid	**(22.1)**	**(5.2)**	**—**	**(0.6)**	**(27.9)**
Exchange differences	**—**	**(1.1)**	**—**	**1.7**	**0.6**
Closing fair value of plan assets	**380.8**	**51.7**	**—**	**19.3**	**451.8**

	UK pension scheme £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2006					
Opening fair value of plan assets	370.3	50.5	—	20.1	440.9
Expected return	21.8	3.5	—	0.9	26.2
Actuarial gain/(loss)	4.7	1.7	—	(2.3)	4.1
Contributions by employer	4.9	4.9	0.6	0.9	11.3
Contributions by employees	0.2	—	—	—	0.2
Benefits paid	(22.7)	(4.6)	(0.6)	(0.5)	(28.4)
Exchange differences	—	(6.5)	—	(0.3)	(6.8)
Closing fair value of plan assets	379.2	49.5	—	18.8	447.5

	UK pension scheme £million	**US pension schemes £million**	**US PRMB scheme £million**	**Netherlands pension scheme £million**	**Total £million**
2007					
Movement in deficit during the year					
Deficit in schemes at 1 January	(17.8)	(9.9)	(7.6)	(1.3)	(36.6)
Current service cost	(1.5)	(0.2)	(0.1)	(0.3)	(2.1)
Contributions	7.6	4.4	0.3	0.5	12.8
Net interest income/(expense)	2.4	0.4	(0.4)	(0.2)	2.2
Actuarial gain/(loss)	(3.9)	4.0	0.2	0.5	0.8
Curtailments and settlements	0.4	(0.8)	2.4	—	2.0
Currency translation differences	—	0.1	0.1	(0.1)	0.1
Deficit in schemes at 31 December	**(12.8)**	**(2.0)**	**(5.1)**	**(0.9)**	**(20.8)**

Employer contributions in 2007 were £7.6 million (2006: £4.9 million) to UK schemes; £5.4 million (2006: £6.2 million) to US schemes and £0.4 million (2006: £0.9 million) in respect of other schemes. Contributions in 2008 at current exchange rates are expected to be approximately £11.0 million. Due to conditional arrangements in the Netherlands' pension scheme, there was an unrecognised past service cost at 31 December 2007 of £1.3 million (2006: £1.3 million).

Year ended 31 December 2007	**UK**	**US**	**Netherlands**	**Total**
Difference between expected and actual return on scheme assets				
Amount (£million)	**(7.0)**	**0.5**	**(2.2)**	**(8.7)**
Percentage of scheme assets	**(1.8)%**	**0.9%**	**(11.4)%**	**(1.9)%**
Experience gains and losses on scheme liabilities				
Amount (£million)	**(2.0)**	**0.4**	**0.5**	**(1.1)**
Percentage of scheme assets	**(0.5)%**	**0.8%**	**2.6%**	**(0.2)%**
Total amount recognised in statement of recognised income and expense				
Amount (£million)	**5.1**	**3.3**	**2.2**	**10.6**
Percentage of scheme assets	**1.4%**	**6.4%**	**11.4%**	**2.3%**

Year ended 31 December 2006	UK	US	Netherlands	Total
Difference between expected and actual return on scheme assets				
Amount (£million)	4.7	1.7	(2.3)	4.1
Percentage of scheme assets	1.2%	3.4%	12.2%	0.9%
Experience gains and losses on scheme liabilities				
Amount (£million)	4.1	1.9	0.2	6.2
Percentage of scheme assets	1.1%	3.8%	1.0%	1.4%
Total amount recognised in statement of recognised income and expense				
Amount (£million)	10.0	0.1	(1.5)	8.6
Percentage of scheme assets	2.6%	—	(8.0)%	1.9%

Year ended 31 December 2005	UK	US	Netherlands	Total
Difference between expected and actual return on scheme assets				
Amount (£million)	30.2	—	(0.3)	29.9
Percentage of scheme assets	8.2%	—	(1.0)%	6.8%
Experience gains and losses on scheme liabilities				
Amount (£million)	(2.8)	(0.2)	(0.6)	(3.6)
Percentage of scheme assets	(0.7)%	—	(1.0)%	(0.5)%
Total amount recognised in statement of recognised income and expense				
Amount (£million)	1.3	(0.2)	(2.6)	(1.5)
Percentage of scheme assets	0.3%	—	(12.9)%	(0.3)%

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

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

26 Share based payments

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

The 1998 Executive Share Option Scheme is a discretionary scheme under which senior management below Board level are granted options to purchase shares in the Company. The option price is the average market price over the five working days preceding the grant and there is no discount. Options are capable of exercise after three years and within ten years of the date of the grant; those granted since 1995 are subject to earnings per share performance targets.

