ELEMENTIS

Elementis plc
Annual report and accounts 2008

08

A GLOBAL SPECIALTY CHEMICALS COMPANY

Business descriptions

> At the core of Specialty Products... is an unrelenting commitment to provide technically superior products and application support to help our customers be more successful.

Elementis Specialty Products

Key facts
- The Group's largest and most profitable division
- Employs nearly 1,000 people at more than 25 locations worldwide
- Ten manufacturing sites across the US, Europe and Asia Pacific

Key products
Rheological additives/modifiers, organoclays, colourants, high performance dispersing agents, defoamers, coalescing agents, flow and levelling additives, wetting and slip agents, other specialty additives and resins

Key sectors
Industrial coatings (52 per cent), architectural coatings (20 per cent), construction, oilfield chemicals and personal care and household

Key geographies
Europe (41 per cent), North America (28 per cent) and Asia Pacific (22 per cent)

Key applications
- Architectural coatings: homes, offices and similar environments
- Industrial coatings: protective, automotive, containers, furniture, flooring, marine, plastics and construction
- Oilfield: drilling fluids
- Construction: concrete, plasters, mortars, renderings, stuccos, flooring systems and building adhesives
- Personal care and household: antiperspirants, nail enamels, mascara, make-up, eye shadow, lipsticks, creams, lotions and suncare products

Supply chain
- Top ten customers represent 28 per cent of divisional sales
- Many competitors from multinationals to privately owned enterprises
- Key raw material suppliers are for clays, quaternary amines and other chemical intermediaries

Elementis Surfactants

Key facts
- Employs over 160 people in Delden, the Netherlands
- Shares its manufacturing site with Elementis Specialty Products

Key products
Range of surface active ingredients

Key sectors
Oilfield, textile and leather, pulp and paper, plastics and resins, chemicals and construction, household, agrochemical and feed markets

Key geographies
Europe (88 per cent), Asia Pacific and Latin America

Key applications
Household/domestic detergents, industrial cleaning, oilfield chemicals, leather and textiles, and pulp and paper

Supply chain
- Top ten customers represent 60 per cent of divisional sales
- Many competitors from multinationals to privately owned enterprises
- Uses ethylene and propylene oxides, nonylphenol ethoxylate and fatty alcohols to manufacture its products

> Our desired outcome is a Chromium business that is better suited to deliver optimal performance... with facilities capable of manufacturing products that deliver superior benefits to the customer base.

Elementis Chromium

Key facts
- Employs around 300 people at six locations across the US and UK
- Three chrome chemical processing sites in Castle Hayne, North Carolina, Corpus Christi, Texas and Eaglescliffe, Stockton-on-Tees
- Three leather tanning facilities in Milwaukee, Wisconsin, in Dakota City, Nebraska and in Amarillo, Texas

Key products
Sodium dichromate, chromic acid, chromic oxide and liquid chrome sulphate

Key sectors
Leather tanning, timber treatment, metal finishing, chrome metal alloys, chrome pigments, ceramics/refractory, household

Key geographies
North America (41 per cent), Europe (32 per cent) and Asia Pacific

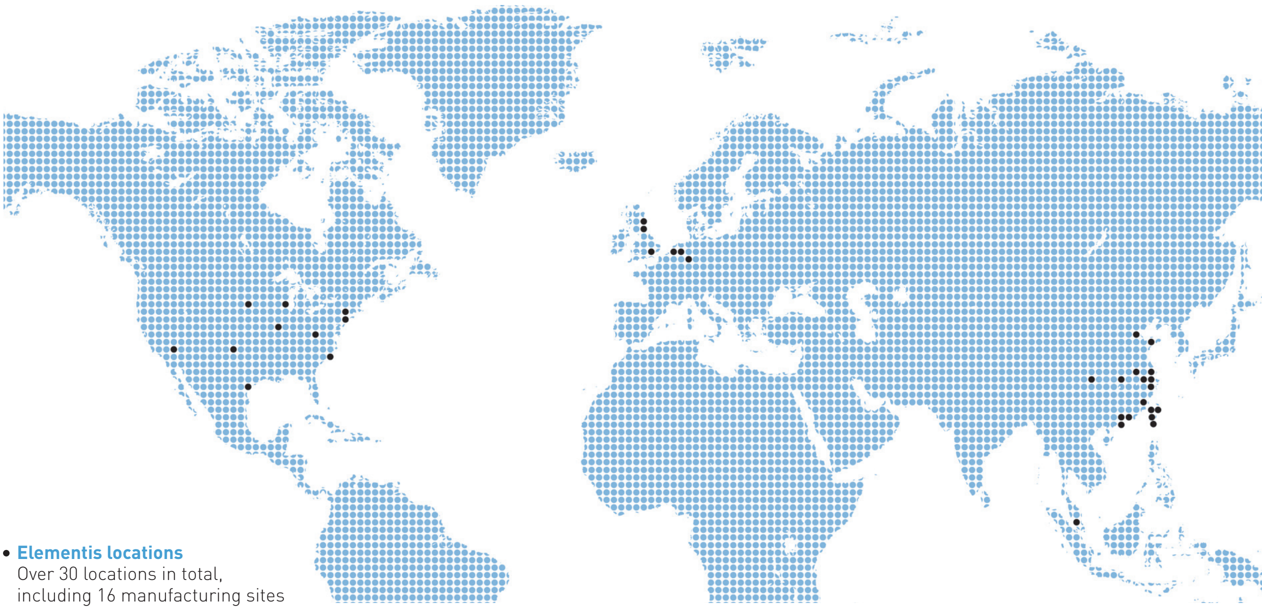
Key applications
- Sodium dichromate: in metal finishing; in organic products as an oxidising agent; in pigments as a corrosion inhibitor; in ceramics to prepare coloured glass and ceramic glazes; and in textiles to improve dyes' colouring properties
- Liquid and powder chrome sulphate: to tan animal hides
- Chrome acid: in metal and timber treatment; in chromium plating in domestic appliances, plumbing fixtures, automobile accessories and hospital equipment as well as in heavy industrial applications to increase wear and corrosion resistance
- Chrome oxide: metallurgical grade used to produce high performance superalloys in the aerospace and power generation industries; pigment grade is used in paints, coatings, plastics, enamels, concrete and other construction materials as well as in the ceramic industry; and refractory and technical grade is commonly used in the production of refractory bricks

Supply chain
- Top ten customers represent 47 per cent of divisional sales
- Competitors: one multinational and a number of privately owned producers
- Key raw material suppliers are for chrome ore, soda ash and sulphuric acid

All percentage figures quoted are based on 2008 sales.

Company overview

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 around 1,500 people at more than 30 locations in eight countries and is listed on the UK London Stock Exchange.



• **Elementis locations**
Over 30 locations in total, including 16 manufacturing sites

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Highlights

Financial – from continuing operations

- Operating profit before exceptional items up 36 per cent.
  - Improved operating profit in both Specialty Products and Chromium.
- Revenue up 17 per cent excluding currency and acquisitions.
- Diluted earnings per share before exceptional items up 26 per cent.
- Free cash flow increased by 39 per cent.
- No debt refinancing before 2011.
- Full year dividend up by 7 per cent to 2.9 pence.

Strategic

- Two acquisitions in Specialty Products to accelerate growth in Asia Pacific.
- Review of Chromium's UK business with potential plant rationalisation.
  - Impairment charge of £20.5 million (exceptional item).

Financial summary

	2008	2007
Sales*	**£400.5m**	£299.8m
Operating profit**	**£52.0m**	£38.1m
Profit before tax**	**£48.5m**	£33.8m
Free cash flow**	**£36.6m**	£26.4m
Diluted earnings per share**	**9.1p**	7.2p
Profit for the year	**£19.8m**	£48.1m
Diluted earnings per share	**4.5p**	10.8p
Dividend to shareholders		
– final proposed	**1.4p**	1.4p
– full year	**2.9p**	2.7p

* from continuing operations
** from continuing operations and before exceptional items

Chairman's statement
Robert Beeston

"The strong set of results in 2008 reflects some of the benefits captured through the continuing actions taken by the Board to raise returns across the Group."

The strong set of results in 2008 reflects some of the benefits captured through the continuing actions taken by the Board to raise returns across the Group. The strategic focus of our business is to invest in the growth of our Specialty Products division and a major step forward was made in July 2008 when we completed the purchase of the Deuchem additives business and the Yuhong organoclay plant, thereby significantly expanding our presence in the Asia Pacific region. In the Chromium business, we took advantage of exceptional and positive market conditions in 2008, which boosted this division's profitability, but these exceptional market circumstances are not expected to recur in 2009. Our UK facility is more exposed to a downturn in demand because of evolving competition in its end markets, where it produces less differentiated products than our US business, and its profitability depends heavily on supplying intermediate products to the US business. As a result, we are currently evaluating the closure of our UK chromium manufacturing facility to rationalise capacity. The combination of Elementis' strong free cash flow, net debt to EBITDA ratio of 1.0 at the 2008 year end and borrowing facilities not expiring until July 2011, provide the Board with the relative comfort, in the face of the current dramatic changes in the global economy, to increase the full year dividend by 7 per cent to 2.9 pence per share.

Group revenue

£400.5m

Operating profit

from continuing operations*

£52.0m

* before exceptional items

Results
Operating profit, before exceptional items[1], improved by 36 per cent in 2008 to £52.0 million on sales of £400.5 million, which is an increase of 34 per cent over 2007 or 17 per cent excluding currency effects and acquisitions. Earnings per share, before exceptional items, increased by 26 per cent to 9.1 pence. The Group recorded an impairment charge of £20.5 million in 2008, in relation to the Chromium business' UK facility, and this is shown as an exceptional item in the Income Statement. After taking account of this, reported earnings per share was 4.5 pence compared to 10.8 pence in the previous year.

Dividend
The Board is recommending a final dividend of 1.4 pence, taking the total return to shareholders for the year to 2.9 pence, an increase of 7 per cent. Subject to approval at the Annual General Meeting, the dividend will be paid on 22 May 2009 to members on the register at the close of business on 24 April 2009. The Board intends to continue to review the dividend policy as earnings performance and debt levels permit.

Health, safety and environment
I am happy to report that our activities in this important area of our business have continued to be of a high standard during 2008 with no significant incidents reported by any of our businesses.

People
Elementis has made excellent progress in recent years by continuously improving operating results and credit for this outstanding performance must go to all of our employees. On behalf of the Board I would like to thank them for their tremendous effort and commitment.

Outlook
Going forward it is clear that 2009 is going to be a challenging year. Market conditions in the latter half of the fourth quarter deteriorated significantly and trading in the early part of 2009 has not yet recovered. However, the Group is well financed and the investments made in 2008 will further enhance the growth drivers in our Specialty Products business. The severe global economic downturn and accelerated customer destocking make our performance in 2009 difficult to predict, but we expect to continue to make progress over the medium term.

Robert Beeston
Chairman
24 February 2009

"Elementis has made excellent progress in recent years by continuously improving operating results and credit for this outstanding performance must go to all of our employees. On behalf of the Board I would like to thank them for their tremendous effort and commitment."

1 Exceptional items 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 and underlying performance of the Group. The impact of the exceptional items on operating profit is shown in the operating profit table on page 9.

Business review
Group Chief Executive's overview
David Dutro

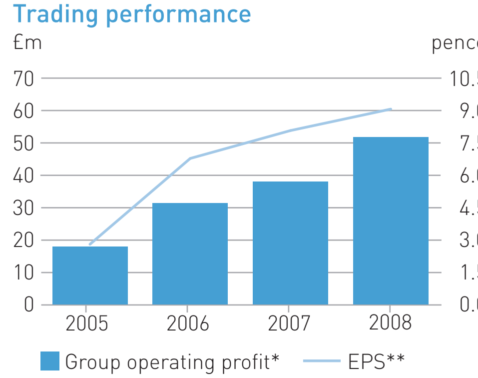
> 2008 was a year of significant accomplishments for Elementis, characterised by a strong financial performance and solid execution of our strategic initiatives. We continued to make good progress, with operating profit[2], free cash flow, operating margin[2] and earnings per share[3] ('EPS') all demonstrating a positive trend.

2008 was a year of significant accomplishments for Elementis, characterised by a strong financial performance and solid execution of our strategic initiatives. We continued to make good progress, with operating profit[2], free cash flow, operating margin[2] and earnings per share[3] ('EPS'), all demonstrating a positive trend. The Specialty Products business posted its best year ever in terms of financial performance. This record performance was even more notable given the recessionary pressure that became apparent in the second half, and particularly in the final quarter, of the year. At the core of Specialty Products' ability to deliver these results is an unrelenting commitment to provide technically superior products and application support that helps our customers be more successful.

Our acquisition of Deuchem, an Asia Pacific based specialty additives company, is consistent with our strategic objective of growing the Specialty Products business. Deuchem has an excellent reputation in the market, driven by their superior technical service and product development capabilities. Deuchem's complementary product portfolio, customer service culture and the opportunity to leverage combined technologies globally, make it an excellent fit. In addition we acquired the Yuhong organoclay business, which is located in China. The Yuhong acquisition provides valuable capacity and supply chain benefits and a competitive cost model, again making Yuhong a strong addition to the Specialty Products business. The combined resources and infrastructure of Elementis, Deuchem and Yuhong represent an enviable platform to support and drive our Asia Pacific growth.

2 From continuing operations and before exceptional items.
3 Before exceptional items.

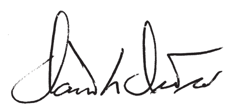
Trading performance



* from continuing operations and before exceptional items
** before exceptional items

The Elementis Chromium business had a strong year, capitalising on the commodity boom and exceptional supply/demand dynamics. The business also made excellent progress in 2008 relative to its strategic initiative of expanding the number of viable key raw material suppliers. One of the key strategic objectives for the Chromium business is to reduce its sensitivity to cyclical fluctuations, thereby improving the quality of the Group's earnings. A significant percentage of the UK business earnings comes from supplying intermediate products to our US facilities. Over the last three years, incremental capacity expansions in our US business, through improvements in plant efficiencies and debottlenecking, have led to that business being less reliant on products from the UK, except in exceptional supply demand conditions such as those experienced in 2008. In addition, the evolution of the markets served by the UK business, which produces less differentiated products than our US business and is subject to growing competition from Asian producers, means that we are less confident of producing sustainable earnings and cash flow from this part of the business going forward. As a result, we have initiated a strategic review of the Chromium business which could lead to the closure of our Eaglescliffe, UK manufacturing facility, and we expect to make a final decision during the first half of 2009. Our desired outcome is a Chromium business that is better suited to deliver optimal performance, given the likely lower level of market demand going forward, with facilities capable of manufacturing products that deliver superior benefits to the customer base.

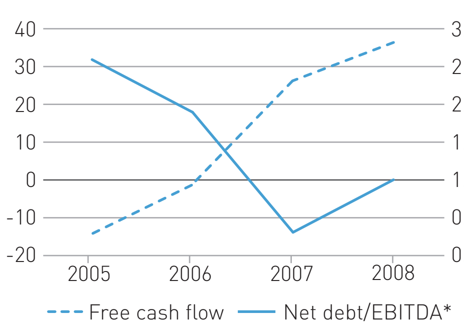
I am proud of Elementis' accomplishments in 2008 which are a direct reflection of the hard work and dedication of our global team and its performance driven culture. We expect the 2009 economic environment to be challenging and we are taking appropriate action on costs to mitigate the potential impact on earnings, particularly in the first half of the year. We will continue our pursuit of high performance and strive to take our Specialty Products business to the next level of market leadership. In an environment of economic uncertainty our market position is a distinct advantage and it is our goal to be positioned to fully exploit the eventual economic recovery. I would like to thank our shareholders and customers for their continued confidence and support.



David Dutro
Group Chief Executive
24 February 2009

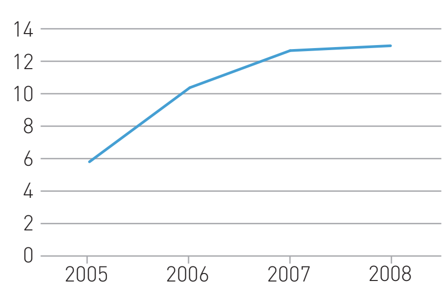
> "We expect the 2009 economic environment to be challenging... We will continue our pursuit of high performance and strive to take our Specialty Products business to the next level of market leadership ... it is our goal to be positioned to fully exploit the eventual economic recovery."

Free cash flow and gearing
£m



* earnings before interest, tax, exceptional items, depreciation and amortisation

Operating margin*
Per cent



* from continuing operations and before exceptional items

Business review
Business commentary

Elementis Specialty Products
Elementis Specialty Products is a leading manufacturer of rheology control additives that are used to enhance the performance of our customers' products. Best in class technical support and customer service are critical core competencies of the business and provide the platform to deliver added value in the coatings, oilfield exploration, construction and personal care markets. The strategy of the business is to grow in rheology products and complementary additives through new product innovation, expansion into new geographies and bolt on acquisitions. In 2008 the business made an important step forward in this strategy by acquiring the Deuchem additives and Yuhong organoclay businesses in Taiwan and China. Deuchem is a leading supplier of additives and resins to the coating and related industries, with three sales offices in Taiwan and eleven sales offices in China, together with manufacturing and technical facilities near Taipei and in Shanghai. The acquisition of Deuchem will significantly expand Elementis' presence in Asia Pacific and provide a platform for the Specialty Products business to accelerate growth in the region. Growth in the combined businesses will be driven by the sale of Deuchem's product portfolio to the Elementis global customer base, as well as the opportunity to sell Elementis products through the well developed Deuchem sales and technical support network in Taiwan and China. The Yuhong organoclay business will increase Elementis' organoclay production in China from 3,000 tonnes to over 10,000 tonnes, eliminating the more costly practice of exporting organoclays from the United States to Asia Pacific. At the same time, it provides additional capacity to serve the faster growing Chinese market, utilising the newly acquired Deuchem sales network.

Sales in 2008 were £181.5 million compared to £141.6 million in the previous year, including £19.9 million of sales in the second half of the year from the newly acquired Deuchem. Excluding this and currency effects, sales increased by 4 per cent. The business continued to experience good underlying growth in Asia Pacific, where volumes were higher by more than 10 per cent, and this offset softer markets in Europe and North America, particularly in the coatings and construction sectors. Sales to the oilfield market showed strong volume growth in 2008, particularly in North America, due to robust drilling activity throughout most of the year, and consumer sales showed positive growth in all of the major geographies.

Operating profit was £29.1 million in 2008, including £0.2 million from Deuchem, which incurred £0.9 million of one time integration costs in the second half of the year. Excluding Deuchem and currency movements, operating profit was 6 per cent higher than in the previous year, demonstrating good progress despite the general economic slow down that took place in the final quarter. Operating margin, excluding currency effects and Deuchem, was 21 per cent in 2008, compared to 20 per cent in the previous year. Some inflation in raw materials was evident during the year, but was relatively modest because most raw materials used in the business are not directly linked to the general commodity cycle, which caused major increases in other businesses.

Elementis Surfactants
Elementis Surfactants is a specialty surfactant manufacturer offering innovative products to markets such as oilfield chemicals, pulp and paper and household products. Its strategy is to focus on higher margin markets such as agrochemicals, feed, plastic and resins and reduce activity in high volume commodity applications. At the same time the business seeks to continually reduce operating costs by more efficient utilisation of its manufacturing facility in the Netherlands, which it shares with the Specialty Products business.

