

23 February 2006

ELEMENTIS plc

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

Highlights

- Group sales 7 per cent ahead of 2004, excluding portfolio changes.
- Operating profit before exceptional items £20.3 million, 77 per cent up on 2004.
- Earnings per share before exceptional items 2.8p (2004: 1.3p)
- Final distribution to shareholders 1.1p (2004: 1.1p). 2.2p for the year (2004: 2.2p)

- Operating loss from continuing operations after exceptional items £25.4 million (2004: profit £5.2 million).
- Loss per share 8.8p (2004: earnings of 0.8p)

Edward Bramson, Executive Chairman of Elementis plc, said:

“We are pleased to report the solid strategic progress that has been made during 2005. Our focus continues to be on improving the group’s long term earnings quality and consistency to generate funds for growth and for distribution to shareholders.

The first phase of our strategic review, which was announced in October 2005, is on track. Our second phase, which will be announced near the end of the first quarter this year, will primarily address our Specialties division.

Turning to the underlying financial performance during 2005, the increase in operating profits was driven by positive pricing in all of our businesses, particularly Chromium. Softness in the coatings sector constrained volumes in Specialties and Pigments but early indications for 2006 suggest that the sector is improving. The Board recommends a final dividend of 1.1 pence per share, taking total distributions for the year to 2.2 pence.”

– Ends –

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Executive Chairman's Statement

Sales in 2005 increased by 7 per cent on previous year to £439.9 million, after adjustments for acquisitions and disposals. The major contributor to the increase was improved pricing in each of our business segments, especially Chromium.

Operating profit before exceptional items increased to £20.3 million in 2005 from £11.5 million in 2004. For the year, the Group reported exceptional items of £47.7 million (2004: £2.6 million) resulting, principally, from the Board's strategic review announced in October. As a result the Group reported an operating loss from continuing operations of £25.4 million compared to a profit of £5.2 million in 2004.

Market conditions in many of the Group's end markets such as aerospace alloys, oilfield chemicals and personal care were reasonably good. The coatings markets which are significant for both Pigments and Specialties were, however, somewhat soft for most of the year which constrained volumes in both businesses. Conditions in the coatings market now appear to be improving.

The relocation of Elementis Pigments US manufacturing operations to a new facility in China progressed, essentially, as planned. As a result our margins for Pigments are approaching the levels that were anticipated when the project was initiated. The plant was in a parallel start-up phase during 2005 so little or no operating margin benefit was reflected in this year's results. Lower production costs should be reflected in Pigments profits for a significant portion of 2006 and the benefit of a full year's savings will be seen in 2007. The transition of customers to material produced in China has proceeded remarkably smoothly which is a tribute to the professionalism of our Pigments management team.

In the interests of improved financial transparency, the Board has concluded that we should henceforth disclose additional detail for the Elementis Specialties business segment. As a result, we are now providing information in the operating and financial review (OFR) on our historical Specialties business (Specialty products), predominantly rheological modifiers, separately from Surfactants which are a significant part of the Servo business that was acquired in June 2004. As we implement specific strategies for these differing product lines we believe it will be helpful to shareholders to have this additional data. As noted above, Specialty products was adversely affected by soft volumes in the coatings markets which were offset by price increases. Specialty products results reflect the disposal of the Hardman adhesives business and the internal transfer of a product line to the Pigments business. Adjusting for these two factors Specialty products reported results essentially in line with those of the previous year. Surfactants' profits increased principally as a result of fixed cost reductions implemented during the year.

In advance of the results of the Board's strategic review of Specialties that is currently in progress, we undertook some fixed cost reductions in the second half of last year that include a contribution of around £4.0 million to the profits of this segment in 2006, independently of the outcome of the review.

Elementis Chromium reported a significant improvement in operating profit before exceptional items in 2005 after what was essentially a breakeven year in 2004. In a further step to increase financial transparency we are now reporting the results of the UK and US chromium businesses separately in the OFR. As was the case in the prior year, the UK chromium operation was unprofitable in 2005, although it moved into profitability in the second half. The first phase of the Board's strategic review, announced in October, addressed the level of Chromium profits in the UK and particularly the volatility of these profits which had an undesirable effect on Group earnings as a whole. As a result of the review we are cutting production capacity in the UK and reducing fixed costs more than proportionately. These actions, which are to be completed by the end of the first quarter, will materially reduce the worldwide breakeven level for the Chromium segment. They will also have the effect of improving returns as we will discontinue lower margin products which have also tended to be more volatile. Lower breakeven levels will reduce our sensitivity to cyclical fluctuations in demand in the future. Elementis will continue to be the world's largest supplier of chromium chemicals and with significant unused capacity available to us we retain the ability to increase production in response to changes in market conditions. The restructuring of Chromium and the change in our management strategy are intended to reduce the historical volatility of the business and to result in a more predictable and therefore valuable earnings stream to the Group in the medium term.