The 2003 Executive Share Option Scheme is a discretionary scheme under which executive directors and senior managers below Board level are granted options to purchase shares in the Company. The option price is the market price of a share on the dealing day immediately preceding the day on which the option is granted with no discount applied. Options are capable of exercise after three years, subject to earnings per share and total shareholder return performance targets being met, and within ten years of the date of the grant.

The UK Savings-Related Share Option Scheme 1998 is a scheme under which UK employees can enter into savings contracts with a building society or a bank 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 market price over the five working days preceding the invitation date discounted by a maximum of 20 per cent.

Notes to the financial statements
for the year ended 31 December 2007

26 Share based payments continued

The US Savings-Related Share Option Scheme is a scheme under which US employees can enter into savings contracts with a bank for a period of two years and use the proceeds from their savings accounts to purchase shares in the Company on the exercise of their options. The option price is the market price on the date of the grant, discounted by 15 per cent.

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

	2007	2006
Fair value per option	**29.0**	32.9
Weighted average share price at grant	**58.0**	54.9
Weighted average exercise price	**56.6**	53.7
Expected volatility (per cent)	**38.0**	43.0
Risk free rate (per cent)	**5.4**	5.1
Expected dividend yield (per cent)	**2.7**	2.6

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 £0.9 million (2006: £0.9 million) related to equity-settled share based payment transactions during the year.

At 31 December 2007 the following options to subscribe for ordinary shares were outstanding:

Year of grant	Exercise price (pence)	Exercisable from	Exercisable to	At 1 January 2007 (000's)	Granted (000's)	Exercised (000's)	Expired (000's)	At 31 December 2007 (000's)
UK savings-related share option scheme								
2001	45.2	1/12/06	31/05/07	19	—	(19)	—	**—**
2002	21.9	1/06/07	30/11/07	513	—	(513)	—	**—**
2003	20.5	1/06/08	30/11/08	143	—	(6)	(2)	**135**
2004	23.2	1/06/07	30/11/07	342	—	(336)	(6)	**—**
2004	23.2	1/06/09	30/11/09	217	—	(18)	(12)	**187**
2005	44.1	1/06/08	30/11/08	194	—	(9)	(7)	**178**
2005	44.1	1/06/10	30/11/10	61	—	(3)	(5)	**53**
2006	67.0	1/06/09	30/11/09	273	—	(2)	(31)	**240**
2006	67.0	1/06/11	30/11/11	31	—	(1)	(3)	**27**
2007	71.1	1/06/10	30/11/10	—	272	(2)	(24)	**246**
2007	71.1	1/06/12	30/11/12	—	57	—	(4)	**53**
				1,793	329	(909)	(94)	**1,119**
US savings-related share option scheme								
2005	46.5	21/03/07	20/06/07	443	—	(358)	(85)	**—**
2006	70.8	27/03/08	26/06/08	253	—	(20)	(42)	**191**
2007	75.7	28/03/09	28/06/09	—	263	(4)	(44)	**215**
				696	263	(382)	(171)	**406**
Executive share option plans								
1998	137.0	6/04/01	6/04/08	54	—	—	(39)	**15**
1998	86.0	15/09/01	15/09/08	78	—	—	(78)	**—**
1999	92.8	1/04/02	1/04/09	101	—	—	(71)	**30**
2000	69.5	31/03/03	31/03/10	913	—	(418)	(202)	**293**
2001	97.9	7/03/04	7/03/11	1,210	—	—	(603)	**607**
2001	56.5	10/09/04	10/09/11	754	—	(480)	(38)	**236**
2002	29.0	10/04/05	10/04/12	1,388	—	(836)	(414)	**138**
2003	24.8	29/04/06	29/04/13	3,284	—	(370)	(2,843)	**71**
2004	35.0	23/04/07	23/04/14	3,211	—	(2,357)	(383)	**471**
2005	51.2	30/03/08	30/03/15	4,194	—	(59)	(372)	**3,763**
2005	64.5	2/11/08	2/11/15	1,200	—	—	(100)	**1,100**
2006	85.5	04/04/09	04/04/16	2,459	—	—	(125)	**2,334**
2007	88.0	15/05/10	15/05/17	—	2,504	—	(102)	**2,402**
				18,846	2,504	(4,520)	(5,370)	**11,460**