In 2008 sales increased by 10 per cent to £51.1 million (2007: £46.3 million), due to currency movements where the average Euro rate against Sterling strengthened by 13 per cent.

"The acquisition of Deuchem will significantly expand Elementis' presence in Asia Pacific and provide a platform for the Specialty Products business to accelerate growth in the region."

Operating profit for the year was £0.5 million compared to £0.9 million in 2007. Volumes were 12 per cent lower than the previous year as management continued their programme of moving out of lower margin products, which was exacerbated by the general slow down towards the end of the year. Otherwise operating profit was sustained through improved pricing, in response to increases in raw material costs, and continued improvements in manufacturing efficiency.

Elementis Chromium

Elementis Chromium is the world's largest supplier of chrome chemicals, which are used in a variety of end markets including metal alloys, pigments, metal finishing, leather tanning and foundry applications. The business operates within the Group from a separate legal entity structure and has no interactions with other Group businesses other than at the administrative level. Its strategy is to provide high quality products to its customers utilising low cost, sustainable manufacturing facilities to produce mostly higher margin products such as chromic acid and chrome oxide. Global supply/demand balances are a significant driver of margins in the chromium chemical market and Elementis Chromium seeks to produce stable earnings by serving higher value markets and by utilising its flexible manufacturing base to adjust to changes in demand.
For the first nine months of 2008 the business experienced particularly favourable market dynamics due to strong economic activity and changes in Chinese tax regulations. In addition, temporary plant closures in China during the Beijing Olympics that had the effect of reducing exports of chrome chemicals from that country, further benefited the business. As a result, selling prices rose faster than input costs which, when combined with high plant operating rates, significantly improved operating margins compared to those experienced in the previous year. Sales volumes showed a significant decline in the fourth quarter and the business brought forward planned maintenance shutdowns to avoid building excessive amounts of inventory at the end of the year.

Market dynamics are likely to be less favourable in 2009, particularly for our UK facility in Eaglescliffe which produces less differentiated products than our US facilities, is more exposed to Chinese competition and whose profitability relies heavily on supplying intermediate products to the US business. As a consequence, the business is evaluating the closure of the facility in 2009.

Sales were £168.6 million in 2008 compared to £115.9 million in the previous year, an increase of 45 per cent or 39 per cent at constant currency. Volumes increased by one per cent over the previous year. Volumes in the second half of the year were lower than in the first half, which had improved by 7 per cent compared to the same period in 2007, reflecting the fourth quarter slow down. During the year the business continued to focus on higher margin products such as chromic acid and chrome oxide, while the geographical split of sales remained relatively stable with slightly lower volumes in North America and Europe and higher volumes in Asia Pacific.

Operating profit was £27.7 million for the year compared to £14.2 million in the previous year, an increase of 95 per cent. Currency had only a marginal impact on operating profit due to the Group's hedging programme. Favourable market conditions led to operating margins improving to 16 per cent compared to 12 per cent in the previous year as selling prices were increased in an environment of rising raw material and energy costs. Some key raw material and energy costs increased by as much as 60 to 80 per cent. Following a review of the future outlook for the UK facility, the business has decided to record an impairment charge of £20.5 million against the facility in 2008. Additional one time charges relating to severance payments and site closure, estimated to be £14-28 million, would be incurred in 2009 should the decision be made to close the facility. Most of these charges would be incurred in cash over a 2-3 year period, with cash spending in 2009 likely to be less than £5 million due to related reductions in working capital.

Revenue from continuing operations

	Revenue 2007 £million	Effect of exchange rates £million	Increase 2008 £million	**Revenue 2008 £million**
Specialty Products	141.6	14.8	25.1	**181.5**
Surfactants	46.3	6.7	(1.9)	**51.1**
Chromium	115.9	7.7	45.0	**168.6**
Inter-segment	(4.0)	—	3.3	**(0.7)**
	299.8	29.2	71.5	**400.5**

Operating profit from continuing operations

	Operating profit* 2007 £million	Effect of exchange rates £million	Increase 2008 £million	**Operating profit* 2008 £million**
Specialty Products	28.8	(1.7)	2.0	**29.1**
Surfactants	0.9	—	(0.4)	**0.5**
Chromium	14.2	(0.6)	14.1	**27.7**
Central costs	(5.8)	0.1	0.4	**(5.3)**
	38.1	(2.2)	16.1	**52.0**

* before exceptional items

Business review
Finance report
Brian Taylorson, Finance Director

> Group operating profit from continuing operations, before exceptional items, was £52.0 million in 2008, an increase of 36 per cent over the previous year, or 41 per cent excluding the impact of currency and acquisitions. Specialty Products and Chromium both showed an improvement in operating profit, while Surfactants was essentially flat.

Group results

Group revenue from continuing operations was £400.5 million in 2008, compared to £299.8 million in the previous year. Excluding currency effects and acquisitions this represents an increase of 17 per cent with both Specialty Products and Chromium showing increases, while sales in Surfactants were lower for the reasons outlined in the Business commentary. Overall volumes were lower by approximately 2 per cent compared to the previous year due to lower sales in Surfactants, while volumes in Specialty Products and Chromium were flat to marginally higher. From a geographical viewpoint, sales volumes were generally higher than the previous year in Asia Pacific and the rest of the world, and lower in North America and Europe. In the first half of 2008 volumes were approximately 1 per cent higher than the corresponding period in 2007, and volumes in the second half were approximately 3 per cent lower than the same period last year, reflecting the general slow down in economic activity that took place towards the end of 2008.

Group operating profit from continuing operations, before exceptional items, was £52.0 million in 2008, an increase of 36 per cent over the previous year, or 42 per cent excluding the impact of currency and acquisitions. Specialty Products and Chromium both showed an improvement in operating profit, while Surfactants was essentially flat. Currency movements reduced operating profit by approximately 4 per cent in 2008 and the major currency movements affecting the Group in the year were the strengthening of both the US Dollar and the Euro against Sterling. Such movements would normally have a positive impact on the Group's earnings, but this impact was significantly reduced in 2008 by the Group's currency hedging programme, which essentially defers these benefits until the following year. In 2008 the Group recorded a net cost on its currency hedging transactions of £9.0 million (2007: £2.9 million gain). After taking account of the impairment charge in Chromium, Group operating profit from continuing operations was £31.5 million (2007: £40.5 million).

Diluted earnings per share from continuing operations, before exceptional items, was 9.1 pence compared to 7.2 pence in the previous year due mainly to the improvements in operating profit described above. Reported earnings per share was 4.5 pence (2007: 10.8 pence) on a fully diluted basis due to the impairment charge noted above.

Revenue

	2008 £million	2007 £million
Continuing operations		
Specialty Products	**181.5**	141.6
Surfactants	**51.1**	46.3
Chromium	**168.6**	115.9
Inter-segment	**(0.7)**	(4.0)
	400.5	299.8
Discontinued operations		
Pigments	**—**	59.7
	400.5	359.5

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.

Exceptional items

Following a review of the evolving trends in the markets served by Chromium's UK manufacturing facility and its competitive cost position in those markets, management have concluded that the expected earnings and cash flow from this facility are likely to be significantly reduced going forward and is therefore evaluating its potential closure. As a result, an exceptional charge of £20.5 million has been recorded in 2008 representing an impairment to the asset value of the facility.

Provisions

At the end of 2008 the Group held provisions of £21.8 million (2007: £16.5 million) of which £20.0 million (2007: £14.0 million) related to environmental issues. Environmental provisions increased by £3.7 million in the year, excluding currency effects, due to £2.1 million of additional planned spending in Chromium and, out of the total environmental provisions, approximately £8.3 million relates to continuing operations and the balance relates to sites no longer directly controlled by the Group. The overall level of provisions held had been reviewed by external consultants during the year.

Interest

Continuing operations

	2008 £million	2007 £million
Finance income	**1.8**	0.4
Finance cost of borrowings	**(4.4)**	(6.4)
	(2.6)	(6.0)
Pension finance income	**(0.1)**	2.3
Discount on provisions	**(0.8)**	(0.6)
	(3.5)	(4.3)

Interest on continuing operations decreased by £0.8 million in 2008 to £3.5 million. Net interest costs were lower by £3.4 million at £2.6 million due to lower average borrowings, following the sale of Pigments in August 2007, and generally lower interest rates in the United States. The majority of the Group's borrowings are denominated in US Dollars.

Finance expense on pension schemes was £0.1 million compared to income of £2.3 million in the previous year, largely due to an increase in the discount rate used to assess the value and cost of pension liabilities.

Taxation

Tax charge

	£million	Effective rate per cent
Before exceptional items	8.2	16.9
Exceptional items	—	—
Total	**8.2**	**16.9**

Tax charges amounted to £8.2 million in the year (2007: £8.9 million). Tax on continuing operations before exceptional items was £8.2 million (2007: £1.8 million), which represents 16.9 per cent (2007: 5.3 per cent) of profit before taxation. The rate is higher than the previous year, due mainly to the full recognition of US tax losses in 2007. There was no tax charge associated with exceptional items because those charges relate to UK operations where the Group has unutilised losses.

Earnings per share

Note 9 to the financial statements sets out a number of calculations of earnings per share. To better understand the underlying performance of the Group, earnings per share reported under IFRS is adjusted for items classified as exceptional and for discontinued operations. Diluted earnings per share from continuing and discontinued operations, before exceptional items, increased by 14 per cent to 9.1 pence (2007: 8.0 pence).

Diluted earnings per share from continuing and discontinued operations reported under IFRS (sometimes referred to as 'reported earnings per share' in other parts of this report) was 4.5 pence (2007: 10.8 pence). Exceptional items in 2008 reduced reported earnings per share by 4.6 pence (2007: increase of 2.8 pence).

Operating profit

	2008			2007		
	Operating profit £million	Exceptional items £million	Adjusted operating profit £million	Operating profit £million	Exceptional items £million	Adjusted operating profit £million
Continuing operations						
Specialty Products	**29.1**	**—**	**29.1**	29.3	(0.5)	28.8
Surfactants	**0.5**	**—**	**0.5**	1.4	(0.5)	0.9
Chromium	**7.2**	**20.5**	**27.7**	15.0	(0.8)	14.2
Central costs	**(5.3)**	**—**	**(5.3)**	(5.2)	(0.6)	(5.8)
	31.5	**20.5**	**52.0**	40.5	(2.4)	38.1

Business review
Finance report

Distribution to shareholders
During 2008 the Group paid a final dividend in respect of the year ended 31 December 2007 of 1.4 pence per share. An interim dividend of 1.5 pence per share was paid on 10 October 2008 and the Board is proposing a final dividend of 1.4 pence per share which will be paid on 22 May 2009.

Cash flow
The cash flow is summarised below:

	2008 £million	2007 £million
EBITDA*	**64.4**	54.8
Change in working capital	**(4.5)**	0.2
Capital expenditure	**(12.8)**	(8.9)
Other	**2.1**	0.9
Operating cash flow	**49.2**	47.0
Pension	**(7.1)**	(10.6)
Interest and tax	**(4.0)**	(7.6)
Exceptional items	**—**	(1.6)
Other	**(1.5)**	(0.8)
Free cash flow	**36.6**	26.4
Dividends	**(12.8)**	(11.1)
Acquisitions and disposals	**(46.3)**	66.8
Currency fluctuations	**(25.2)**	2.3
Movement in net borrowings	**(47.7)**	84.4
Net borrowings at start of year	**(16.2)**	(100.6)
Net borrowings at end of year	**(63.9)**	(16.2)

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

EBITDA increased by 18 per cent to £64.4 million in the year, due to the improvement in operating profit. Cash flow from working capital was an outflow of £4.5 million, which was lower than the amount implied by the increase in sales due to overall improvements in working capital levels. The percentage of working capital to sales, adjusted for currency movements, was 19.6 per cent compared to 21.9 per cent in the previous year. Debtor days improved by three days to 48 days. Inventory days increased by 13 days to 91 days due to a rapid slow down in demand towards the end of 2008, but this was offset by an improvement in creditor days of 11 days to 78 days.

All measures of working capital days have been adjusted for currency movements and acquisitions and disposals. Cash flow from working capital was a small inflow in 2007 due to the unwinding of strategic inventory levels during that year. Capital expenditure was £3.9 million higher than the previous year due to additional manufacturing and infrastructure spending in Specialty Products to support growth. Pension deficit contributions were lower than the previous year by £3.5 million, due to lower contribution requirements to US plans.

Free cash flow, defined as cash flow available to finance returns to shareholders, repay debt or make new investments, increased by £10.2 million to £36.6 million.

Currency fluctuations had a significant impact on net borrowings in the year, because the majority of the Group's debt is denominated in US Dollars which strengthened against Sterling by almost 30 per cent during 2008. Net debt increased by £47.7 million in the year, of which £25.2 million was due to currency and the balance was due to acquisition spending and dividend payments less free cash flow. In 2007, proceeds from the sale of the Pigments business contributed to a reduction in debt in that year of £84.4 million.

Balance sheet

	2008 £million	2007 £million
Intangible fixed assets	**227.3**	147.9
Other net assets	**104.9**	98.2
	332.2	246.1
Equity	**268.3**	229.9
Net borrowings	**63.9**	16.2
	332.2	246.1
Gearing**	**19%**	7%

** the ratio of net borrowings to equity plus net borrowings

Currency fluctuations had a significant impact on the Group balance sheet in 2008 due to the weakness of Sterling against both the US Dollar and Euro. Equity increased by £38.4 million (2007: £30.6 million) due mainly to currency movements of £65.8 million.

Free cash flow
from operations

£36.6m

Net borrowings
at 31 December 2008

£63.9m

Gearing increased to 19 per cent in the year compared to 7 per cent in 2007, mainly due to the acquisition of Deuchem.

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

	2008		2007	
	Year end	Average	Year end	Average
US Dollar	**1.44**	**1.89**	1.99	2.00
Euro	**1.03**	**1.28**	1.36	1.46

Pensions and other post retirement benefits

	2008 £million	2007 £million
Net pension liabilities:		
UK	**(12.7)**	(12.8)
US	**(29.0)**	(2.0)
Netherlands	**(1.0)**	(0.9)
Other	**(6.6)**	(5.8)
	(49.3)	(21.5)

The Group operates several pension plans in different countries and a retirement medical scheme in the United States. The largest of these is the UK defined benefit pension scheme ('UK scheme') which had assets of £349.1 million at the end of 2008. The deficit in this scheme, under IAS 19, was £12.7 million at the end of 2008 which is almost the same as at the end of the previous year. Gross liabilities under the scheme reduced by £31.8 million during the year, principally due to an increase in corporate bond yields, a decrease in market inflation expectations and benefit payments made in the year. The scheme assets reduced by a similar amount (£31.7 million) due to a negative return of 4 per cent and net benefit payments of £16.2 million, after taking account of contributions paid in the year.

The next triennial valuation and funding discussions for the UK scheme will be as of 30 September 2008 and the Company will be discussing this with the trustees of the scheme during 2009. Financial markets have been extremely volatile in recent months and it is likely that the deficit valuation to be agreed with the trustees will be significantly higher than the deficit shown in the Group accounts under IAS 19. In particular, the triennial funding valuation uses a discount rate based on a prudent estimate of the expected return on the scheme's assets, whereas IAS 19 uses a discount rate based on high quality corporate bond yields. In previous years the discount rates under these two approaches have been broadly similar, but during 2008 changes in corporate bond yields increased the gap between the two rates, which has placed a relatively lower assessed value on the scheme's liabilities under IAS 19. Also, in the months leading up to the triennial valuation date of 30 September 2008, financial market expectations for future price inflation was higher than it was towards the end of the 2008, further reducing the IAS 19 valuation relative to the triennial funding valuation.

The previous triennial valuation was carried out as of 30 September 2005, at which time the Company and trustees agreed upon a deficit value of £49.5 million and the Company agreed to make deficit contributions of £6.2 million per annum until September 2015. Under current pension regulations the Company is required to enter into an updated funding arrangement with the trustees by the end of 2009. In doing so the Company will focus on the long term structural changes in the deficit since 2005, to arrive at future contributions that are reasonably affordable.

The US pension plan is smaller than the UK scheme, with assets of £45.0 million. The deficit for the plan increased by £27.0 million largely due to a 37 per cent loss on the assets in the year due to weak equity markets. This loss is greater than for the UK scheme because the US plan has a larger percentage of its assets in equities. Exchange rate movements also increased the Sterling value of the deficit by £7.0 million.

The other schemes are smaller than the UK and US pension plans and showed only modest changes in deficit values.

"Currency fluctuations had a significant impact on net borrowings in the year, because the majority of the Group's debt is denominated in US Dollars which strengthened against Sterling by almost 30 per cent during 2008."

Business review
Finance report
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, before exceptional items, to sales. The Group achieved an operating profit from continuing operations before exceptional items of £52.0 million for the year ended 31 December 2008 (2007: £38.1 million). This is an increase of 36 per cent on the previous year. The Group's operating margin from continuing businesses was 13.0 per cent compared to 12.7 per cent in 2007.

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. It specifically excludes prepayments, capital or interest related receivables or payables, working capital related to acquisitions made in the year, changes due to currency movements and items classified as other receivables and other payables. The Group's trade working capital to sales ratio at 31 December 2008 was 19.6 per cent (2007: 21.9 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 31.9 per cent for the year ended 31 December 2008 (2007: 24.6 per cent).

4. Lost time accidents
A lost time accident ('LTA') is any work related injury or illness sustained by an employee or directly employed contractor whilst working at the Group's premises that results in greater than three days lost, excluding the day of accident. There were two LTAs in continuing operations in 2008 (2007: 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 2008 was 33.7 per cent (2007: 33.5 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 2008 the operating cash flow was £49.2 million (2007: £47.0 million).

Group operating margin
from continuing operations

13.0%

Group return
on operating capital employed

31.9%

Business review
Finance report
Principal risks and uncertainties

The Group has a process that identifies certain risks that could affect the business operations and hence the financial results and/or value 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 28.

In 2008 the Group continued to invest time and resource across a range of risk management strategies. These included actions to reduce the severity and likelihood of some risks, and working closely with the Group's insurance broker and major insurer to transfer other risks. However, despite best efforts, it is recognised that there remains the possibility that an identified risk may turn into a reality, or that a previously unidentified risk manifests itself, causing loss to the Company. As reported last year, to cover this eventuality the Group has developed and rolled-out a Business Continuity Plan ('BCP') which is designed to help ensure that the business can continue to operate in the event of a major incident or crisis. The BCP is embedded throughout the organisation and is periodically tested, audited and subject to continual improvement.

Commercial risk

The current economic climate represents the main risk and uncertainty facing the Group's businesses but its geographical spread of customers and its breadth of product applications will help to reduce the Group's exposure to local economic downturns.

The principal drivers of our businesses are well understood by management and one of these is that a significant increase in raw material prices and energy costs can be detrimental to the Group's financial result. 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 and to a high standard, as our HSE performance statistics show within the Corporate social responsibility 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 learned 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, tornadoes, earthquakes and floods are a predictable risk. Good design and management of all facilities is backed by 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. One of the priorities following the acquisitions made last year was the rolling-out of Group HSE procedures and the BCP to the newly acquired businesses, which is progressing well.

Financial risk

Elementis maintains a comprehensive insurance programme with limits and deductibles that are set to optimise the total cost of risk borne by the Group, and 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 focused 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. In addition to the due diligence that was carried out prior to making our two acquisitions last year, our internal auditors were asked to undertake a targeted review of the new businesses to provide an early assessment of their level of internal control. Significant issues and corrective actions from the work of the internal audit service are reported to site and group management for review and follow-up, and the Audit Committee reviews all internal audit reports twice a year.

Business review
Finance report
Principal risks and uncertainties

Regulatory and legal risk

As a manufacturer of specialty chemicals, Elementis is 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 chemical products in the EU potentially subject manufacturers to costly registration and testing that would have to be borne by the Company or passed on to customers. Elementis has active REACH management programmes in place, with appropriate reporting to the Board, and further information is given in the Corporate social responsibility report.

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 a 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, HSE or other laws or regulations from historical or ongoing operations can lead to a major financial loss or public censure or both, thereby damaging the creditworthiness and or reputation of the Company; the latter can damage the Company's long and short term market value. These risks are mitigated by our risk management programmes, including: web-based compliance training for employees; regular HSE compliance audits, supported by external advisers and the internal audit service; and insurance.

In terms of the key legal risks, there is a risk of material toxic tort and environmental claims from historical and 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 legal action or claims relating to its operations, products and 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; and
- market risk.

These risks and the Group's policies to manage them are set out in note 22 to the financial statements.

Brian Taylorson
Finance Director
24 February 2009

"The current economic climate represents the main risk and uncertainty facing the Group's businesses but its geographical spread of customers and its breadth of product applications will help to reduce the Group's exposure to local economic downturns."

Corporate social responsibility report

Business conduct and ethics

Compliance with all applicable laws and regulations including health, safety and environmental ('HSE') laws and regulations, and effective management of HSE and other ethical issues, are viewed by the Board as critical to the successful long term performance of Elementis.

It is the policy of Elementis to promote honest, ethical and lawful conduct by all employees, officers and directors of the Group, and the Board has adopted and disseminated throughout the Group the Elementis Code of Business Conduct and Ethics (the 'Code') and an Anti-corruption Policy (the 'Anti-corruption Policy'), to help employees understand the Group's standards of ethical business practices and to stimulate awareness of ethical and legal issues that may be encountered in carrying out their responsibilities. In addition, Group businesses are expected to require independent contractors, consultants, agents and sales representatives who represent the Group to agree to the same high standards as the Group's employees while working on Group business.

The Code requires all employees to comply with applicable laws, governmental rules and regulations, including making full, accurate and timely disclosures in the periodic reports required to be filed by the Group with regulators and in other public communications made by the Group. The Anti-corruption Policy prohibits the giving of anything of value to any person in government or state-owned companies, a political party or persons holding public office, including candidates, or performing public duties in order to obtain or retain business or secure an improper advantage with respect to any aspect of the Group's business.

Employees are required to adhere strictly to the Code and to promptly report (to a responsible supervisor, the Group General Counsel or other appropriate internal authority) any violations of the Code or the Anti-corruption Policy. In order to help employees comply with the Code and Anti-corruption Policy, clear guidance is given on matters such as competition law, bribery, political donations, the giving and receiving of gifts, conflicts of interests and Group whistleblowing procedures.

As well as policies and guidance, the Group recognises the importance of providing training. Web-based, modular training courses, designed in conjunction with the Integrity Interactive Corporation, are offered to employees across the Group. Some of these courses are mandatory for all employees, such as training on the Code, and others are only mandatory depending on the job role or position. These courses include topics such as 'Mutual respect in the workplace', 'Human rights', 'Environmental stewardship', 'Anti-trust', 'Privacy and data protection' and 'Financial integrity'. About 770 employees were enrolled onto courses during 2008. On-site training, for example on health and safety, is also provided.

The Group General Counsel is responsible for the Code, Anti-corruption Policy and all matters related to business conduct and ethics, and legal and regulatory compliance.

HSE leadership

The Group Chief Executive takes leadership of HSE matters 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 policy on HSE

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

Elementis plc 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 plc 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 up and down the supply chain.

Elementis plc 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 plc are committed to this policy and continually monitor performance to ensure its implementation.

HSE 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.

Corporate social responsibility report

Working towards an injury-free work environment

Our principal measure of performance is recordable incidents. Recordable incidents are workplace injuries and illnesses that require medical treatment beyond first aid. An important sub-set of these is lost time accidents ('LTAs'), which forms another performance measure. Given the low frequency of LTAs we use recordable incidents as our standard measure.

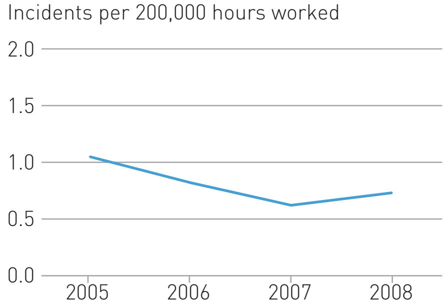
In 2008, as a result of effective design of working practices, strong management and safe behaviours, we were able to limit recordable incidents to just nine globally. This includes the performance of the two acquisitions made in July for the period in which they were under our ownership.

The Total Recordable Incident Rate for the year was 0.73 per 200,000 hours worked (2007: 0.65). Given the low number of incidents the slight increase is not considered statistically significant. Based on American Chemistry Council statistics, our rate of less than 1.00 recordable incidents per 200,000 hours worked continues to rank 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 work towards an injury-free workplace.

Total recordable incident rate

Incidents per 200,000 hours worked



Using the UK Health & Safety Executive's definition of LTA[4], two of the recordable incidents were classed as LTAs in 2008 (2007: two). Over the years the rate has reduced to 0.24 LTAs per 100,000 hours worked.

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 stated in our HSE policy we are committed to minimising the impact of our facilities on the environment. We believe that we have made good progress in achieving a sustained low level of environmental incidents.

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 continual improvements can be made. Tier 1 incidents have no impact on the environment, such as minor spills that can be confined and require no regulatory reporting. Tier 2 incidents have a minor impact and Tier 3 have some impact on the environment.

In 2008 the on-going businesses in Elementis had one Tier 3 incident (2007: one) which involved a financial penalty for discharging what the local sanitation board considered to be untreated process effluent at our Charleston facility. There were no Tier 2 incidents (2007: one). We record and monitor all Tier 1 incidents but do not report these as their principal purpose is to allow our HSE professionals to investigate and learn from them in order that improvements can be made and to reduce the likelihood of future Tier 2 and 3 incidents.

4 Greater than three days lost, not including day of incident.

Lost time accident rate per 100,000 hours

0.24

Total recordable incident rate per 200,000 hours

0.73

Environmental performance

Emissions to air, discharges to water and waste disposal are regulated by external authorities and controlled carefully within Elementis. The table below shows our performance in some of these areas. It should be noted that the 2008 data contains data from the Deuchem sites in China and Taiwan and the Yuhong joint venture in China acquired during 2008. The table also shows our water and energy usage over the past three years, although this excludes the two acquisitions as no comparable data was available as at the time of writing.

Emissions to air

Elementis continues to seek to reduce, wherever it can, its emissions of carbon dioxide ('CO2'), a 'greenhouse gas', which facilitates global warming and leads to other consequences of climate change. CO2 emissions are, in part, a function of production output – our production output has changed over the years both in terms of total volume and changes in products (or product mix). Furthermore, as is standard practice in the chemical industry, some emission and discharge values may be based on samples rather than continuous monitoring. During the year, internal audit reviewed the data reported by a sample of sites and found that they were produced on a consistent and accurate basis.

The Group's operations also result in the emission of sulphur and nitrogen oxide, which can cause acid rain, and volatile organic compounds, which can damage soil and ground water or combine with nitrogen oxide to cause smog. The volume of these emissions are controlled to comply with regulatory permits and, as the volumes are not considered to be significant, they are no longer reported here.

Discharges to water

Maintaining the water quality of the areas in which we operate is a regulatory issue and vital to protect the ecosystems and communities in which we operate. The Group's production activity does create some by-products that are discharged to water, such as chemical and biological oxygen demand, and these are regulated by external authorities and carefully managed by Elementis. The volume of these discharges are not considered to be siginificant and are no longer reported here.

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

Water consumption

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

Energy consumption

Conserving energy is important for sustainable development. Energy is an expensive resource and its efficient use also has a significant effect on the cost of production. As the Group uses a range of fuel sources, these have been converted into gigajoules ('GJ') to provide consistent energy units. Reduction in production output in the last quarter of 2008 reduced energy consumption but adversely affected the specific consumption per tonne. Just under 80 per cent of consumption is accounted for in the production of chromium chemicals.

Solid waste

The Company is committed to minimising the quantity of all types of waste. The quantity of hazardous waste resulting from operations in Elementis has reduced significantly over the last decade. The low level that remains is highly controlled and subject to licensed disposal. Non-hazardous waste is minimised and recycled as far as possible. Non-hazardous waste is predominantly the inert residue from the chromate kiln operations, which is deposited in our own licenced landfill sites adjacent to the manufacturing facilities. Alternative or recycled uses have been explored but to date there is no technically viable commercial option to landfill.

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

Environmental performance

	2008		2007		2006	
	Absolute (000s)	**Per tonne of production**	Absolute (000s)	Per tonne of production	Absolute (000s)	Per tonne of production
CO_2 emissions* (tonnes)	**408**	**1.06**	361	1.01	337	1.03
Water consumed** (m^3)	**2,202**	**5.90**	1,997	7.15	3,660	8.47
Energy consumed** (GJ)	**6,900**	**14.00**	6,900	13.30	7,500	13.60

	2008		2007		2006	
	Absolute (000s)	**Per 1,000 tonnes of production**	Absolute (000s)	Per 1,000 tonnes of production	Absolute (000s)	Per 1,000 tonnes of production
Hazardous waste disposed* (tonnes)	**1.23**	**3.18**	1.04	2.99	5.15	11.9
Non-hazardous waste disposed* (tonnes)	**79**	**206**	349	180	426	210

* includes Deuchem and Yuhong
** excludes Deuchem and Yuhong

Corporate social responsibility report

Environmental performance continued

Environmental target

Our target is to comply with all environmental regulations and permits, with zero environmental incidents classed as Elementis Tiers 2 and 3. Beyond that we will strive for continual improvement in standards to reduce our impact on the environment.

HSE hazards and risks

Elementis is committed to identifying hazards and reducing risk to people and the environment.

New equipment and plant are 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 as ISO 14001, OHSAS 18001 and OSHA VPP.

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 for 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 the Principal risks and uncertainties section of the Business review).

Continual improvement in HSE

Each site has an annual plan showing 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 provides guidance to achieve the desired results. Additionally, the Audit Committee approved the inclusion of HSE reporting within the scope of internal audit work for 2008. Eight sites were reviewed for HSE compliance with Group policies and procedures by internal audit and no significant issues were raised.

Social responsibility

The Group Chief Executive has Board level responsibility for social and community matters, although day to day responsibility is delegated to the business managing directors.

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. Details of our employment policies and information about employee communication are summarised in the Directors' report on page 22.

The Company undertakes regular customer satisfaction surveys and 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. The Group is open to collaborating with customers to develop new products and is currently undertaking collaborative research to develop 'greener' alternatives for use in the products we manufacture. This kind of research is still at a very early stage but it demonstrates our commitment to reduce the impact of our operations on the environment.

Our global procurement team is primarily responsible for engaging with suppliers and an employee training programme is in place which includes courses on Mutual Respect, Environmental Awareness in Manufacturing and Environmental Stewardship. Over 500 employees have completed at least one of these courses in 2008.

Product stewardship

Elementis recognises its responsibility to ensure that its products are safe for 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 – supported by discussion with our customers and suppliers, and participation in studies by industry associations.

We continuously adopt a consistent and coordinated approach to regulatory matters concerning our products at global, national and regional levels which complement industry voluntary efforts. Where new regulations are required, we believe they should be based on established scientific risk assessment and risk management principles. They should be predictable, flexible and capable of responsibly addressing society's economic, environmental and safety requirements.

The Group is fully engaged in the new European REACH programme and met the 2008 requirements. We pre-registered more than 700 substances in order to cover products manufactured in Europe, imported products and required global raw materials. To support our global customers and markets, we implemented a structure to enable us to provide 'Only Representative' services under REACH to cover imports into Europe by Group entities and key customers, and we created a framework to cover 're-imports' into Europe. The Product Stewardship team is involved in many consortia coordinating the REACH registration of our most important product categories. We will continue to actively support consortia and organisations such as CEFIC (European Chemical Industry Council) and SIEF (Substance Information Exchange Forum) in the future. In addition to complying with the REACH regulatory requirements, Elementis plans to strategically maintain an efficient supply chain and protect our critical global businesses and customers.

Community involvement

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

Including donations made in the UK, which are disclosed on page 24, the Group made charitable donations worth more than £15,400 in 2008 (2007: £12,500) to over 34 (2007: 30) different organisations supporting various causes in and around the locality of our offices and plants in the US and UK. Organisations and groups supported last year include local youth and sports clubs, schools, arts groups, hospice and other welfare related groups, and medical research and health related charities.

The Company also operated a payroll giving programme in the UK and, for over ten years, the Eaglescliffe operations in Stockton-on-Tees have leased at peppercorn rent 116 acres of land to a local ecology and conservation study group which is used by schools to conduct environmental studies and as a calming learning environment for children with emotional and behavioural difficulties. Some of our employees act voluntarily as officers of the Group. The conservation group has in recent years set up partnerships with two local schools who use the site as Forest School classrooms where children can learn about ecology and the natural environment.

In addition to the amounts disclosed above, our Delden manufacturing facility in The Netherlands sponsored a number of events organised by local community groups to raise money or awareness for certain causes, which included disability groups, the emergency services and welfare appeals for ex-servicemen and women. The total amount sponsored was €1,000 which excludes time given to employees to volunteer.

In China, employees in our Changxing plant and Shanghai sales office donated more than RMB50,000 from their pay last year to the Red Cross Organization of China in response to the earthquake disaster in the Sichuan Province. Deuchem contributed RMB100,000 to the same emergency response fund.

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

Board of directors

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1. Robert Beeston, age 67
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 53
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 United States and holds a Bachelor of Science degree in marketing.

3. Brian Taylorson, age 53
Finance Director

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

4. Ian Brindle, age 65
Senior Independent Director A,N

Ian Brindle was appointed a non-executive director and Chairman of the Audit Committee in June 2005. He retired as Chairman of the Audit Committee in April 2008 and was appointed Senior Independent Director. He was until 2001 UK chairman of PricewaterhouseCoopers, was a member of the Accounting Standards Board between 1992 and 2001 and the deputy chairman of the Financial Reporting Review Panel between 2001 and 2008. He is a non-executive director of Spirent Communications plc and serves as the senior independent director on the board of 4imprint Group plc.

5. Andrew Christie, age 52
Non-executive Director A,N,R

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

6. Chris Girling, age 55
Non-executive Director A,N,R

Chris Girling was appointed a non-executive director in April 2005 and Chairman of the Audit Committee in April 2008. He was group finance director of Carillion plc, a construction and support service group, from 1999 to 2007, and previous to that he was finance director of Vosper Thornycroft plc for ten years. He holds an MBA and is a fellow of the Institute of Chartered Accountants in England and Wales. He is an independent trustee for a city law firm's pension fund and a non-executive director of ARCO Limited.

7. Kevin Matthews, age 45
Non-executive Director A,N,R

Kevin Matthews was appointed a non-executive director in February 2005 and Chairman of the Remuneration Committee in April 2008. He is chief executive officer of 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.

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 2008.

Principal activities, business review and future development

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

The main activities of the Group are the manufacture and sale of specialty chemicals. The Business review on pages 4 to 19, which forms a part of this report, contains a fair review of, and likely future trends and factors that might affect, the development, performance and position of the Group. A review of principal risks and uncertainties is set out on pages 13 and 14 and policies on financial risk can be found in note 22 to the financial statements on page 58. The Corporate social responsibility report on pages 15 to 19 summarises the Group's approach to health and safety, the environment, social responsibility and community matters.

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 30 locations in eight countries.

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

Results

The Group profit for the year attributable to equity holders of the parent amounted to £19.8 million (2007: £48.0 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, Andrew Christie, David Dutro, Chris Girling, Kevin Matthews and Brian Taylorson. With the exception of Andrew Christie, who was appointed on 11 August 2008, all these directors served on the Board throughout the financial year. Past directors include Ken Minton who retired as a director at the end of the 2008 Annual General Meeting on 24 April 2008 and Matthew Peacock who left the Board on 31 January 2008. More information about the directors is provided in the Corporate governance report.

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

At the 2009 Annual General Meeting ('AGM'), Ian Brindle, Andrew Christie and Chris Girling will retire in accordance with the Company's Articles of Association and offer themselves for election or re-election by shareholders. None of these directors has a service contract with the Company.

All non-executive directors, with the exception of Andrew Christie who joined the Board in August 2008, took part in a performance evaluation and their performance continues to be effective and demonstrates commitment to their roles.

The Board recommends the election of Andrew Christie and the re-election of Ian Brindle and Chris Girling. Biographical information on these three directors, as well as on the other directors, is shown on page 21.

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 employs HR specialists throughout its worldwide locations to advise on all HR matters including training and development, and various HR performance indicators are maintained in order to monitor and evaluate the effectiveness of employment policies.

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

In terms of how our employment policies are applied to employees who have or acquire a disability, the Group's policy is, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion 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. Further information about the Group's policy on business conduct and ethics is set out in the Corporate social responsibility report.

Employee communications and involvement

It is Group policy to communicate with all employees on major matters to encourage them to take a wider interest in the affairs of their employing company and the Group and to make them aware of the financial and economic factors affecting the Company's performance. This is done in a variety of ways including informal consultations, bulletins and briefing sessions. There are well established procedures, including regular meetings with recognised unions, to ensure that the views of employees are taken into account in making decisions likely to affect their interests. Managers throughout the Group have a responsibility to keep their staff informed of developments and matters of interest. The Company operates savings-related share option schemes allowing UK and US employees an opportunity to become shareholders, details of which are set out in note 25 to the financial statements on page 69.

Going concern

The Group's business activities, together with the factors likely to affect its future performance and development are set out in the Business review on pages 4 to 19. The financial position of the Group and description of the principal risks and uncertainties are set out above in the Finance report on pages 8 to 14. Note 22 details the Group's exposure to credit, liquidity and market risk and its mechanisms for dealing with these risks.

The Group's primary source of funding is a syndicated £150 million revolving credit facility which is not due for renewal before July 2011. At the year end, the Group's net debt was £63.9 million. Compliance with covenants is reported half-yearly to the syndicate of banks and involves tests for net debt: EBITDA ratio, interest cover and net worth. No breaches in covenants were reported during the year. Additionally, the Group uses various short and medium term forecasts to monitor anticipated future compliance and, in the current volatile economic conditions, have further modified the modelling to include worst case scenario planning in order to stress test the assumptions and identify the headroom on the covenant tests. In addition, management has considered the various mitigating actions that could be taken to reduce the impact of a prolonged downturn in trading. Such measures include reductions in fixed costs, a reduction in capital expenditure and reductions in those items of working capital within management's control.