The weighted average share price at the date of exercise of share options exercised during the year was 82 pence (2006: 83 pence).

27 Related party transactions

Transactions carried out with related parties and year-end balances arising from those transactions are set out below:

	2007 £million	2006 £million
Sales of goods to associate	**1.2**	1.0
Receivable from associate	**0.2**	0.2

Goods are sold on the basis of an arms length open market transaction.

28 Movement in net borrowings

	2007 £million	2006 £million
Change in net borrowings resulting from cash flows:		
(Decrease)/increase in cash and cash equivalents	**(6.0)**	5.8
Decrease/(increase) in borrowings repayable after one year	**82.5**	(17.9)
	76.5	(12.1)
Redeemable B shares	**—**	2.1
Disposal of business	**5.6**	—
Currency translation differences	**2.3**	8.8
Decrease/(increase) in net borrowings	**84.4**	(1.2)
Net borrowings at beginning of year	**(100.6)**	(99.4)
Net borrowings at end of year	**(16.2)**	(100.6)

29 Dividends

An interim dividend of 1.3 pence per share (2006: 1.2 pence) was paid on 5 October 2007 and the Group is proposing a final dividend of 1.4 pence per share for the year ended 31 December 2007 (2006: 1.2 pence). This brings the total for the year to 2.7 pence per share (2006: 2.4 pence). The final dividend payable, based on the number of ordinary shares in issue at 31 December 2007, is £6.3 million (2006: £5.3 million).

30 Key management compensation

	2007 £million	2006 £million
Salaries and short term employee benefits	**1.9**	1.2
Other long-term benefits	**0.3**	0.3
Share based payments	**0.2**	0.2
	2.4	1.7

The key management compensation given above includes directors. Directors' remuneration is set out in the Directors' remuneration report on page 30.

Notes to the financial statements
for the year ended 31 December 2007

31 Disposal of business
On 31 August 2007, the Group sold its Pigments division for gross proceeds of £70.7 million. After deducting overdrafts and loans retained by the purchaser of £3.3 million, net proceeds received were £67.4 million. The business has been classified as a discontinued operation and its results are as follows:

	2007 Eight months ended 31 August £million	2006 Year ended 31 December £million
Income statement:		
Revenue	**59.7**	93.9
Cost of sales	**(45.3)**	(71.6)
Gross profit	**14.4**	22.3
Distribution costs	**(5.5)**	(9.1)
Administration expenses	**(4.6)**	(7.1)
Operating profit	**4.3**	6.1
Finance costs	**(0.5)**	(0.8)
Profit before tax	**3.8**	5.3
Tax	**(0.2)**	(0.1)
Post tax profit for the period from discontinued operation	**3.6**	5.2
Cash flows from discontinued operation:		
Net cash flow from operating activities	**(4.3)**	1.8
Net cash flow from investing activities	**(1.0)**	(3.0)
	(5.3)	(1.2)

The net assets of the Pigments division at the date of disposal were:

	£million
Goodwill and other intangible assets	**2.5**
Property, plant and equipment	**26.0**
Interest in associates	**0.5**
Inventories	**18.6**
Trade and other receivables	**18.0**
Trade and other payables	**(11.6)**
Provisions	**(2.7)**
Government grants	**(0.6)**
Retirement benefit obligations	**0.4**
Bank overdrafts and loans	**(3.3)**
Minority interest	**(1.0)**
Cumulative exchange differences transferred from reserves	**(0.2)**
Net assets disposed:	**46.6**
Costs of disposal	**4.5**
Profit on disposal	**16.3**
Total consideration satisfied by cash	**67.4**
Net cash inflow arising on disposal:	
Net cash consideration received	**62.9**
Cash and equivalents on disposal	**(2.3)**
	60.6

Parent company statutory accounts

The Group is required to present a separate balance sheet for the holding company, Elementis plc, which continues to adopt UK generally accepted accounting principles. Its accounting policies are set out in note 32 and its balance sheet is set out below.