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

Share capital

The Company's share capital consists of ordinary shares, as set out in note 39 to the financial statements on page 78. All of the Company's issued ordinary shares are fully paid up and rank equally in all respects. The rights attached to them, in addition to those conferred on their holders by law, are set out in the Company's articles of association ('the articles'). Other than those specific provisions set out in the articles, there are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them. From time to time the Elementis Employee Share Ownership Trust ('Trust') holds shares in the Company for the purposes of various share incentive plans and the rights attaching to them are exercised by independent trustees, who may take into account any recommendation by the Company. As at 31 December 2008 the Trust held 4,736,829 ordinary shares of 5 pence each in the Company. A dividend waiver is in place in respect of all shares held by the Trust.

Directors, articles and purchase of shares

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

Significant agreements – change of control

Other than as set out in this paragraph, there are no significant agreements to which the Company is a party which take effect, alter or terminate in the event of change of control of the Company. The Company is a guarantor under the Group's £150 million revolving credit facility which runs until July 2011. Under the terms of that facility, in the event of a change of control, any lender among the facility syndicate, of which there are eight with commitments ranging from £10 million to £27 million, may withdraw from the facility and that lender's participation in any loans drawn down are required to be repaid.

Under David Dutro's service contract with the Company, compensation is payable to him equivalent to one year's basic salary if he terminates his contract upon a change of control provided that the Company has not first obtained a written agreement to be bound by his service contract from any successor in a change of control. There is no specific change of control provision in Brian Taylorson's service contract with the Company but the provisions on early termination set out on page 31 of the Directors' remuneration report apply and compensation equivalent to one year's basic salary and benefits would be payable if less than 12 months' notice of termination by the Company is given.

Significant relationships

The Group has in place a number of supply contracts for key raw materials that are essential to the business. In Specialty Products, supply contracts are for clays, quaternary amines and other chemical intermediates. The suppliers of these contracts are important and, although we have sought to develop a strategic long term relationship with them, we have taken steps to maintain a sufficiently broad base of suppliers to mitigate any supply chain risks. Specialty Products also owns and operates a hectorite clay mine in California which reduces our reliance on third party suppliers for raw materials. The Surfactants business sources a number of products from a reasonably wide base of third party suppliers for use in the manufacturing of its products. These include supplies for ethylene oxide, propylene oxide, nonylphenol ethoxylate and fatty alcohols. The Chromium division's key raw materials are chrome ore, soda ash and sulphuric acid. Chrome ore is sourced from a number of South African mining companies, while soda ash is sourced from suppliers in the UK and US. Sulphuric acid is sourced from suppliers in the US. The business is continually looking for new sources of supplies to broaden its base of suppliers. All businesses purchase energy in the form of natural gas, fuel oil or electricity. It is the Group's practice to enter into agreements with suppliers to lock in the price of approximately 70 per cent of its energy costs for each year. Information about individual suppliers is not disclosed as the Board considers that disclosure would be seriously prejudicial to the Group.

Directors' report

Significant relationships continued

As its businesses are reasonably diverse in terms of the customers and sectors they serve, the Group is not dependent on any particular customer and therefore no further information is given. The Group supplies some of its products through approved distributors, who are able to provide or access technical support services, and has a joint venture in China at an organoclay plant and, whilst these relationships are an important part of our business, the Board does not consider any individual relationship to be essential to the Group. The Group values all of its employees and, although some perform roles that are more important to the business than others, such as technical roles which might be more difficult or would take longer to replace, the Board does not consider that the Group's success is materially dependent on any single individual. However, the Board has reviewed its management succession plans and, following the review of remuneration structures by the Remuneration Committee, is satisfied that the Company's incentive arrangements are appropriate to attract, retain and motivate key people within the organisation.

Substantial shareholders

As at 24 February 2009 the Company had been notified of the following interests in 3 per cent or more of its issued ordinary capital:

	Ordinary shares	Percentage of issued ordinary share capital
Schroder plc	44,498,934	9.93
Lloyds Banking Group plc	35,432,530	7.91
Prudential plc group of companies	25,886,326	5.79
Legal & General Group plc	23,189,593	5.18
AXA S.A.	22,193,645	5.02
JP Morgan Chase & Co.	22,035,867	4.92

Auditors

A resolution to re-appoint KPMG Audit Plc as auditors of the Company will be proposed at the forthcoming AGM to be held on 16 April 2009.

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

Political and charitable donations

During the year the Group donated £2,240 for charitable purposes in the UK (2007: £5,150). The Company made no political donations during the year (2007: £nil).

Policy on payment of suppliers

The Company's and the Group's policies concerning the 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 2008 represented 78 days (2007: 67 days) of annual purchases, adjusted for currency and acquisitions and disposals. The Company has no trade creditors.

Directors' and officers' liability insurance

The Company maintains liability insurance for the directors and officers of the Company and its subsidiaries. During the year, the directors received an ongoing indemnity from the Company, against any liability or loss that may arise out of or in connection with the execution of their powers, duties and responsibilities as directors of the Company or of any subsidiary, as permitted under the Companies Act 2006.

Directors' conflict of interest

During the year Brian Taylorson was authorised by the Board to continue to act as a Trustee of the Group's UK defined benefit pension scheme ('UK pension scheme') notwithstanding that this role could give rise to a situation in which there is a conflict of interest. The Board considers that it is appropriate for the Trustees of the UK pension scheme to benefit from the financial expertise of the Finance Director and that his contribution at Trustees' meetings demonstrates the Board's commitment to supporting the UK pension scheme. The Board's conflict authorisation is subject to annual review and, under the terms of the conflict resolution, reciprocal provisions have been put in place with a view to safeguarding information that is confidential to the Group as well as to the Trustees. Were a conflict of interest to arise, Brian Taylorson is required to excuse himself from reading the relevant papers and absent himself from participating in relevant discussions. No other director was in receipt of a conflict authorisation from the Board during the year.

Post balance sheet events

As set out in the Chairman's statement and Business review, the Board is evaluating the potential closure of the UK Chromium facility and the impact of this is as set out on page 7.

Annual General Meeting

The twelfth Annual General Meeting of the Company will be held on 16 April 2009. The Notice of Meeting is included in a separate document sent to shareholders.

By order of the Board

Wai Wong
Company Secretary
24 February 2009

Directors' responsibility statement

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 applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 parent 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 parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the 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.

The directors, all of whom are shown on page 20, confirm that to the best of their knowledge:

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

By order of the Board

Brian Taylorson
Finance Director
24 February 2009

Corporate governance report

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

The Company has throughout the year ended 31 December 2008 applied fully all the provisions of Section 1 of the Combined Code of Corporate Governance (June 2008) 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 directors and biographical information about them are shown on pages 20 and 21. The roles of the Chairman and 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 left the Board at the end of January 2008 and Ken Minton retired at the conclusion of the 2008 Annual General Meeting ('AGM') on 24 April 2008. Ian Brindle was appointed Senior Independent Director in place of Ken Minton. The Nomination Committee appointed The Miles Partnership to assist with the recruitment of Andrew Christie as an additional non-executive director. The directors consider that the structure and composition of the Board following Andrew Christie's appointment is appropriate to take the Company through to the next stage of its development and there are no further plans for the time being to increase the number of directors on the Board.

Board independence

The Board considers all the non-executive directors to be independent. 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, risk management and compliance programmes including insurance arrangements, 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 shareholders and others are understood and met. It also delegates specific responsibilities with written terms of reference to the Board Committees described on the next page.

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.

At least one meeting of the Board each year is held at one of the Group's overseas locations and 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. Last year, the Board had one of its meetings in Delden, The Netherlands and the meeting was followed by a tour of the manufacturing facility there which is shared by Specialty Products and Surfactants. Inspecting such operating facilities and interacting with staff help non-executive directors to understand better the risks and opportunities 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 that of its committees and individual directors using comprehensive assessment questionnaires. The results of the questionnaires were reviewed by the Board, which believes that the performance of non-executive directors continues to be effective and demonstrates commitment to their role.

During the year the Senior Independent Director chaired a meeting of the directors to review the performance of the Chairman without him being present, and concluded that the Chairman was fully effective in his role. The non-executive directors, including the Chairman, also met during the year without the executive directors present to discuss their performance and succession planning.

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 the Company's 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.

Attendance at Board and Committee meetings during 2008:

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Directors as at 31 December 2008:				
Robert Beeston, Chairman	9/9	—	5/5*	—
David Dutro, Group Chief Executive	9/9	—	—	—
Brian Taylorson, Finance Director	9/9	—	—	—
Ian Brindle, Senior Independent Director	9/9	4/4	5/5	—
Andrew Christie	3/3	1/1	3/3	2/2
Chris Girling	9/9	4/4*	5/5	6/6
Kevin Matthews	9/9	4/4	5/5	6/6*
Past directors during the financial year:				
Ken Minton	4/4	—	1/2	2/2
Matthew Peacock	0/1	—	—	0/1

* denotes chairman of the Committee

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 chairman and members of the Audit Committee (the 'Committee') during 2008 and their attendance records are shown in the table above.

The Committee has two members with 'recent and relevant financial experience' as recommended by the Combined Code. Chris Girling is a chartered accountant and was until April 2007 group finance director of Carillion plc which is a FTSE 250 listed company. Ian Brindle's experience is based on his career with PricewaterhouseCoopers and his previous roles at the Accounting Standards Board and the Financial Reporting Review Panel.

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 four times during 2008. 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 at meetings held in October and December.

The Committee also keeps under review the objectivity and independence of the external auditors ('KPMG') and the nature and extent of the non audit services which they provide. 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 the threshold, in which case the Finance Director has delegated authority from the Committee to approve such appointments. The threshold is that 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 on behalf of the Group, provide pensions advisory services and undertake other Group and capital reorganisation related project work. It was concluded that their knowledge of the Group's business processes and controls made them best placed to undertake this work cost-effectively on the Group's behalf. The Committee considers that, notwithstanding these non audit services they provided during the year, the external auditors' objectivity was not impaired. In coming to its decision

Corporate governance report

A description of the remit and work of the Audit Committee continued

to recommend the reappointment of the external auditors, the Committee considered and discussed many factors including the following: KPMG's independence and quality control procedures; risk of KPMG withdrawing from the audit market; the fact that the 2008 financial statements were the fifth set of full year accounts to be audited by KPMG; the length of time it takes for external auditors to develop an adequate understanding of the Group's businesses and the fact that KPMG had agreed to rotate its Senior Audit Partner in 2009; and the extent of non audit services provided by KPMG.

The Committee reviewed its policy on whistleblowing during the year as well as reports on its operation. In addition to having internal procedures for reporting any suspected cases of wrongdoing, the Group has appointed an independent third party through whom issues may be raised and toll-free 'AlertLine' numbers are provided in all the jurisdictions where it operates. Management reports all incidents that have been raised to the Audit Committee together with the outcome of the investigation and steps taken to ensure lessons are learned to prevent their recurrence. Treasury, banking and currency hedging policies were also reviewed and updated during the year.

Nomination Committee

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

- reviewing the size and composition of the Board, together with the skills, knowledge and experience of its members and make 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 five times last year to discuss changes to the Board and its committees, including the appointment of Andrew Christie, review the results of the Board performance evaluation ('BPE') exercise and consider succession planning matters. Two of these meetings were attended by both executive directors. The Committee considers that the appointment of Andrew Christie, with his investment banking background and experience of working in Asia Pacific, complements the existing skills and experience on the Board. There are no plans to recruit further directors. There were no issues of significant concern raised in the BPE exercise. As part of the review process on succession planning, the Remuneration Committee was asked to undertake an in-depth review of the existing remuneration structures of senior executives with a view to ensuring they are appropriately motivated and retaining their services for the longer term. The outcome of that review is explained in the Directors' remuneration report.

Remuneration Committee

Details about the Remuneration Committee are set out in the Directors' remuneration report on pages 30 to 36.

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 mis-statement or loss.

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

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, all 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 Groupwide 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 investment 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
24 February 2009

Directors' remuneration report

Remuneration Committee

The Remuneration Committee ('the Committee') was chaired by Ken Minton until he retired in April last year when Kevin Matthews was appointed chairman in his place. The Committee 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 six times last year and its members and their attendance records are shown on page 27. 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 of 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.

Towards the end of last year, the Committee appointed Hewitt New Bridge Street ('HNBS'), after a tender, as its external advisers to carry out a benchmarking exercise on senior executive remuneration and review existing remuneration structures. This review was undertaken both in response to the current financial market environment and in connection with the Nomination Committee's work on succession planning. HNBS also undertook some project related work on behalf of the Company last year but otherwise have no other connection with the Company.

Annual General Meeting

A resolution to approve this report will be tabled at the Annual General Meeting ('AGM'). The chairman of the Committee will be 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 mix between fixed and variable pay was reviewed by HNBS which they confirmed as being broadly in line with market practice.

The Committee does not consider corporate performance on environmental, social and corporate governance issues when setting the remuneration of executive directors. The safety performance of our businesses is accorded high importance and the Committee considers that management should aspire to achieving high standards in both safety and environmental performance without the need for incentives. 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.

2008 was an excellent year for the Group in terms of both strategic and financial performance. The acquisitions of Deuchem and Yuhong have significantly expanded our presence in Asia Pacific and increased the opportunities for further growth in Specialty Products, which will lead to increased shareholder value over the medium term. The Group's financial performance has been very strong last year and this includes working capital and cash flow management. Accordingly, the Committee considers that the level of management bonuses for 2008 is appropriate since it is strongly linked to performance.

With regard to 2009, the Committee is mindful of the uncertainty surrounding the economy and aware of investor concerns in relation to executive salary increases, bonuses and bonus targets. As a result, the Committee decided to maintain the basic salaries of the executive directors at their 2008 level in 2009 and, in order to minimise the impact on cash flow whilst acting as a useful retention tool, agreed to pay one third of any bonus payments in 2009 in the form of deferred shares. Further details are explained later in this report.

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. The basic salaries of the executive directors and business managing directors have been kept at their 2008 level in 2009.

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 also between 50 per cent and 100 per cent of the aggregate of (i) his basic annual salary, (ii) the sums that would have become payable to him or on his behalf, had 12 months' notice of termination been given, by way of pension accruals and any pension cash salary supplement, (iii) the cost of providing private medical insurance for him, 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 re-appointment	Date of expiry
R Beeston	21/09/06	n/a	20/09/09
I Brindle	06/06/05	06/06/08	05/06/11
A Christie	11/08/08	n/a	10/08/11
C Girling	29/04/05	29/04/08	28/04/11
K Matthews	16/02/05	16/02/08	15/02/11
K Minton	06/06/05	n/a	retired
M Peacock	06/06/05	n/a	resigned

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. The appointments of Kevin Matthews, Ian Brindle and Chris Girling were renewed for a second three-year term last year. Kevin Matthews was re-elected at the 2008 AGM and both Ian Brindle and Chris Girling will be subject to re-election by shareholders at the 2009 AGM.

Short term incentive arrangements

The 2008 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. The threshold level was set at 2007 EPS (at which point a bonus of 7.50 per cent of basic salary could be earned). 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 earned.

There is an additional element in which both executive directors can share, together with five other senior executives, up to a maximum amount for achieving EPS over and above the upper level, which for the executive directors was equivalent to 45 per cent of their average basic annual salary. The EPS goal for this additional element was set at 15 per cent above the EPS at target level.

As a result of satisfying all elements in the 2008 bonus scheme, David Dutro and Brian Taylorson earned total bonuses equivalent to 141 per cent and 150 per cent respectively of their basic salary. The total amount of bonus payments made are shown in the Directors' remuneration table on page 34.

Following the review by HNBS, and after due consideration by the Committee, a number of modifications have been made to the 2009 Annual Bonus Scheme. The maximum amount of bonus will be 150 per cent of basic salary and EPS conditions have been set at threshold, target and upper levels; there is no longer any additional bonus element for EPS performance above the upper level. At the threshold level, a bonus equivalent to 6.25 per cent of basic salary can be earned, rising to 100 per cent of salary for achieving target performance and 150 per cent for achieving the upper target. This new linear scale is more straight forward and transparent than the previous one and the EPS condition at target level in 2009 is virtually the same in absolute terms and equivalent in level of difficulty to the EPS condition at upper level under the 2008 plan. The upper target in 2009 is the same in absolute terms and equivalent in level of difficulty as the target and level of performance in last year's additional bonus element.

A new element introduced is that for all bonus payments under the 2009 bonus scheme, two thirds will be paid in cash and one third will be in the form of deferred shares under a new 2009 Deferred Share Bonus Plan adopted by the Board, to vest after two years. The number of shares granted will be based on the market value of a share at the date of the share awards which is when the bonus payments are made and all shares that vest will be met from existing shares held in an Employee Share Ownership Trust. The Committee believes that these arrangements provide an appropriate incentive to the management team and provides a further element of retention, both of which it considers to be important in the current environment. The bonus scheme for other senior executives, such as the business managing directors, follows a similar design and structure, except that the performance conditions include divisional performance in addition to corporate EPS.

The following are key features of the new 2009 Deferred Share Bonus Plan: the maximum number of shares that may be awarded to each participant in any one year is restricted to shares with a total value equal to 50 per cent of basic salary of the participant; shares vest two years after the date of award; participants must remain in the employment of a nominated participating company that is a member of the Group up to the date the awards vest; 'good leaver' provisions mean that awards held by participants who retire early on the grounds of ill health, are made redundant under employment legislation or cease to be employed within the Group because of the transfer of a business, will vest on the date of such cessation of employment and before the normal two year vesting period; there is no financial performance condition attaching to the awards; participants will receive awards for nil consideration; in a change of control, the shares will vest immediately or, with the acquiring company's consent, lapse provided that they are replaced by new awards in that acquiring company; participants have no rights to dividends or voting rights until such time as the shares have vested and are registered in their names; awards are non assignable or transferable; and the awards may be adjusted if there is a variation of capital. As this new plan does not constitute a long term incentive plan and does not involve the issuing of new shares, shareholders have not been asked to approve it.

Directors' remuneration report

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 10 years of the date of grant; those granted since 1995 are subject to earnings per share 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 schemes (the '2003 schemes') replaced the 1998 schemes. The key 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 valued at the date of grant will not normally exceed 1.5 times basic salary in any financial year; performance 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 listed below; and the performance conditions attached to the options granted to executives in 2008 were based on EPS targets only.

The comparator companies for the purposes of grants made between 2003 to 2007 were as follows:

FTSE All Share Chemicals	Croda International Plc Porvair plc Yule Catto & Co plc
FTSE Eurotop 300 Chemicals	Akzo Nobel NV Ciba Specialty Chemicals DSM NV
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

The following targets applied to options granted to executive directors and other senior managers prior to 2008:

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 between 4.1% + RPI and 10% + RPI (straight line vesting)
	50% TSR	TSR at 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 attaching to options granted from 2006 onwards are tested at the time the options vest and lapse immediately if they are not satisfied.

The executive directors and two business managing directors received awards under the LTIP instead of executive options in 2008. The remaining senior executives and other managers who were granted executive options last year had the following performance conditions attaching to their options: 50 per cent of the award would vest if annual average EPS of 4 per cent plus RPI is achieved and the other 50 per cent would also vest if annual average EPS of 5 per cent plus RPI is achieved, with straight line vesting in between 4 and 5 per cent for the second 50 per cent component. The Committee concluded that the TSR measure was no longer appropriate for this group of managers and considered that the new EPS targets were sufficiently challenging yet ensured these managers remained appropriately incentivised.

2008 Long Term Incentive Plan ('LTIP')

Following last year's AGM, the following LTIP awards were made: David Dutro 25 per cent of the LTIP pool, Brian Taylorson 20 per cent of LTIP pool, Greg McClatchy, Managing Director of Specialty Products and Surfactants, 20 per cent and Eric Haaijer, Managing Director of Chromium, 12 per cent, leaving 23 per cent of the LTIP pool unawarded. The value of the LTIP pool (in £'millions) is calculated by taking 2.15 per cent of the increase in the value of the Company (measured by share price growth over the three year performance period plus all dvidends paid or declared during that period) less 9.3 per cent per annum (being the cost of equity) which is the minimum growth threshold. The LTIP awards are in respect of shares in the Company equal to the value of each participant's share of the LTIP pool. These awards were granted on 28 April 2008 when the market value of a share was 66.5 pence. The awards vest after three years from the date of grant and are subject to the cost of equity performance condition described above.

Like many other companies, the Committee undertook an in-depth review of all senior executive remuneration structures in response to the general deterioration of the economy in 2008. After taking into consideration the independent advice of HNBS, it concluded that no modification is required for the time being to the existing LTIP awards. The Committee remains convinced that the LTIP in its current format is the right approach for incentivising senior executives over the long term, in terms of performance and reward, aligning their interests with those of shareholders while providing an appropriate retention tool.

During its review, the Committee decided that the rules of the LTIP contained sufficient flexibility and therefore no changes are being proposed to shareholders. The rules contain a provision, that was added on the advice of many of the major shareholders who were consulted, which allows the Committee to extend the performance period by one or more years if it considers that the share price has been affected by external factors which it considers to be exceptional, provided that the performance threshold is increased for each additional year the performance period is extended by. The Committee believes that a more appropriate time for considering any proposal to extend the performance period would be in early 2010, when the LTIP will have run for a longer period and the Board will have better visibility on the economy and, therefore, be more able to determine whether or not the share price reflects the underlying value of the Company. Finally, reviewing the LTIP awards in 2010 would also give shareholders more notice of the Committee's plans in advance of when the LTIP awards are due for testing in April 2011.

As stated in the circular explaining the LTIP to shareholders at last year's AGM, the awards made in 2008 were one-off awards and therefore the two executive directors and the two business managing directors, who received LTIP awards last year, will not be receiving in 2009 any grants of either share options under the 2003 Executive share option schemes, described above, or further share awards under the LTIP. If, following its review of the LTIP next year, the Committee proposes to make further LTIP awards, it will seek prior shareholder approval.

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, is considered to have met this requirement. David Dutro, who was appointed to the Board as Group Chief Executive in January 2007, is also expected to build up a shareholding equal to his annual basic salary. The 2008 LTIP awards contained 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

Following the 2008 AGM, a new UK savings-related share option scheme ('2008 UK SAYE scheme') was adopted under which all eligible UK employees, including executive directors, can enter into savings contracts with a bank or building society for a period of three or five years and use the proceeds from their savings accounts to 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 2008 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 was also adopted last year for the benefit of 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 ('2008 US share-based scheme').

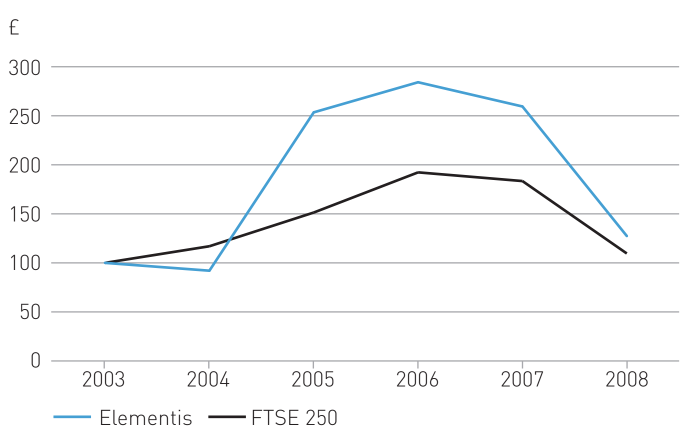
The 2008 UK SAYE and US share-based schemes replaced previous schemes, which expired last year, that contained substantially the same provisions as these two new schemes. However, subject to the rules of the schemes, certain awards continue to remain exercisable.

Total shareholder return performance

The following graph illustrates the Company's total shareholder return for the five years ending 31 December 2008, relative to the FTSE 250 Index.

This graph looks at the value, to the end of 2008, of £100 invested in Elementis on 31 December 2003 compared with that of £100 invested in the FTSE 250 Index.

The Company is a member of the FTSE 250 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.



CORPORATE GOVERNANCE

Directors' remuneration report

Directors' remuneration table

Directors' emoluments for the year ended 31 December 2008 were:

	Date of appointment (1)	Salary/fees 2008 £'000	Salary/fees 2007 £'000	Benefits (2) 2008 £'000	Benefits (2) 2007 £'000	Bonus 2008 £'000	Bonus 2007 £'000	Total excluding pensions 2008 £'000	Total excluding pensions 2007 £'000
Chairman									
Robert Beeston	26.04.07	**120**	120	**—**	—	**—**	—	**120**	120
Executive directors									
David Dutro [3]	17.01.07	**344**	249	**18**	18	**485**	374	**847**	641
Brian Taylorson [4] [5]	02.04.02	**283**	275	**16**	16	**424**	350	**723**	641
Non-executive directors									
Ian Brindle	06.06.08	**40**	40	**—**	—	**—**	—	**40**	40
Andrew Christie [6]	11.08.08	**14**	—	**—**	—	**—**	—	**14**	—
Chris Girling	29.04.08	**38**	35	**—**	—	**—**	—	**38**	35
Kevin Matthews	24.04.08	**38**	35	**—**	—	**—**	—	**38**	35
Past directors									
Ken Minton (retired 24.04.08)	26.04.07	**14**	45	**—**	—	**—**	—	**14**	45
Matthew Peacock (resigned 31.01.08)	27.04.06	**3**	35	**—**	—	**—**	—	**3**	35
		894	834	**34**	34	**909**	724	**1,837**	1,592

Each non-executive director receives a fee of £35,000 per annum plus an additional £5,000 (pro rated) should he chair a Board committee.
Ian Brindle as Senior Independent Director receives an additional £5,000 per annum.

Notes:

1 For executive directors, this is their date of appointment, and for non-executive directors, the later of the date of appointment, re-appointment or latest date of re-election to the Board.

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

3 David Dutro as Group Chief Executive received a salary of $650,000 per annum (2007: $500,000 per annum). His emoluments exclude salary supplements paid as compensation for the closing to future accruals of the US defined benefit scheme – see below. His basic salary in 2009 will remain at the previous year's level.

4 Emoluments for Brian Taylorson also exclude salary supplements paid as compensation for the limitation of pension rights to the former HM Revenue and Customs' earnings cap. These are shown in the Directors' retirement benefits table on the next page. His basic salary in 2009 will also remain at the previous year's level.

5 The Company has released Brian Taylorson to serve on the Board of Fiberweb plc and fees of £32,000 (2007: £32,000) were paid to him during the year.

6 Andrew Christie was appointed on 11 August 2008 so the fee shown above is pro rated.

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 closed to future accruals in 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 closed to future accruals, participants' account balances are no longer credited with contributions, however, interest is credited each year at the US Treasury 30 year bond rate. David Dutro's accrued benefits under this plan are shown in the table on the next page. The normal pensionable retirement age for David Dutro under the ECRRP is 65.

The ECRRP was replaced by a US 401(k) Plan, which is similar to a money purchase scheme, and a Non-Qualified Deferred Compensation Plan. Employer contributions in respect of David Dutro under these plans in 2008 were £35,070 (2007: £13,751) in total. The amount paid can vary from year to year as it is based on matching employee contributions up to about 5.5 per cent of their total remuneration each year.

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 former HM Revenue & Customs' earnings cap on the amount of salary which may be treated as pensionable.

The main benefits under this scheme to him as a UK salaried executive director, who contributes a percentage of his salary to the scheme each year, are: an accrual rate of 1/30 for each year of pensionable service; life assurance cover of four times pensionable salary; and pensions to spouse and dependent children payable on death.

The normal pensionable retirement age for Brian Taylorson is 60.

Directors' retirement benefits table

	Salary supplements 2008 £'000	Salary supplements 2007 £'000	Accrued benefits 31.12.08 £'000	Increase in accrued benefits 2008 £'000	Transfer value of increases in accrued benefits 2008 £'000	Total transfer value at 01.01.08 £'000	Total transfer value at 31.12.08 £'000	Increase in transfer value less directors' contributions 2008 £'000	Increase in accrued benefits (including inflation) 2008 £'000
Executive									
David Dutro	53	48	8	—	—	47	49	2	—
Brian Taylorson	107	101	28	4	78	552	631	72	5

Transfer values for David Dutro and Brian Taylorson in the table above have been calculated on the basis of actuarial advice in accordance with the UK Institute of Actuaries' 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.

Non-executive directors are not entitled to retirement benefits.

Directors' shareholdings

As at 31 December 2008 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 31.12.08	Ordinary shares 31.12.07
Robert Beeston	**50,000**	50,000
Ian Brindle	**31,172**	31,172
Andrew Christie	**10,000**	—
David Dutro	**35,845**	10,767
Chris Girling	**5,000**	5,000
Kevin Matthews	**3,532**	—
Brian Taylorson	**456,597**	456,597

David Dutro retained 25,078 shares that were transferred to him on 26 June 2008 when the market value of a share was 76.75 pence. The shares had been awarded to him in 2005 under the 2004 Deferred Share Bonus Scheme ('DSBS'). 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. There are no outstanding awards under the 2004 DSBS which is no longer in use, although, in conjunction with the 2009 Annual Bonus Scheme, as explained above, a new 2009 Deferred Share Bonus Plan has been adopted by the Board.

Andrew Christie was appointed on 11 August 2008. At that date he had no interest in the issued shares of the Company.

As at 24 February 2009 the Trustee of the Company's Employee Share Ownership Trust ('ESOT') held 4,736,829 (2007: 2,676,914) 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 24 February 2009 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 2008 and 24 February 2009 there was no change in the relevant interests of any such directors nor, so far as the Company is aware, in the relevant interests of any of their connected persons.

Directors' remuneration report

Directors' share options

	Option type	01.01.08	Granted during 2008	Exercised during 2008	Lapsed during 2008	31.12.08	Option price (pence)	Earliest exercise date	Expiry date	Price on exercise (pence)	Gain on exercise (£)
David Dutro	A	6,505	—	—	—	6,505	75.7	28.03.2009	28.06.2009	—	—
	A	—	1,850	—	—	1,850	72.3	26.08.2010	26.11.2010	—	—
	B	197,133	—	—	—	197,133	51.3	30.03.2008	30.03.2015	—	—
	B	250,000	—	—	—	250,000	64.5	02.11.2008	02.11.2015	—	—
	B	220,277	—	—	—	220,277	85.5	04.04.2009	04.04.2016	—	—
	B	434,673	—	—	—	434,673	88.0	15.05.2010	15.05.2017	—	—
Brian Taylorson	A	—	13,631	—	—	13,631	69.0	02.09.2011	02.03.2012	—	—
	B	468,293	—	—	—	468,293	51.3	30.03.2008	30.03.2015	—	—
	B	482,456	—	—	—	482,456	85.5	04.04.2009	04.04.2016	—	—
	C	34,090	—	—	—	34,090	88.0	15.05.2010	15.05.2017	—	—
	B	278,410	—	—	—	278,410	88.0	15.05.2010	15.05.2017	—	—

A Savings-related share option schemes.
B Executive share option scheme 2003 (Unapproved).
C Executive share option scheme 2003 (Approved).

Note 25 to the financial statements contains a detailed schedule of all options granted to directors and employees as at 31 December 2008. All of the share options were granted for nil consideration.

The market price of ordinary shares at 31 December 2008 was 37.3 pence and the range during 2008 was 35 pence to 90 pence.

Both David Dutro and Brian Taylorson were recipients of awards under the 2008 LTIP, the details of which are described on page 32.

None of the directors had an interest in any contract of significance in relation to the business of the Company or its subsidiaries at any time during the financial year.

Auditable section of the report on remuneration

The following sections and tables constitute the auditable part of this report as defined in schedule 7A of the Companies Act 1985: sections relating to 'short-term incentive arrangements', '1998 Executive share option schemes', '2003 Executive share option schemes', ' 2008 Long Term Incentive Plan', 'Savings-related share option schemes'; tables headed 'Directors' remuneration', 'Directors' retirement benefits', 'Directors' shareholdings' and 'Directors' share options'.

The Remuneration report has been approved by the Committee and signed on its behalf by:

Kevin Matthews
Chairman, Remuneration Committee
24 February 2009

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 2008 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 25.

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, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that information presented in the 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 contained 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 mis-statements 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 mis-statement, 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 2008 and of its profit for the year then ended;
- the Group's financial statements have been properly prepared in accordance with the Companies Act 1985 and article 4 of the IAS regulations;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2008;
- the parent company 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
24 February 2009

Consolidated income statement
for the year ended 31 December 2008

	Note	2008 Before exceptional items £million	2008 Exceptional items (note 5) £million	2008 After exceptional items £million	2007 Before exceptional items £million	2007 Exceptional items (note 5) £million	2007 After exceptional items £million
Continuing operations							
Revenue	2	**400.5**	**—**	**400.5**	299.8	—	299.8
Cost of sales		**(265.6)**	**(20.5)**	**(286.1)**	(199.3)	—	(199.3)
Gross profit		**134.9**	**(20.5)**	**114.4**	100.5	—	100.5
Distribution costs		**(43.5)**	**—**	**(43.5)**	(39.2)	—	(39.2)
Administrative expenses		**(39.4)**	**—**	**(39.4)**	(23.2)	2.4	(20.8)
Operating profit	2	**52.0**	**(20.5)**	**31.5**	38.1	2.4	40.5
Finance income	3	**1.7**	**—**	**1.7**	2.7	—	2.7
Finance costs	4	**(5.2)**	**—**	**(5.2)**	(7.0)	—	(7.0)
Profit before income tax	2	**48.5**	**(20.5)**	**28.0**	33.8	2.4	36.2
Tax	6	**(8.2)**	**—**	**(8.2)**	(1.8)	(0.7)	(2.5)
Profit for the year from continuing operations		**40.3**	**(20.5)**	**19.8**	32.0	1.7	33.7
Profit from discontinued operation		**—**	**—**	**—**	3.6	10.8	14.4
Profit for the year		**40.3**	**(20.5)**	**19.8**	35.6	12.5	48.1
Attributable to:							
Equity holders of the parent		**40.3**	**(20.5)**	**19.8**	35.6	12.4	48.0
Minority interests		**—**	**—**	**—**	—	0.1	0.1
		40.3	**(20.5)**	**19.8**	35.6	12.5	48.1
Earnings per share							
From continuing and discontinued operations:							
Basic (pence)	9			**4.5**			10.9
Diluted (pence)	9			**4.5**			10.8
From continuing operations:							
Basic (pence)	9			**4.5**			7.6
Diluted (pence)	9			**4.5**			7.5

Consolidated balance sheet
at 31 December 2008

	Note	2008 31 December £million	2007 31 December £million
Non-current assets			
Goodwill and other intangible assets	10	**227.3**	147.9
Property, plant and equipment	11	**121.2**	96.4
Interests in associates	12	**0.1**	0.1
Total non-current assets		**348.6**	244.4
Current assets			
Inventories	13	**100.6**	49.4
Trade and other receivables	14	**78.2**	52.9
Cash and cash equivalents	21	**33.6**	8.4
Total current assets		**212.4**	110.7
Total assets		**561.0**	355.1
Current liabilities			
Bank overdrafts and loans	20	**(15.7)**	–
Trade and other payables	15	**(82.9)**	(51.4)
Derivatives		**(22.4)**	(2.0)
Current tax liabilities		**(5.7)**	(3.6)
Provisions	16	**—**	(0.2)
Total current liabilities		**(126.7)**	(57.2)
Non-current liabilities			
Loans and borrowings	20	**(81.8)**	(24.6)
Retirement benefit obligations	24	**(49.3)**	(21.5)
Deferred tax liabilities	17	**(10.3)**	(3.4)
Provisions	16	**(21.8)**	(16.3)
Government grants		**(1.6)**	(1.5)
Total non-current liabilities		**(164.8)**	(67.3)
Total liabilities		**(291.5)**	(124.5)
Net assets		**269.5**	230.6
Equity			
Share capital	18	**22.4**	22.3
Share premium	19	**5.8**	5.2
Other reserves	19	**115.6**	66.4
Retained earnings	19	**124.5**	136.0
Total equity attributable to equity holders of the parent		**268.3**	229.9
Minority equity interests		**1.2**	0.7
Total equity		**269.5**	230.6

The financial statements on pages 38 to 74 were approved by the Board on 24 February 2009 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 2008

	Note	2008 £million	2007 £million
Operating activities:			
Profit for the year		**19.8**	48.1
Adjustments for:			
Finance income		**(1.7)**	(2.7)
Finance costs		**5.2**	7.0
Tax charge		**8.2**	2.5
Depreciation and amortisation		**12.4**	12.4
Increase/(decrease) in provisions		**1.3**	(0.3)
Pension contributions net of current service cost		**(7.1)**	(10.7)
Share based payments		**0.8**	0.9
Exceptional items		**20.5**	(12.5)
Cash flow in respect of exceptional items		**—**	(1.6)
Operating cash flow before movement in working capital		**59.4**	43.1
Increase in inventories		**(27.7)**	(0.5)
Decrease/(increase) in trade and other receivables		**9.5**	(1.2)
Increase in trade and other payables		**13.7**	1.9
Cash generated by operations		**54.9**	43.3
Income taxes paid		**(1.3)**	(1.2)
Interest paid		**(5.0)**	(7.0)
Net cash flow from operating activities		**48.6**	35.1
Investing activities:			
Interest received		**2.3**	0.6
Disposal of property, plant and equipment		**0.3**	0.4
Purchase of property, plant and equipment		**(13.1)**	(8.9)
Purchase of business	30	**(32.1)**	—
Disposal of business	31	**—**	60.6
Acquisition of intellectual property		**—**	(0.5)
Other investments		**—**	1.1
Net cash flow from investing activities		**(42.6)**	53.3
Financing activities:			
Issue of shares		**0.7**	1.8
Dividends paid		**(12.8)**	(11.1)
Purchase of own shares		**(2.0)**	(2.6)
Increase/(decrease) in borrowings		**29.2**	(82.5)
Net cash from/(used in) financing activities		**15.1**	(94.4)
Net increase/(decrease) in cash and cash equivalents		**21.1**	(6.0)
Cash and cash equivalents at 1 January		**8.4**	13.8
Foreign exchange on cash and cash equivalents		**4.1**	0.6
Cash and cash equivalents at 31 December	21	**33.6**	8.4

Consolidated statement of recognised income and expense
for the year ended 31 December 2008

	2008 £million	2007 £million
Exchange differences on translation of foreign operations	**65.8**	—
Actuarial gain on pension and other post-retirement schemes	**(25.5)**	0.8
Deferred tax associated with pension and other post-retirement schemes	**8.4**	(2.4)
Effective portion of changes in fair vaue of cash flow hedges	**(18.8)**	(2.0)
Fair value of cash flow hedges transferred to income statement	**2.0**	(2.6)
Net income/(expense) recognised in equity	**31.9**	(6.2)
Profit for the year	**19.8**	48.1
Total recognised income and expense	**51.7**	41.9
Total recognised income and expense is attributable to:		
Equity holders of the parent	**51.7**	41.8
Minority interests	**—**	0.1
	51.7	41.9

Notes to the financial statements
for the year ended 31 December 2008

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 75 to 78.