Elementis plc

Balance Sheet
at 31 December 2007

	Note	2007 £million	2006 £million
Fixed assets			
Investments	34	**590.1**	590.1
Current assets			
Debtors	35	**0.7**	0.4
Creditors: amounts falling due within one year			
Creditors	36	**(0.3)**	–
Borrowings	37	**–**	(2.5)
		(0.3)	(2.5)
Net current assets/(liabilities)		**0.4**	(2.1)
Total assets less current liabilities		**590.5**	588.0
Creditors: amounts falling due after more than one year			
Amounts due to subsidiary undertakings		**(229.3)**	(216.2)
Net assets		**361.2**	371.8
Capital and reserves			
Called up share capital	39	**22.3**	22.1
Share premium account	40	**5.2**	3.6
Capital redemption reserve	40	**83.3**	83.3
Other reserves	40	**81.5**	81.5
Share option reserve	40	**1.2**	0.8
Profit and loss account	40	**167.7**	180.5
Equity shareholders' funds		**361.2**	371.8

The financial statements of Elementis plc on pages 71 to 74 were approved by the Board on 26 February 2008, and signed on its behalf by:

David Dutro
Group Chief Executive

Brian Taylorson
Finance Director

Notes to the financial statements of Elementis plc
for the year ended 31 December 2007

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

Basis of preparation
The Company's financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. Under section 230(4) of the Companies Act 1985 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 entities which form part of the group (or investees of the group qualifying as related parties).

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

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

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

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

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

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

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

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

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company 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.

33 Profit for the financial year attributable to shareholders

As permitted by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. A loss of £1.7 million (2006: £1.3 million) is dealt with in the financial statements of the Company.

34 Investments

	Unlisted shares at cost £million	Unlisted loans £million	Total £million
Cost at 1 January 2007 and 31 December 2007	0.1	759.0	759.1
Provision for impairment			
At 1 January 2007 and 31 December 2007	—	(169.0)	(169.0)
Net book value 31 December 2007	**0.1**	**590.0**	**590.1**
Net book value 31 December 2006	0.1	590.0	590.1

The investment in unlisted loans is with Elementis Holdings Limited, an indirect wholly owned subsidiary. The provision for impairment was made following a directors' valuation of the subsidiary undertaking using a discounted cash flow methodology. The investment in unlisted shares is in Elementis Group BV, a wholly owned subsidiary.

The principal subsidiaries of Elementis plc are as follows:

		Country of incorporation and operation
Subsidiary undertakings		
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 LP	Chromium chemicals	United States of America
Elementis Specialties Inc	Rheological additives, colourants, waxes, other specialty additives	United States of America
Elementis Specialities Netherlands BV	Surfactants and coatings additives	The Netherlands

Notes:

1 None of the undertakings are held directly by the Company.

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

3 All undertakings listed above have accounting periods ending 31 December.

4 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.

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

35 Debtors

	2007 £million	2006 £million
Corporation tax	**0.7**	—
Amounts due from subsidiary undertakings	**—**	0.4
	0.7	0.4

36 Creditors: amount falling due within one year

	2007 £million	2006 £million
Amounts owed to subsidiary undertakings	**0.3**	—

Notes to the financial statements of Elementis plc
for the year ended 31 December 2007

37 Borrowings

	2007 £million	2006 £million
Borrowings repayable within one year		
Unsecured bank borrowings	—	2.5

38 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 2007 was £12.8 million (2006: £17.8 million).

The latest full actuarial valuation was carried out at 30 September 2005 and was updated for FRS 17 purposes to 31 December 2007 by a qualified actuary. The contribution for the year was £0.2 million (2006: £0.2 million).