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

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

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

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

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

(c) Intangible assets

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

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

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

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

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

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

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

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

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

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

(f) Income tax Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, 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.

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

Notes to the financial statements
for the year ended 31 December 2008

Critical accounting policies continued

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

Estimates of useful lives of these assets are:

Buildings	10 – 50 years
Plant and machinery	2 – 20 years
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.

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

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

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.

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

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

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

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

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

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

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

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

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

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

Revenue Revenue 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.

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.

Notes to the financial statements
for the year ended 31 December 2008

1 Accounting policies continued

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.

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.

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 or 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 2008, and have not been applied in preparing these consolidated financial statements, but that become mandatory for the Group's 2009 financial statements are as follows:

IFRS 8 Operating segments This requires segment disclosure based on the components of an entity that management monitors in making operating decisions, rather than disclosure of business and geographical segments. It is not anticipated that the introduction of this standard will materially impact the Group's current disclosure since the segments used for operational review are the same as those currently disclosed for the business segments.

IFRIC 14 IAS 19 The limit of a defined benefit asset, minimum funding requirements and their interaction This sets out the extent to which a pension scheme surplus can be recognised as an asset of the Company and also considers how a pension balance sheet asset or liability could be affected by statutory or contractual minimum funding requirements. Management does not believe that the adoption of this standard will impact the Group.

Amendments to IAS 1 Presentation of Financial Statements – A revised presentation
Amendments to IAS 23 Borrowing Costs
The Group has not yet determined the potential impact of these interpretations on the 2009 financial statements.

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.

	2008			2007		
	Gross £million	Inter-segment £million	External £million	Gross £million	Inter-segment £million	External £million
Revenue from continuing operations						
Specialty Products	**181.5**	**—**	**181.5**	141.6	(0.2)	141.4
Surfactants	**51.1**	**—**	**51.1**	46.3	(0.1)	46.2
Chromium	**168.6**	**(0.7)**	**167.9**	115.9	(3.7)	112.2
	401.2	**(0.7)**	**400.5**	303.8	(4.0)	299.8

All revenues relate to the sale of goods.

	2008			2007		
	Before exceptional items £million	Exceptional items £million	After exceptional items £million	Before exceptional items £million	Exceptional items £million	After exceptional items £million
Result from continuing operations						
Specialty Products	**29.1**	**—**	**29.1**	28.8	0.5	29.3
Surfactants	**0.5**	**—**	**0.5**	0.9	0.5	1.4
Chromium	**27.7**	**(20.5)**	**7.2**	14.2	0.8	15.0
Central costs	**(5.3)**	**—**	**(5.3)**	(5.8)	0.6	(5.2)
	52.0	**(20.5)**	**31.5**	38.1	2.4	40.5
Finance income	**1.7**	**—**	**1.7**	2.7	—	2.7
Finance costs	**(5.2)**	**—**	**(5.2)**	(7.0)	—	(7.0)
Profit/(loss) before income tax	**48.5**	**(20.5)**	**28.0**	33.8	2.4	36.2

	2008			2007		
	Capital expenditure £million	Depreciation and amortisation £million	Impairment £million	Capital expenditure £million	Depreciation and amortisation £million	Impairment £million
Other information						
Specialty Products	**7.3**	**5.5**	**—**	2.5	4.4	—
Surfactants	**0.7**	**1.8**	**—**	0.5	1.8	—
Chromium	**5.1**	**5.1**	**(20.5)**	5.1	4.5	—
Central	**—**	**0.1**	**—**	0.1	0.5	—
Total from continuing operations	**13.1**	**12.5**	**(20.5)**	8.2	11.2	—

Notes to the financial statements
for the year ended 31 December 2008

2 Segmental information continued

	2008 Total assets £million	2008 Total liabilities £million	2008 Investments in associates £million	2007 Total assets £million	2007 Total liabilities £million	2007 Investments in associates £million
Balance sheet						
Specialty Products	**401.3**	**(60.5)**	**—**	235.4	(21.2)	—
Surfactants	**28.7**	**(16.5)**	**—**	19.5	(9.8)	—
Chromium	**111.7**	**(45.7)**	**0.1**	91.4	(26.5)	0.1
Central	**19.3**	**(168.8)**	**—**	8.8	(67.0)	—
Total from continuing operations	**561.0**	**(291.5)**	**0.1**	355.1	(124.5)	0.1

	2008 £million	2007 £million
Central assets and liabilities comprise:		
Property, plant and equipment	**7.7**	0.9
Trade and other receivables	**2.3**	1.9
Cash and cash equivalents	**9.3**	6.0
Central assets	**19.3**	8.8
Retirement benefit obligations	**(39.0)**	(19.8)
Overdrafts, loans and borrowings	**(79.6)**	(24.6)
Provisions	**(12.6)**	(10.3)
Deferred tax liabilities	**(3.4)**	(3.4)
Other	**(34.2)**	(8.9)
Central liabilities	**(168.8)**	(67.0)

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 2008 £million	Continuing operations 2007 £million	Discontinued operations 2008 £million	Discontinued operations 2007 £million	Total 2008 £million	Total 2007 £million
Sales revenue by geographical market						
North America	**120.6**	99.3	**—**	32.3	**120.6**	131.6
Europe	**171.2**	138.6	**—**	18.9	**171.2**	157.5
Rest of the World	**108.7**	61.9	**—**	8.5	**108.7**	70.4
	400.5	299.8	**—**	59.7	**400.5**	359.5

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 geographical area in which the assets are located.

	2008 £million	2007 £million
Carrying amount of segment assets		
Geographical analysis		
North America	**344.4**	229.3
Europe	**135.7**	122.5
Rest of the World	**80.9**	3.3
Total reported assets	**561.0**	355.1

	2008 £million	2007 £million
Additions to property, plant, equipment and intangible assets		
Geographical analysis		
North America	**8.8**	5.6
Europe	**3.8**	3.6
Rest of the World	**0.5**	0.2
	13.1	9.4

3 Finance income

	Continuing operations		Discontinued operations		Total	
	2008 £million	2007 £million	**2008 £million**	2007 £million	**2008 £million**	2007 £million
Interest on bank deposits	**1.8**	0.4	**—**	—	**1.8**	0.4
Expected return on pension scheme assets	**27.9**	26.2	**—**	1.1	**27.9**	27.3
Interest on pension scheme liabilities	**(28.0)**	(23.9)	**—**	(1.2)	**(28.0)**	(25.1)
Pension and other post retirement liabilities	**(0.1)**	2.3	**—**	(0.1)	**(0.1)**	2.2
	1.7	2.7	**—**	(0.1)	**1.7**	2.6

4 Finance costs

	Continuing operations		Discontinued operations		Total	
	2008 £million	2007 £million	**2008 £million**	2007 £million	**2008 £million**	2007 £million
Interest on bank loans	**4.4**	6.4	**—**	0.3	**4.4**	6.7
Unwind of discount on provisions	**0.8**	0.6	**—**	0.1	**0.8**	0.7
	5.2	7.0	**—**	0.4	**5.2**	7.4

5 Exceptional items

	Continuing operations		Discontinued operations		Total	
	2008 £million	2007 £million	**2008 £million**	2007 £million	**2008 £million**	2007 £million
Curtailment gains and past service credits on pension schemes	**—**	1.3	**—**	0.7	**—**	2.0
Release of prior year restructuring provisions	**—**	1.1	**—**	—	**—**	1.1
Impairment of property, plant and equipment	**(20.5)**	—	**—**	—	**(20.5)**	—
Disposal of business (note 31)	**—**	—	**—**	16.3	**—**	16.3
	(20.5)	2.4	**—**	17.0	**(20.5)**	19.4
Tax charge on exceptional items	**—**	(0.7)	**—**	(6.2)	**—**	(6.9)
	(20.5)	1.7	**—**	10.8	**(20.5)**	12.5

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.

The £20.5 million impairment charge relates to a re-assessment of the value in use of property, plant and equipment in the UK Chromium business following a review of its prospects. In calculating the value in use, a pre-tax discount rate of 9.2 per cent was used. In previous years the UK Chromium business had been considered to be part of the same cash generating unit as the US Chromium business. However, changing economic conditions have resulted in the UK business becoming far more exposed to foreign competition in its markets than is the case for the US business, where the logistical benefits of being a domestic producer are more significant. The UK business is a relatively high cost producer compared to others in its key markets and together with the continued evolution of Chinese exports indicates that the business will become unprofitable for the foreseeable future, thus prompting the need for an impairment review of the assets used in production.

Notes to the financial statements
for the year ended 31 December 2008

6 Income tax expense

	Continuing operations		Discontinued operations		Total	
	2008 £million	2007 £million	2008 £million	2007 £million	2008 £million	2007 £million
Current tax:						
Overseas corporation tax	**2.8**	0.9	**—**	1.3	**2.8**	2.2
Adjustments in respect of prior years:						
United Kingdom	**—**	0.2	**—**	—	**—**	0.2
Overseas	**(1.2)**	(1.2)	**—**	—	**(1.2)**	(1.2)
Total current tax	**1.6**	(0.1)	**—**	1.3	**1.6**	1.2
Deferred tax:						
Overseas	**5.9**	2.6	**—**	5.1	**5.9**	7.7
Adjustments in respect of prior years	**0.7**	—	**—**	—	**0.7**	—
Total deferred tax	**6.6**	2.6	**—**	5.1	**6.6**	7.7
Income tax expense for the year	**8.2**	2.5	**—**	6.4	**8.2**	8.9
Comprising:						
Before exceptional items	**8.2**	1.8	**—**	0.2	**8.2**	2.0
Exceptional items	**—**	0.7	**—**	6.2	**—**	6.9
	8.2	2.5	**—**	6.4	**8.2**	8.9

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 2008 of 16.9 per cent (2007: 5.3 per cent). 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. 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:

	2008 £million	2008 per cent	2007 £million	2007 per cent
Profit before tax:				
Continuing operations	**48.5**	**—**	36.2	—
Discontinued operations	**—**	**—**	20.8	—
	48.5	**—**	57.0	—
Tax on ordinary activities at 28.5 per cent (2007: 30 per cent)	**13.8**	**28.5**	17.1	30.0
Difference in overseas effective tax rates	**(1.4)**	**(2.9)**	(0.1)	(0.2)
Expenses not deductible for tax purposes	**1.1**	**2.2**	0.2	0.4
Tax losses and other deductions	**(4.8)**	**(9.9)**	(7.3)	(12.8)
Adjustments in respect of prior years	**(0.5)**	**(1.0)**	(1.0)	(1.8)
Tax charge and effective tax rate for the year	**8.2**	**(16.9)**	8.9	15.6

A deferred tax benefit of £8.4 million (2007: £2.4 million charge) has been recognised in equity in the year in respect of actuarial losses.

7 Profit for the year

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

	Continuing operations		Discontinued operations		Total	
	2008 £million	2007 £million	2008 £million	2007 £million	2008 £million	2007 £million
Net foreign exchange losses/(gains)	**8.8**	(3.0)	**—**	0.1	**8.8**	(2.9)
Research and development costs	**4.6**	2.8	**—**	0.9	**4.6**	3.7
Government grants	**(0.1)**	(0.1)	**—**	—	**(0.1)**	(0.1)
Depreciation of property, plant and equipment	**12.1**	10.9	**—**	1.5	**12.1**	12.4
Amortisation of intangible assets	**0.4**	0.3	**—**	—	**0.4**	0.3
Total depreciation and amortisation expense	**12.5**	11.2	**—**	1.5	**12.5**	12.7
Cost of inventories recognised as expense	**208.8**	152.0	**—**	35.9	**208.8**	187.9
Fees payable to the Company's auditors and its associates:						
Audit of the Company's financial statements	**—**	—	**—**	—	**—**	—
Audit of the Company's subsidiaries	**0.4**	0.3	**—**	—	**0.4**	0.3
Other services	**0.7**	0.2	**—**	—	**0.7**	0.2

Other services in relation to fees paid to the auditors comprise advisory services relating to taxation, pensions and other Group projects, including acquisitions in the year and the disposal in the prior year.

8 Employees

	Continuing operations		Discontinued operations		Total	
	2008 £million	2007 £million	2008 £million	2007 £million	2008 £million	2007 £million
Employee costs:						
Wages and salaries	**48.8**	40.6	**—**	6.8	**48.8**	47.4
Social security costs	**4.3**	3.7	**—**	1.3	**4.3**	5.0
Pension costs	**2.5**	1.3	**—**	1.8	**2.5**	3.1
	55.6	45.6	**—**	9.9	**55.6**	55.5
	Number	Number	**Number**	Number	**Number**	Number
Average number of FTE employees*:						
Specialty Products	**733**	515	**—**	—	**733**	515
Surfactants	**167**	168	**—**	—	**167**	168
Chromium	**318**	317	**—**	—	**318**	317
Pigments	**—**	—	**—**	412	**—**	412
Central	**14**	15	**—**	—	**14**	15
Total	**1,232**	1,015	**—**	412	**1,232**	1,427

* full-time equivalent

Notes to the financial statements
for the year ended 31 December 2008

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:

	2008 £million	2007 £million
Earnings:		
Earnings for the purpose of basic earnings per share	**40.3**	48.0
Exceptional items net of tax	**(20.5)**	(12.4)
Adjusted earnings	**19.8**	35.6

	2008	2007
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	**442.6**	441.9
Effect of dilutive share options	**0.9**	3.3
Weighted average number of shares for the purposes of diluted earnings per share	**443.5**	445.2

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:

	2008 £million	2007 £million
Profit for the year attributable to equity holders of the parent	**40.3**	48.0
Profit for the year from discontinued operations	**—**	(14.4)
Profit from continuing operations	**40.3**	33.6
Exceptional items from continuing operations after minority interest	**(20.5)**	(1.6)
Adjusted earnings from continuing operations	**19.8**	32.0

	2008 pence	2007 pence
Earnings per share:		
From continuing and discontinued operations:		
Basic	**4.5**	10.9
Diluted	**4.5**	10.8
Basic before exceptional items	**9.1**	8.1
Diluted before exceptional items	**9.1**	8.0
From continuing operations:		
Basic	**4.5**	7.6
Diluted	**4.5**	7.5
Basic before exceptional items	**9.1**	7.2
Diluted before exceptional items	**9.1**	7.2
From discontinued operations:		
Basic	**—**	3.3
Diluted	**—**	3.3

10 Goodwill and other intangible assets

	Goodwill £million	Other intangible assets £million	Total £million
Cost:			
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 1 January 2008	147.4	1.3	148.7
Currency translation differences	52.4	3.6	56.0
Acquisition of subsidiary	10.6	13.5	24.1
At 31 December 2008	**210.4**	**18.4**	**228.8**
Amortisation:			
At 1 January 2007	—	0.5	0.5
Charge for the year	—	0.3	0.3
At 1 January 2008	—	0.8	0.8
Charge for the year	—	0.4	0.4
Provision for impairment	—	0.3	0.3
At 31 December 2008	**—**	**1.5**	**1.5**
Carrying amount:			
At 31 December 2008	**210.4**	**16.9**	**227.3**
At 31 December 2007	147.4	0.5	147.9

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 2008 was 9.2 per cent (2007: 7.7 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 mainly of value ascribed to the brand and customer lists acquired as part of the Deuchem acquisition. The customer list is being amortised over a useful economic life of 10 years.

Notes to the financial statements
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11 Property, plant and equipment

	Land and buildings £million	Plant and machinery £million	Fixtures, fittings and equipment £million	Under construction £million	Total £million
Cost:					
At 1 January 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 1 January 2008	69.7	257.5	24.2	4.4	355.8
Additions	0.2	2.7	0.1	10.1	13.1
Exchange differences	19.9	50.0	9.1	2.9	81.9
Acquisitions	9.0	2.2	1.2	2.4	14.8
Disposals	(0.1)	(2.7)	(0.4)	—	(3.2)
Reclassifications	0.3	6.4	0.9	(7.6)	—
At 31 December 2008	**99.0**	**316.1**	**35.1**	**12.2**	**462.4**
Accumulated depreciation:					
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 1 January 2008	45.8	195.5	18.1	—	259.4
Charge for the year	1.8	8.3	2.0	—	12.1
Exchange differences	11.2	34.2	7.0	—	52.4
Disposals	(0.1)	(2.5)	(0.3)	—	(2.9)
Provision for impairment	4.3	13.8	0.1	2.0	20.2
At 31 December 2008	**63.0**	**249.3**	**26.9**	**2.0**	**341.2**
Net book value:					
At 31 December 2008	**36.0**	**66.8**	**8.2**	**10.2**	**121.2**
At 31 December 2007	23.9	62.0	6.1	4.4	96.4

Group capital expenditure contracted but not provided for in these financial statements amounted to £0.5 million (2007: £nil). In 2008 the Group wrote down the carrying value of the fixed assets at the Eaglescliffe Chromium plant following an evaluation of likely future profitability after changes in market dynamics.

Land and buildings at cost comprised the following:

	2008 £million	2007 £million
Freehold property	**100.3**	69.5
Short leasehold properties	**0.2**	0.2
	100.5	69.7

12 Interests in associates

	2008 £million	2007 £million
Cost of investments in associates	**0.1**	0.1

13 Inventories

	2008 £million	2007 £million
Raw materials and consumables	**35.5**	16.2
Work in progress	**14.8**	7.0
Finished goods and goods purchased for resale	**50.3**	26.2
	100.6	49.4

Inventories are disclosed net of provisions for obsolescence of £2.2 million (2007: £1.6 million).

14 Trade and other receivables

	2008 £million	2007 £million
Trade receivables	**69.0**	46.7
Other receivables	**5.5**	4.8
Prepayments and accrued income	**3.7**	1.4
	78.2	52.9

15 Trade and other payables

	2008 £million	2007 £million
Trade payables	**39.8**	24.0
Other taxes and social security	**0.9**	0.8
Other payables	**5.0**	4.5
Accruals and deferred income	**37.2**	22.1
	82.9	51.4

16 Provisions

	Environmental £million	Restructuring £million	Self insurance £million	Total £million
At 1 January 2008	14.0	0.2	2.3	16.5
Charge/(credit) to income statement	4.5	—	(1.7)	2.8
(Utilised)/received during the year	(0.8)	(0.2)	0.3	(0.7)
Currency translation differences	2.3	—	0.9	3.2
At 31 December 2008	**20.0**	**—**	**1.8**	**21.8**
Due after one year	20.0	—	1.8	21.8

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.

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

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17 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 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 1 January 2008	2.7	(6.7)	(24.5)	2.3	22.8	(3.4)
Acquisition	—	(1.2)	—	(3.8)	—	(5.0)
(Charge)/credit to the income statement	(0.6)	(2.7)	(4.5)	0.4	0.8	(6.6)
Credit to equity	8.4	—	—	—	—	8.4
Currency translation differences	1.6	(2.8)	(10.5)	1.2	6.8	(3.7)
At 31 December 2008	**12.1**	**(13.4)**	**(39.5)**	**0.1**	**30.4**	**(10.3)**

At 31 December 2008 the full amount of ACT previously written-off, available for offset against future UK profits, was £25.8 million (2007: £25.8 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.

18 Share capital

	2008 £million	2007 £million
At 1 January	**22.3**	22.1
Issue of shares	**0.1**	0.2
At 31 December	**22.4**	22.3

Details of share capital are set out in note 39.

19 Share premium, other reserves and retained earnings

	Share premium £million	Other reserves £million	Retained earnings £million	Total £million
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
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 1 January 2008	5.2	66.4	136.0	207.6
Issue of shares	0.6	—	—	0.6
Share based payments	—	0.8	—	0.8
Profit for the year	—	—	19.8	19.8
Dividends paid	—	—	(12.8)	(12.8)
Purchase of own shares	—	—	(2.0)	(2.0)
Actuarial loss on pension scheme	—	—	(25.5)	(25.5)
Exchange differences	—	65.8	—	65.8
Tax credit on actuarial loss on pension scheme	—	—	8.4	8.4
Decrease in fair value of derivatives	—	(16.8)	—	(16.8)
Transfer	—	(0.6)	0.6	—
Balance at 31 December 2008	**5.8**	**115.6**	**124.5**	**245.9**

Other reserves comprise:

	Capital redemption reserve £million	Translation reserve £million	Hedging reserve £million	Share options reserve £million	Total £million
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)
At 1 January 2008	83.3	(16.6)	(2.0)	1.7	66.4
Share based payments	—	—	—	0.8	0.8
Exchange differences	—	65.8	—	—	65.8
Decrease in fair value of derivatives	—	—	(16.8)	—	(16.8)
Transfer	—	—	—	(0.6)	(0.6)
Balance at 31 December 2008	**83.3**	**49.2**	**(18.8)**	**1.9**	**115.6**

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.

20 Borrowings

	2008 £million	2007 £million
Bank loans	**97.5**	24.6

The borrowings are repayable as follows:		
On demand or within one year	**15.7**	—
In the third year	**79.6**	24.6
After more than five years	**2.2**	—
	97.5	24.6

The weighted average interest rates paid were as follows:

	2008 per cent	2007 per cent
Bank loans	**6.3**	6.9

With the exception of £1.5 million of borrowings in China, all US Dollar denominated borrowings were unsecured and at floating rates for periods of up to six months, bearing interest at the relevant interbank rates plus a margin. The China RMB, Taiwan Dollar and remaining US Dollar borrowings consisted of unsecured borrowings, those secured by time deposits and those secured by charges over various land and buildings in Taiwan. Group borrowings at 31 December 2008 were denominated as follows:

	US Dollar	China RMB	Taiwan Dollar	Total
31 December 2008				
Bank loans	81.1	10.5	5.9	97.5

Group borrowings at 31 December 2007 were all denominated in US Dollars.

21 Cash and cash equivalents

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

	2008 £million	2007 £million
Cash and cash equivalents	**33.6**	8.4

Notes to the financial statements
for the year ended 31 December 2008

22 Financial risk management
The Group has exposure to the following risks from its use of financial instruments:

- credit risk:
- liquidity risk: and
- market risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed reguarly 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 £70.4 million (2007: £125.4 million) of undrawn committed facilities, which expire after more than one year but within 3 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 US Dollar, but also Euro and GBP. This provides an economic hedge and no derivatives are entered into. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances. The Group's investment in overseas subsidiaries is hedged by US Dollar denominated drawdowns under the syndicated facility, which mitigates the currency risk arising from the translation of subsidiary's net assets.

Interest rate risk

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

Other market price risk

Equity price risk arises from available-for-sale equity securities held within the Group's defined benefit pension obligations. 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 advisors 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.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors 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 to hold shares in the Company through the Group's savings related share option schemes. At present, employees hold 0.3 per cent of ordinary shares, or 3.0 per cent assuming that all outstanding 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 2008 the return was 11.2 per cent (2007: 26.6 per cent). In comparison the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 3.5 per cent (2007: 6.2 per cent).

	2008 £million	2007 £million
Recognised in profit or loss		
Interest income on bank deposits	**1.8**	0.4
Net change in fair value of cash flow hedges transferred from equity	**(9.0)**	2.9
Financial income	**(7.2)**	3.3
Financial expenses	**(4.4)**	(6.7)
Net financial costs	**(11.6)**	(3.4)
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	**1.8**	0.4
Total interest expense on financial liabilities	**(4.4)**	(6.7)
Recognised directly in equity		
Effective portion of changes in fair value of cash flow hedge	**(18.8)**	(2.0)
Fair value of cash flow hedges transferred to income statement	**2.0**	(2.6)
Effective portion of change in fair value of net investment hedge	**(25.6)**	1.7
Foreign currency translation differences for foreign operations	**91.4**	(1.7)
Recognised in		
Hedging reserve	**(16.8)**	(4.6)
Translation reserve	**65.8**	–

Derivatives used for hedging included within current liabilities amounted to £22.4 million at 31 December 2008 (2007: £2.0 million). Movements on share capital are set out in note 39.

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for the year ended 31 December 2008

22 Financial risk management continued
Loans and borrowings

	2008 £million	2007 £million
Current liabilities		
Unsecured bank loan	13.4	—
Secured bank loan	2.3	—
Non-current liabilities		
Unsecured bank loan	79.6	24.6
Secured bank loan	2.2	—

Terms and debt repayment schedule
The terms and conditions of outstanding loans were as follows:

	Currency	Year of maturity	2008 Face value £million	2008 Carrying amount £million	2007 Face value £million	2007 Carrying amount £million
Unsecured bank loan	Multi	2011	80.0	79.6	25.1	24.6
Unsecured bank loan	RMB	2009	10.5	10.5	—	—
Unsecured bank loan	TWD	2009	2.9	2.9	—	—
Secured bank loan	USD	2009	1.5	1.5	—	—
Secured bank loan	TWD	2009-17	3.0	3.0	—	—
Total interest-bearing liabilities			97.9	97.5	25.1	24.6

The multi-currency unsecured bank loan bears interest at Libor of the currency drawn down plus a margin based on the Group's ratio of net borrowings to EBITDA (earnings before interest, tax, depreciation and amortisation). The remaining loans bear interest at interest rates of between 2.0 per cent and 7.2 per cent. The secured bank loans are secured against time deposit accounts in China and against land and buildings in Taiwan with a carrying value of £1.1 million.

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

	Carrying amount 2008 £million	Carrying amount 2007 £million
Trade receivables	69.0	46.7
Cash and cash equivalents	33.6	8.4
	102.6	55.1

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

	Carrying amount 2008 £million	Carrying amount 2007 £million
North America	18.6	11.9
Europe	20.8	22.1
Rest of World	29.6	12.7
	69.0	46.7

Impairment losses
The ageing of trade receivables at the reporting date was:

	Gross 2008 £million	Impairment 2008 £million	Gross 2007 £million	Impairment 2007 £million
Not past due	62.6	(0.8)	43.8	(0.9)
Past due 0-30 days	6.7	(0.1)	3.0	—
Past due 31-120 days	1.2	(0.6)	0.8	—
Total	70.5	(1.5)	47.6	(0.9)

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

	2008 £million	2007 £million
Balance at 1 January	**0.9**	0.3
Impairment loss recognised	**0.6**	0.8
Disposal of business	**—**	(0.2)
Balance at 31 December	**1.5**	0.9

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 a higher exposure to credit risk than is acceptable and that a provision is appropriate.

Liquidity risk

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

	31 December 2008				
£million	Carrying amount	Contractual cash flows	6 months or less	6–12 months	1 year or more
Non-derivative financial liabilities:					
Unsecured bank loan	**93.0**	**(93.3)**	**(93.3)**	**—**	**—**
Secured bank loan	**4.5**	**(4.5)**	**(2.3)**	**—**	**(2.2)**
Trade and other payables*	**45.7**	**(45.7)**	**(45.7)**	**—**	**—**
Derivative financial liabilities:					
Forward exchange contracts used for hedging					
Outflow	**22.4**	**(118.7)**	**(48.9)**	**(52.4)**	**(17.4)**
Inflow	**—**	**96.3**	**38.8**	**43.1**	**14.4**
	165.6	**(165.9)**	**(151.4)**	**(9.3)**	**(5.2)**

* excludes derivatives

	31 December 2007				
£million	Carrying amount	Contractual cash flows	6 months or less	6–12 months	1 year or more
Non-derivative financial liabilities:					
Unsecured bank loan	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

Bank loans have been drawn under committed facilities and can be refinanced on maturity from these same facilities. The contractual maturities indicated reflect the maturing of the loans rather than the end date of the facilities. The Group's £150 million revolving credit facility is not due for renewal before July 2011.

Cash flow hedges

The following table indicates the periods in which the hedged cash flows and the derivatives associated with the cash flows are expected to occur:

	2008					2007				
£million	Carrying amount	Expected cash flow	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:										
Inflow	**—**	**96.3**	**38.8**	**43.1**	**14.4**	—	68.7	28.5	30.1	10.1
Outflow	**(22.4)**	**(118.7)**	**(48.9)**	**(52.4)**	**(17.4)**	(2.0)	(70.7)	(29.2)	(31.1)	(10.4)
	(22.4)	**(22.4)**	**(10.1)**	**(9.3)**	**(3.0)**	(2.0)	(2.0)	(0.7)	(1.0)	(0.3)

Notes to the financial statements
for the year ended 31 December 2008

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

	2008					2007				
£million	Carrying amount	Expected cash flow	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:										
Inflow	—	86.0	42.9	43.1	—	—	60.3	30.1	30.2	—
Outflow	(18.8)	(104.8)	(52.4)	(52.4)	—	(2.0)	(62.3)	(31.1)	(31.2)	—
	(18.8)	(18.8)	(9.5)	(9.3)	—	(2.0)	(2.0)	(1.0)	(1.0)	—

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

£million	2008 Euro	2008 USD	2008 Other	2007 Euro	2007 USD	2007 Other
Trade receivables	22.0	33.4	13.6	24.0	21.4	1.3
Trade payables	(20.7)	(12.4)	(6.7)	(16.0)	(6.6)	(1.4)
Gross balance sheet exposure	1.3	21.0	6.9	8.0	14.8	(0.1)
Estimated forecast sales	167.2	263.6	58.7	131.8	175.7	—
Estimated forecast purchases	(116.5)	(197.5)	(56.5)	(91.8)	(131.7)	—
Gross exposure	52.0	87.1	9.1	48.0	58.8	(0.1)
Forward exchange contracts	(46.4)	(58.4)	—	(44.1)	(26.6)	—
Net exposure	5.6	28.7	9.1	3.9	32.2	(0.1)

The main exchange rates relevant to the Group are set out in the Business review on page 11.

Sensitivity analysis
A 10 per cent strengthening of GBP against the following currencies at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Equity £million	Profit or loss £million
31 December 2008		
USD	(2.8)	(3.2)
Euro	(2.5)	(0.9)
	(5.3)	(4.1)
31 December 2007		
USD	(4.1)	(2.1)
Euro	(1.9)	(0.9)
	(6.0)	(3.0)

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

	Carrying amount 2008 £million	Carrying amount 2007 £million
Variable rate instruments		
Financial liabilities	(8.9)	(2.2)

Cash flow sensitivity analysis for variable rate instruments

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

	2008 Profit or loss		2007 Profit or loss	
	100bp increase £million	100bp decrease £million	100bp Increase £million	100bp decrease £million
31 December 2008				
Variable rate instruments	**(1.0)**	**1.0**	(0.3)	0.3

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 2008		31 December 2007	
	Carrying amount £million	Fair value £million	Carrying amount £million	Fair value £million
Trade and other receivables	**74.5**	**74.5**	51.5	51.5
Cash and cash equivalents	**33.6**	**33.6**	8.4	8.4
Forward exchange contracts used for hedging:				
Liabilities	**(22.4)**	**(22.4)**	(2.0)	(1.9)
Unsecured bank loan	**(93.0)**	**(93.3)**	(24.6)	(25.2)
Secured bank loan	**(4.5)**	**(4.5)**	—	—
Trade and other payables*	**(82.9)**	**(82.9)**	(51.4)	(51.4)
	(94.7)	**(95.0)**	(18.1)	(18.6)
Unrecognised loss		**(0.3)**		(0.5)

* 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:

	2008 per cent	2007 per cent
Derivatives	**3.7**	4.4
Borrowings	**2.0–7.2**	5.8

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for the year ended 31 December 2008

23 Operating leases

	2008 £million	2007 £million
Minimum lease payments under operating leases recognised as an expense in the year	**2.1**	1.7

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

	2008 £million	2007 £million
Within one year	**0.6**	0.5
In the second to fifth years inclusive	**3.5**	3.6
After five years	**0.3**	0.1
	4.4	4.2

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

24 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. There was a charge in respect of post-retirement health care and pensions in the year of £2.1 million (2007: £2.1 million credit), of which £0.8 million (2007: £0.8 million credit) related to overseas schemes.

A full actuarial valuation was carried out on 30 September 2005 for the UK scheme and at 31 December 2008 for the US and Netherlands schemes. The UK actuarial valuation has been updated to 31 December 2008 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 members. 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 expectancies on retirement are:

	UK		US		Netherlands	
	2008 years	2007 years	2008 years	2007 years	2008 years	2007 years
Retiring at 31 December 2008						
Males	**20**	20	**19**	19	**19**	19
Females	**22**	23	**21**	21	**21**	21
Retiring in 20 years						
Males	**22**	21	**21**	21	**19**	19
Females	**24**	24	**22**	22	**21**	21

The principal assumptions used by the actuaries were as follows:

	UK per cent	US per cent	Netherlands per cent
2008			
Rate of increase in salaries	**3.80**	**3.45**	**2.00**
Rate of increase in pensions in payment	**2.80**	**—**	**0.25**
Discount rate	**6.40**	**6.25**	**5.75**
Inflation	**2.80**	**3.25**	**2.00**
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

The main assumptions for the PRMB scheme are a discount rate of 6.25 per cent (2007: 6.25 per cent) per annum and a health care cost trend of 10.0 per cent (2007: 10.0 per cent) and 11.0 per cent (2007: 11.0 per cent) per annum for claims pre age 65 and post age 65 respectively reducing to 4.5 per cent per annum by 2014 (2007: 4.5 per cent). Actuarial valuations of retirement benefit plans in other jurisdictions have not been updated for IAS19 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**
2008					
Long term rate of return					
UK	**7.50**	**3.80**	**6.40**	**3.80**	**—**
US	**8.50**	**—**	**6.00**	**—**	**—**
Netherlands	**—**	**—**	**5.80**	**—**	**—**
	£million	**£million**	**£million**	**£million**	**£million**
Value					
UK	**157.8**	**74.8**	**51.1**	**65.4**	**349.1**
US	**31.4**	**—**	**13.3**	**0.3**	**45.0**
Netherlands	**—**	**—**	**25.0**	**—**	**25.0**
Total	**189.2**	**74.8**	**89.4**	**65.7**	**419.1**

	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

Notes to the financial statements
for the year ended 31 December 2008

24 Retirement benefit obligations continued

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
2008					
Total market value of assets	**349.1**	**45.0**	**—**	**25.0**	**419.1**
Present value of scheme liabilities	**(361.8)**	**(74.0)**	**(5.9)**	**(26.0)**	**(467.7)**
Net liability recognised in the balance sheet	**(12.7)**	**(29.0)**	**(5.9)**	**(1.0)**	**(48.6)**

	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)

The net pension liability in respect of pension schemes in other jurisdictions at 31 December 2008 was £0.7 million (2007: £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
2008					
Consolidated income statement					
Current service cost	**(1.3)**	**(0.2)**	**(0.1)**	**(0.4)**	**(2.0)**
Expected return on pension scheme assets	**23.0**	**4.0**	**—**	**0.9**	**27.9**
Interest on pension scheme liabilities	**(23.0)**	**(3.4)**	**(0.3)**	**(1.3)**	**(28.0)**
Net finance income/(charge)	**0.0**	**0.6**	**(0.3)**	**(0.4)**	**(0.1)**
Net income statement	**(1.3)**	**0.4**	**(0.4)**	**(0.8)**	**(2.1)**
Statement of recognised income and expense					
Actual return less expected return on pension scheme assets	**(38.5)**	**(20.7)**	**—**	**(1.5)**	**(60.7)**
Experience gains and losses arising on scheme liabilities	**(9.0)**	**(0.1)**	**1.1**	**0.7**	**(7.3)**
Changes in assumptions underlying the present value of scheme liabilities	**41.4**	**—**	**—**	**1.1**	**42.5**
Actuarial gains/(losses) recognised	**(6.1)**	**(20.8)**	**1.1**	**0.3**	**(25.5)**

	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 gains/(losses) recognised	(3.9)	4.0	0.2	0.5	0.8

In addition to the current service cost, £1.1 million (2007: £1.0 million) was charged to the income statement in respect of defined contribution schemes.

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

	UK pension scheme £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2008					
Opening defined benefit obligation	**(393.6)**	**(53.7)**	**(5.1)**	**(20.2)**	**(472.6)**
Service cost	**(1.3)**	**(0.2)**	**(0.1)**	**(0.4)**	**(2.0)**
Interest cost	**(23.0)**	**(3.4)**	**(0.3)**	**(1.3)**	**(28.0)**
Contributions by employees	**(0.2)**	**—**	**—**	**(0.4)**	**(0.6)**
Actuarial gains/(losses)	**32.4**	**(0.1)**	**1.1**	**1.8**	**35.2**
Benefits paid	**23.9**	**4.1**	**0.2**	**0.8**	**29.0**
Exchange differences	**—**	**(20.7)**	**(1.7)**	**(6.3)**	**(28.7)**
Closing defined benefit obligation	**(361.8)**	**(74.0)**	**(5.9)**	**(26.0)**	**(467.7)**

	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	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)

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
2008					
Opening fair value of plan assets	**380.8**	**51.7**	**—**	**19.3**	**451.8**
Expected return	**23.0**	**4.0**	**—**	**0.9**	**27.9**
Actuarial losses	**(38.5)**	**(20.7)**	**—**	**(1.5)**	**(60.7)**
Contributions by employer	**7.5**	**0.4**	**—**	**0.6**	**8.5**
Contributions by employees	**0.2**	**—**	**—**	**0.4**	**0.6**
Benefits paid	**(23.9)**	**(4.1)**	**—**	**(0.8)**	**(28.8)**
Exchange differences	**—**	**13.7**	**—**	**6.1**	**19.8**
Closing fair value of plan assets	**349.1**	**45.0**	**—**	**25.0**	**419.1**

	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 gains/(losses)	(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

Notes to the financial statements
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24 Retirement benefit obligations continued

	UK pension scheme £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2008					
Movement in deficit during the year					
Deficit in schemes at 1 January	(12.8)	(2.0)	(5.1)	(0.9)	(20.8)
Current service cost	(1.3)	(0.2)	(0.1)	(0.4)	(2.0)
Contributions	7.5	0.4	0.2	0.6	8.7
Net interest income/(expense)	—	0.6	(0.3)	(0.4)	(0.1)
Actuarial gains/(losses)	(6.1)	(20.8)	1.1	0.3	(25.5)
Currency translation differences	—	(7.0)	(1.7)	(0.2)	(8.9)
Deficit in schemes at 31 December	**(12.7)**	**(29.0)**	**(5.9)**	**(1.0)**	**(48.6)**

Employer contributions in 2008 were £7.5 million (2007: £7.6 million) to UK schemes; £0.4 million (2007: £5.4 million) to US schemes and £0.6 million (2007: £0.4 million) in respect of other schemes. Contributions in 2009 at current exchange rates are expected to be £8.9 million.