39 Called up share capital

	2007 Number '000	2007 £million	2006 Number '000	2006 £million
Authorised:				
Ordinary shares of 5 pence each	**640,000**	**32.0**	640,000	32.0
Called-up, allotted and fully paid:				
Ordinary shares of 5 pence each				
At 1 January	**441,690**	**22.1**	436,810	21.8
Issue of shares	**4,739**	**0.2**	4,880	0.3
At 31 December	**446,429**	**22.3**	441,690	22.1

During the year a total of 4,738,672 ordinary shares with an aggregate nominal value of £236,934 were allotted and issued for cash to various employees at subscription prices between 20 pence and 76 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 £1.8 million. The holders of ordinary shares are entitled to receive dividends and entitled to one vote per share at meetings of the Company.

40 Reserves

	Share premium account £million	Capital redemption reserve £million	Other reserves £million	Share option reserve £million	Profit & loss account £million
At 1 January 2007	3.6	83.3	81.5	0.8	180.5
Retained loss for the year	—	—	—	—	(1.7)
Issue of shares	1.6	—	—	—	—
Share based payments	—	—	—	0.4	—
Dividend paid	—	—	—	—	(11.1)
At 31 December 2007	**5.2**	**83.3**	**81.5**	**1.2**	**167.7**

41 Reconciliation of movements in shareholders' funds

	2007 £million	2006 £million
Loss for the financial year	**(1.7)**	(1.3)
Dividend paid	**(11.1)**	(10.1)
Share based payments	**0.4**	0.7
Ordinary shares issued	**1.8**	2.0
Net decrease in shareholders' funds	**(10.6)**	(8.7)
Opening shareholders' funds	**371.8**	380.5
Closing shareholders' funds	**361.2**	371.8

Five year record

	2007 £million	2006 £million	2005 £million	2004 £million	2003 £million
Turnover					
Specialty Products	**141.4**	144.5	138.2	140.2	130.3
Surfactants	**46.2**	46.1	45.7	19.3	—
Chromium	**112.2**	111.4	125.0	105.1	116.2
Continuing operations	**299.8**	302.0	308.9	264.6	246.5
Discontinued operations	**59.7**	93.9	131.0	124.6	121.7
Group turnover	**359.5**	395.9	439.9	389.2	368.2
Operating profit					
Specialty Products	**28.8**	25.0	17.0	18.8	18.3
Surfactants	**0.9**	0.6	0.6	(1.3)	—
Chromium	**14.2**	11.9	7.8	0.4	11.3
Central costs	**(5.8)**	(6.0)	(7.5)	(9.3)	(9.9)
Continuing operations before exceptional items	**38.1**	31.5	17.9	8.6	19.7
Exceptional items	**19.4**	3.0	(47.7)	(2.6)	(0.4)
Discontinued operations	**4.3**	6.1	2.4	2.9	4.8
Profit/(loss) before interest	**61.8**	40.6	(27.4)	8.9	24.1
Net interest payable	**(4.8)**	(7.5)	(7.6)	(5.6)	(6.2)
Profit/(loss) before tax	**57.0**	33.1	(35.0)	3.3	17.9
Tax	**(8.9)**	(1.4)	(3.4)	0.1	(1.1)
Minority interests	**(0.1)**	(0.1)	0.3	—	(0.1)
Profit/(loss) attributable to equity holders of the parent	**48.0**	31.6	(38.1)	3.4	16.7

	2007 £million	2006 £million	2005 £million	2004 £million	2003 £million
Basic					
Earnings/(loss) per ordinary share (pence)	**10.9**	7.1	(8.8)	0.8	3.9
Earnings per ordinary share before exceptional items (pence)	**8.1**	6.8	2.8	1.3	4.0
Diluted					
Earnings/(loss) per ordinary share (pence)	**10.8**	7.0	(8.8)	0.8	3.8
Earnings per ordinary share before exceptional items (pence)	**8.0**	6.7	2.8	1.3	4.0
Dividends per ordinary share (pence)	**2.5**	2.3	—	—	—
Interest cover (times)*	**8.8**	4.6	3.3	3.1	12.9
Equity attributable to equity holders of the parent	**229.9**	199.3	189.8	221.3	252.3
Net (borrowings)/cash	**(16.2)**	(100.6)	(99.4)	(90.2)	(46.9)
Weighted average number of ordinary shares in issue during the year (million)	**441.9**	439.4	434.2	431.9	431.6

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

The comparatives for 2003 have been restated for the impact of IFRS 3: Business combinations which prohibits the amortisation of goodwill. All other adjustments for IFRS are not material to an understanding of the five year record.