Year ended 31 December 2008	UK	US	Netherlands	Total
Difference between expected and actual return on scheme assets				
Amount (£million)	**(38.5)**	**(20.7)**	**(1.5)**	**(60.7)**
Percentage of scheme assets	**(11.0)%**	**(46.0)%**	**(6.0)%**	**(14.5)%**
Experience gains and losses on scheme liabilities				
Amount (£million)	**(9.0)**	**1.0**	**0.7**	**(7.3)**
Percentage of scheme assets	**(2.6)%**	**2.2%**	**2.8%**	**(1.7)%**
Total amount recognised in statement of recognised income and expense				
Amount (£million)	**(6.1)**	**(19.7)**	**0.3**	**(25.5)**
Percentage of scheme assets	**(1.7)%**	**(43.8)%**	**1.2%**	**(6.1)%**

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)	(3.9)	4.2	0.5	0.8
Percentage of scheme assets	(1.0)%	8.1%	2.6%	0.2%

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%

Historical summary

£million	2008	2007	2006	2005	2004
Present value of scheme liabilities	**(467.7)**	(472.6)	(484.1)	(502.4)	(469.1)
Fair value of plan assets	**419.1**	451.8	447.5	440.9	389.0
Deficit in the plan	**(48.6)**	(20.8)	(36.6)	(61.5)	(80.1)
Experience adjustments arising on plan liabilities	**(7.3)**	(1.1)	6.2	(3.6)	(1.8)
Experience adjustments arising on plan assets	**(60.7)**	(8.7)	4.1	29.9	4.8

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 4 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

25 Share based payments

The Company has several share option schemes for certain 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 1998 and 2008 UK Savings-Related Share Option Schemes are schemes 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. The 1998 scheme expired last year, although options are still outstanding under that scheme, and was replaced by the 2008 scheme.

The 2000 and 2008 US Savings-Related Share Option Schemes are schemes 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. The 2000 scheme expired last year, although options are still outstanding under that scheme, and was replaced by the 2008 scheme.

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

	2008	2007
Fair value per option (pence)	**23.9**	29.0
Weighted average share price at grant (pence)	**59.1**	58.0
Weighted average exercise price (pence)	**57.5**	56.6
Expected volatility (per cent)	**35.0**	38.0
Risk free rate (per cent)	**4.5**	5.4
Expected dividend yield (per cent)	**3.6**	2.7

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous five years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The Group recognised total expenses of £0.8 million (2007: £0.9 million) related to equity-settled share based payment transactions during the year.

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

The Company also adopted a long term incentive plan ('LTIP') in 2008 and awards were made to four senior executives. Details of these awards are set out on page 32 of the Directors' remuneration report. The LTIP awards were valued using the binomial method and an IFRS 2 expense of £0.3 million was recognised last year, which is included in the total expenses recognised in 2008 disclosed above.

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25 Share based payments continued

At 31 December 2008 the following options to subscribe for ordinary shares were outstanding:

Year of grant	Exercise price (pence)	Exercisable From	Exercisable To	At 1 January 2008 (000's)	Granted (000's)	Exercised (000's)	Expired (000's)	At 31 December 2008 (000's)
UK savings-related share option scheme								
2003	20.5	01/06/08	30/11/08	135	—	(132)	(3)	**—**
2004	23.2	01/06/09	30/11/09	187	—	—	—	**187**
2005	44.1	01/06/08	30/11/08	178	—	(177)	(1)	**—**
2005	44.1	01/06/10	30/11/10	53	—	(3)	(3)	**47**
2006	67.0	01/06/09	30/11/09	240	—	(10)	(35)	**195**
2006	67.0	01/06/11	30/11/11	27	—	—	—	**27**
2007	71.1	01/06/10	30/11/10	246	—	(2)	(36)	**208**
2007	71.1	01/06/12	30/11/12	53	—	—	(2)	**51**
2008	69.0	01/10/11	31/03/12	—	400	—	(19)	**381**
2008	69.0	01/10/13	31/03/14	—	83	—	—	**83**
				1,119	483	(324)	(99)	**1,179**
US savings-related share option scheme								
2006	70.8	27/03/08	27/06/08	197	—	(54)	(143)	**—**
2007	75.7	28/03/09	28/06/09	221	—	—	(23)	**198**
2008	72.3	27/08/10	27/11/10	—	286	—	(3)	**283**
				418	286	(54)	(169)	**481**
Executive share option plans								
1998	137.0	06/04/01	06/04/08	15	—	—	(15)	**—**
1999	92.8	01/04/02	01/04/09	30	—	—	—	**30**
2000	69.5	31/03/03	31/03/10	293	—	(155)	(16)	**122**
2001	97.9	07/03/04	07/03/11	607	—	—	(203)	**404**
2001	56.5	10/09/04	10/09/11	236	—	(144)	—	**92**
2002	29.0	10/04/05	10/04/12	138	—	(35)	—	**103**
2003	24.8	29/04/06	29/04/13	71	—	—	—	**71**
2004	35.0	23/04/07	23/04/14	471	—	(239)	(62)	**170**
2006	51.2	30/03/08	30/03/15	3,763	—	(1,472)	(76)	**2,215**
2006	64.5	02/11/08	02/11/15	1,100	—	—	—	**1,100**
2006	85.5	04/04/09	04/04/16	2,334	—	—	(140)	**2,194**
2007	88.0	15/05/10	15/05/17	2,402	—	—	(135)	**2,267**
2008	71.3	28/04/11	28/04/18	—	1,288	—	(79)	**1,209**
				11,460	1,288	(2,045)	(726)	**9,977**

The weighted average share price at the date of exercise of share options exercised during the year was 75 pence (2007: 82 pence).

26 Related party transactions

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

	2008 £million	2007 £million
Sales of goods to associate	**0.8**	1.2
Receivable from associate	**0.5**	0.2

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

27 Movement in net borrowings

	2008 £million	2007 £million
Change in net borrowings resulting from cash flows:		
Increase/(decrease) in cash and cash equivalents	**21.1**	(6.0)
Increase in borrowings repayable within one year	**(0.1)**	—
(Increase)/decrease in borrowings repayable after one year	**(29.4)**	82.5
	(8.4)	76.5
Acquisition of business	**(14.1)**	—
Disposal of business	**—**	5.6
Currency translation differences	**(25.2)**	2.3
(Increase)/decrease in net borrowings	**(47.7)**	84.4
Net borrowings at beginning of year	**(16.2)**	(100.6)
Net borrowings at end of year	**(63.9)**	(16.2)

28 Dividends

An interim dividend of 1.5 pence per share (2007: 1.3 pence) was paid on 10 October 2008 and the Group is proposing a final dividend of 1.4 pence per share for the year ended 31 December 2008 (2007: 1.4 pence). This brings the total for the year to 2.9 pence per share (2007: 2.7 pence). The final dividend payable, based on the number of ordinary shares in issue at 31 December 2008, is £6.2 million (2007: £6.3 million).

29 Key management compensation

	2008 £million	2007 £million
Salaries and short term employee benefits	**2.6**	1.9
Other long term benefits	**0.1**	0.3
Share based payments	**0.4**	0.2
	3.1	2.4

The key management compensation given above includes directors. Directors' remuneration is set out in the Directors' remuneration report on page 34.

Notes to the financial statements
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30 Acquisitions
On 1 July 2008 the Group acquired all the shares of Deuchem Co., Ltd, a Taiwan based company, for a cash consideration of £38.5 million. Deuchem is a leading supplier of additives and resins to the coating and related industries, with manufacturing and technical facilities in Taiwan and China.

On 8 July 2008 the Group set up a new business with Anji County Yu Hong Clay Chemicals Co., Ltd for the production of organoclays in China. The Group holds 80 per cent of the shares in this new business entity, which is treated as a subsidiary. Cash consideration paid was £2.6 million.

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

	Book value acquisition £million	Fair value adjustments £million	Fair Value of assets acquired £million
Intangible assets	0.4	13.1	13.5
Property, plant and equipment	12.6	2.2	14.8
Inventories	6.5	—	6.5
Trade and other receivables	11.3	—	11.3
Trade and other payables	(5.1)	—	(5.1)
Cash and cash equivalents	10.1	—	10.1
Loans and borrowings	(14.1)	—	(14.1)
Corporation tax	(0.4)	—	(0.4)
Deferred tax	(1.2)	(3.8)	(5.0)
	20.1	11.5	31.6
Goodwill			10.6
Consideration paid, satisfied in cash			42.2
Cash acquired			(10.1)
Net cash outflow			32.1

The consideration for the acquisitions, which included professional fees and incidental expenses of £1.1 million, has been allocated against identified net assets with the remaining balance recorded as goodwill. The goodwill recognised on acquisition reflects both the capabilities of the acquired entities' personnel and the synergistic opportunities going forward, neither of which can be allocated to an identifiable intangible asset.

Acquisitions made during 2008 contributed £20.2 million to the Group's revenue, £0.5 million to the operating profit before intangible amortisation and £0.1 million to the operating profit after amortisation.

The estimated contribution of Deuchem to the results of the Group had the acquisition been made on 1 January 2008, and assuming that the fair value adjustments that arose on acquisition would have been the same at the earlier date, is as follows:

	2008 £million
Revenue	**45.4**
Operating profit before intangible amortisation	**(0.2)**
Operating profit after intangible amortisation	**(0.9)**

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 was classified as a discontinued operation and its results were 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

Notes to the financial statements
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32 Contingent liabilities
In May 2008, the Group received a request for information in connection with an EU Commission competition law investigation relating to certain heat stabiliser products. As far as the directors are aware, the Company and its affiliates no longer manufacture products for use as heat stabiliser products that are the subject of the Commission's investigation and have not done so since 1998, when the Company disposed of its 50 per cent joint venture interest in Akcros Chemicals to Akzo Nobel, the other 50 per cent shareholder in the joint venture. Elementis is co-operating fully with the Commission's investigation.

It is possible that the Company may incur liabilities and related costs as a result of the investigation, the extent of which, if any, cannot be quantified now. Under the EU Commission's fining guidelines, a fine could amount up to 30 per cent of the turnover generated with the products concerned multiplied by the number of years during which a cartel was deemed to exist with an absolute upper limit of 10 per cent of group-wide turnover.

Parent company balance sheet

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 33 and its balance sheet is set out below.

Elementis plc

Balance Sheet
at 31 December 2008

	Note	2008 £million	2007 £million
Fixed assets			
Investments	35	**590.1**	590.1
Current assets			
Debtors	36	**0.7**	0.7
Creditors: amounts falling due within one year			
Creditors	37	**—**	(0.3)
Net current assets		**—**	0.4
Total assets less current liabilities		**590.8**	590.5
Creditors: amounts falling due after more than one year			
Amounts due to subsidiary undertakings		**(244.3)**	(229.3)
Net assets		**346.5**	361.2
Capital and reserves			
Called up share capital	39	**22.4**	22.3
Share premium account	40	**5.8**	5.2
Capital redemption reserve	40	**83.3**	83.3
Other reserves	40	**81.5**	81.5
Share option reserve	40	**1.6**	1.2
Profit and loss account	40	**151.9**	167.7
Equity shareholders' funds		**346.5**	361.2

The financial statements of Elementis plc on pages 75 to 78 were approved by the Board on 24 February 2009 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 2008

33 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's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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

34 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 £3.0 million (2007: £1.7 million) is dealt with in the financial statements of the Company.

35 Investments

	Unlisted shares at cost £million	Unlisted loans £million	Total £million
Cost at 1 January 2008 and 31 December 2008	0.1	759.0	759.1
Provision for impairment			
At 1 January 2008 and 31 December 2008	—	(169.0)	(169.0)
Net book value 31 December 2008	**0.1**	**590.0**	**590.1**
Net book value 31 December 2007	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
Deuchem Co., Ltd	Additives and resins	Taiwan

Notes:

1 None of the undertakings is 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, except Deuchem which also operates China.

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

36 Debtors

	2008 £million	2007 £million
Corporation tax	**0.7**	0.7

37 Creditors: amount falling due within one year

	2008 £million	2007 £million
Amounts owed to subsidiary undertakings	**—**	0.3

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 2008 was £12.7 million (2007: £12.8 million).

The latest full actuarial valuation was carried out at 30 September 2005 and was updated for FRS 17 purposes to 31 December 2008 by a qualified actuary. The contribution for the year was £0.1 million (2007: £0.2 million).

Notes to the financial statements of Elementis plc
for the year ended 31 December 2008

39 Called up share capital

	2008 Number '000	2008 £million	2007 Number '000	2007 £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	**446,429**	**22.3**	441,690	22.1
Issue of shares	**1,532**	**0.1**	4,739	0.2
At 31 December	**447,961**	**22.4**	446,429	22.3

During the year a total of1,531,370 ordinary shares with an aggregate nominal value of £76,569 were allotted and issued for cash to various employees at subscription prices between 20.5 pence and 71 pence on the exercise of options under the Group's share option schemes. The total subscription monies received by the Company for these shares was £0.7 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 2008	5.2	83.3	81.5	1.2	167.7
Retained loss for the year	—	—	—	—	(3.0)
Issue of shares	0.6	—	—	—	—
Share based payments	—	—	—	0.4	—
Dividend paid	—	—	—	—	(12.8)
At 31 December 2008	**5.8**	**83.3**	**81.5**	**1.6**	**151.9**

41 Reconciliation of movements in shareholders' funds

	2008 £million	2007 £million
Loss for the financial year	**(3.0)**	(1.7)
Dividend paid	**(12.8)**	(11.1)
Share based payments	**0.4**	0.4
Ordinary shares issued	**0.7**	1.8
Net decrease in shareholders' funds	**(14.7)**	(10.6)
Opening shareholders' funds	**361.2**	371.8
Closing shareholders' funds	**346.5**	361.2

Five year record

	2008 £million	2007 £million	2006 £million	2005 £million	2004 £million
Turnover					
Specialty Products	**181.5**	141.4	144.5	138.2	140.2
Surfactants	**51.1**	46.2	46.1	45.7	19.3
Chromium	**167.9**	112.2	111.4	125.0	105.1
Continuing operations	**400.5**	299.8	302.0	308.9	264.6
Discontinued operations	**—**	59.7	93.9	131.0	124.6
Group turnover	**400.5**	359.5	395.9	439.9	389.2
Operating profit					
Specialty Products	**29.1**	28.8	25.0	17.0	18.8
Surfactants	**0.5**	0.9	0.6	0.6	(1.3)
Chromium	**27.7**	14.2	11.9	7.8	0.4
Central costs	**(5.3)**	(5.8)	(6.0)	(7.5)	(9.3)
Continuing operations before exceptional items	**52.0**	38.1	31.5	17.9	8.6
Exceptional items	**(20.5)**	19.4	3.0	(47.7)	(2.6)
Discontinued operations	**—**	4.3	6.1	2.4	2.9
Profit/(loss) before interest	**31.5**	61.8	40.6	(27.4)	8.9
Net interest payable	**(3.5)**	(4.8)	(7.5)	(7.6)	(5.6)
Profit/(loss) before tax	**28.0**	57.0	33.1	(35.0)	3.3
Tax	**(8.2)**	(8.9)	(1.4)	(3.4)	0.1
Minority interests	**—**	(0.1)	(0.1)	0.3	—
Profit/(loss) attributable to equity holders of the parent	**19.8**	48.0	31.6	(38.1)	3.4

	2008 £million	2007 £million	2006 £million	2005 £million	2004 £million
Basic					
Earnings/(loss) per ordinary share (pence)	**4.5**	10.9	7.1	(8.8)	0.8
Earnings per ordinary share before exceptional items (pence)	**9.1**	8.1	6.8	2.8	1.3
Diluted					
Earnings/(loss) per ordinary share (pence)	**4.5**	10.8	7.0	(8.8)	0.8
Earnings per ordinary share before exceptional items (pence)	**9.1**	8.0	6.7	2.8	1.3
Dividend per ordinary share (pence)	**2.9**	2.5	2.3	—	—
Interest cover (times)*	**14.9**	8.8	4.6	3.3	3.1
Equity attributable to equity holders of the parent	**268.3**	229.9	199.3	189.8	221.3
Net borrowings	**(63.9)**	(16.2)	(100.6)	(99.4)	(90.2)
Weighted average number of ordinary shares in issue during the year (million)	**442.6**	441.9	439.4	434.2	431.9

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

Shareholder services

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

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

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DW

Telephone: +44 (0) 871 384 2379 or +44 (0) 121 415 7043
Facsimile: +44 (0) 871 384 2100 or +44 (0) 121 415 7057
Website: www.shareview.co.uk

Calls to the 0871 prefixed numbers are charged at 8 pence 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 best interests of shareholders and the Company for dividends to be paid directly into bank or building society accounts. Any shareholder who wishes to receive dividends in this way should contact the Company's registrars to obtain a dividend mandate form.

Registrars' text phone
For shareholders with hearing difficulties:

Callers inside the UK telephone: 0871 384 2255
Callers outside the UK telephone: +44 (0) 121 415 7028

Web-based enquiry service
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.

Share dealing service
A low cost, execution-only share dealing service for the purchase and sale of Elementis plc shares is available from NatWest Stockbrokers. NatWest Stockbrokers is authorised and regulated by the Financial Services Authority and is a member of the London Stock Exchange and PLUS. For details, please contact:

NatWest Stockbrokers
Waterhouse Square
138-142 Holborn
London EC1N 2TH

Telephone: 0870 600 3070

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.

Corporate information

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Wai Wong

Registered office
10 Albemarle Street
London W1S 4HH, UK

Registered number
3299608

Auditors
KPMG Audit Plc

Stockbroker
RBS Hoare Govett Limited

Financial calendar

24 February 2009	Preliminary announcement of final results for the year ended 31 December 2008
16 April 2009	Annual General Meeting and First Interim Management Statement
22 April 2009	Ex-dividend date for final dividend for 2008 payable on ordinary shares
24 April 2009	Record date for final dividend for 2008 payable on ordinary shares
22 May 2009	Payment of final dividend for 2008 on ordinary shares
03 August 2009*	Interim results announcement for the half year ended 30 June 2009
09 September 2009*	Ex-dividend date for interim dividend for 2009 payable on ordinary shares
11 September 2009*	Record date for interim dividend payable for 2009 on ordinary shares
09 October 2009*	Payment of interim dividend for 2009 on ordinary shares
29 October 2009*	Second Interim Management Statement
23 February 2010*	Preliminary announcement of final results for the year ending 31 December 2009

* Provisional dates

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