Shareholder services

Internet
The Group operates a website which can be found at www.elementis.com. This site is frequently updated to provide you 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
The sale by Lloyds TSB Group plc of its share registration business to Advent International was completed on 30 September 2007 when the services provided by Lloyds TSB Registrars were transferred to Equiniti Limited who is now the Company's share 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) 121 415 7057
Website: www.shareview.co.uk

Shareholders should note that the charge for the new 0871 prefixed numbers, effective from 31 January 2008, is the same as the old 0870 prefixed numbers. Calls to these numbers are charged at 8p per minute from a BT landline. Other telephone providers' costs may vary.

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 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
www.shareview.co.uk
Shareholders using this service to obtain details of their shareholdings are required to enter their name, postcode and shareholder reference number which can be found on correspondence from the registrars and also on share certificates.

Low-cost share dealing service
Shareholders who wish to buy or sell Elementis shares can do so through this service arranged by the Company's stockbrokers Hoare Govett Limited. The service is provided by Pershing Securities Limited and offers a low cost method of buying and selling Elementis shares. Full details of the service and dealing forms can be obtained from Pershing Securities Limited, who can be contacted on +44 (0) 20 7661 6555 for telephone share dealing, or on +44 (0) 207 7661 6616 for a postal-based share dealing service.

Previously issued redeemable B shares
In 2000 the Company started a programme of issuing redeemable B shares instead of making dividend payments. In February 2006 the Board decided to recommend the resumption of dividend payments and in November 2006 the Company redeemed all of the redeemable B shares in issue. The Board has no current plans to issue more redeemable B shares and information for the calculation of capital gains tax can be found on the Company's website.

Information for shareholders

Company Secretary
Wai Wong

Registered office
10 Albemarle Street
London W1S 4BL, UK

Registered number
3299608

Auditors
KPMG Audit Plc

Stockbroker
Hoare Govett Limited

Financial calendar 2008

26 February 2008	Preliminary announcement of results for the year ended 31 December 2007
24 April 2008	Annual General Meeting and First Interim Management Statement
30 April 2008	Ex-dividend date for final dividend for 2007 payable on ordinary shares
2 May 2008	Record date for final dividend for 2007 payable on ordinary shares
30 May 2008	Payment of final dividend for 2007 on ordinary shares
29 July 2008*	Interim results announcement for the half year ended 30 June 2008
10 September 2008*	Ex-dividend date for interim dividend for 2008 payable on ordinary shares
12 September 2008*	Record date for interim dividend payable for 2008 on ordinary shares
10 October 2008*	Payment of interim dividend for 2008 on ordinary shares
28 October 2008*	Second Interim Management Statement
24 February 2009*	Preliminary announcement of results for the year ending 31 December 2008

* Provisional date

Principal offices

Elementis plc
10 Albemarle Street
London W1S 4BL, UK

Tel: +44 (0) 20 7408 9300
Fax: +44 (0) 20 7493 2194
Email: elementis.info@elementis-eu.com
Website: www.elementis.com

Elementis Worldwide Inc
Elementis Specialties
Elementis Chromium
329 Wyckoffs Mill Road
Hightstown
New Jersey 08520, USA

Tel: +1 609 443 2000
Fax: +1 609 443 2422
Email: contactus.web@elementis-na.com (Elementis Specialties)
Email: chromium.usa@elementis.com (Elementis Chromium)

The cover and text sections are printed on HannoArt Silk, comprising of fibres sourced from sustainable forest reserves and bleached without the use of chlorine. The production mill for this paper operates to EMAS, ISO 14001 environmental and ISO 9001 quality standards. The accounts section is printed on Challenger Offset, comprising of fibres sourced from sustainable forest reserves and bleached without the use of Chlorine.

designed and produced by
the design portfolio marketing services.
www.design-portfolio.co.uk

Elementis plc
10 Albemarle Street
London W1S 4BL, UK

Tel: +44 (0) 20 7408 9300
Fax: +44 (0) 20 7493 2194
www.elementis.com