In October, the Specialty Rubber business was sold for £18.2 million. Profitability of Specialty Rubber has improved over the last two years, but the Board concluded that there was insufficient strategic fit with the rest of the Group to justify further investment, and that a sale represented the best course of action.

Before exceptional items the Group reported basic earnings per share of 2.8 pence in 2005 (2004: 1.3 pence). After exceptional items, discussed below, we reported a net loss of 8.8 pence per share

(2004: earnings of 0.8 pence). Net borrowings at the end of 2005 were £99.4 million (2004: £90.2 million). Foreign currency translation gave rise to £8.8 million of the increase.

The Board

Kevin Matthews and Chris Girling joined the Board in February and April respectively and Michael Hartnall retired in April 2005. Hanover Investors, with which I am associated, became a significant shareholder in the Company in the first half of 2005. Subsequently, further changes were made to the composition of the Board. Ian Brindle, Ken Minton, Matthew Peacock and I joined the Board in June. Keith Hopkins and Edward Wilson resigned at the same time. Philip Brown retired from the Board at the end of June and Geoff Gaywood resigned from the Board in August. The Board would like to express its appreciation to these former directors who laid the foundation for many of the positive developments that we expect to see in 2006.

Strategy

Following its reorganisation in June the Board has been conducting a review of the Group's strategy. The first phase of the strategic review, announced in October, set out three main goals. The first is to increase the base level of the Group's profits significantly in 2006 as a base from which to grow earnings in subsequent years. We believe that a consistent increase in the level of our returns is necessary if we are to have the resources to finance growth without the need for external financing, to increase distributions to shareholders in the future, and to motivate employees to achieve above average returns.

To this end, during 2005, we took a number of actions to reduce head office costs and to combine certain overhead functions in Pigments and Specialties, both of which are based in the USA. As a result, we expect overhead expenses to be reduced by more than £11.0 million per year in 2006 compared with 2005. This cost reduction is significant when compared with this year's reported results. The reduction also reflects a long-term change in the way that Elementis will be managed. Authority and responsibility in many areas have now been transferred to the management of the operating businesses with, I believe, resultant benefits in improved decision making and employee motivation.

The Board's second objective is to refocus resources and attention on the Specialties business segment. This is our largest and highest profit margin business and has, we believe, attractive growth opportunities. The next phase of the strategic review will focus on Specialties and we anticipate that the Board will make an announcement towards the end of the first quarter.

The third objective that the Board has set is to improve the Group's longer-term earnings quality and consistency. In order to accomplish this it has been necessary to change the strategic position of the Chromium business to reduce volatility in the manner described above. We are planning other steps to increase the predictability of earnings in 2006 which will form part of the forthcoming Board review.

Exceptional items

As a result of the implementation of the first part of the Board's strategic review, the Group has recorded an exceptional charge in 2005 of £32.9 million, representing £13.4 million of cash costs and £19.5 million of asset write downs partly offset by pension curtailment gains. The cash costs will be financed principally from the net proceeds of the Specialty Rubber sale. Total exceptional items for the year, including management actions announced at the interim stage, were £47.7 million.

Environmental, health and safety

Performance by the Group continued to be of a high standard in 2005 with improvements being recorded in most of the key measures. In particular, our safety performance is now in the top quartile of the industry, and we will continue to strive for improvements in all areas of this important aspect of our operations.

Distribution to shareholders

The Board has decided to recommend the resumption of dividend payments. The Group's tax position makes it no longer necessary to make distributions in the form of redeemable B shares as we have been doing for some years. Consequently, the directors recommend a final dividend of 1.1 pence per share taking the total return to shareholders for the year to 2.2 pence. Subject to approval at the Annual General Meeting, the dividend will be paid on 5 May 2006 to members on the register at the close of business on 7 April 2006. The Board intends to continue to review the dividend policy as earnings performance permits.

People

This is my first year at Elementis and I have been tremendously impressed by the depth of the talent and experience of the people I have met here. I would like to express my appreciation and that of the entire Board for the dedication of our employees during the recent period of restructuring. It is my hope and belief that improving financial performance will create an environment in which their efforts can be well rewarded.

Going forward

The actions that have already been taken create the conditions for significant improvements in the coming year. The Board is, therefore, now able to turn its attention to the development of strategies that will improve our position in 2007 and beyond.

Edward Bramson
Executive Chairman
23 February 2006

Operating and Financial Review

Revenue	Revenue	Effect of	Acquisitions	Inc/(dec)	Revenue
	2004	exchange	and	2005	2005
	£million	rates	disposals	£million	£million
		£million	2005		
			£million		
Specialties					
- Specialty products	140.3	0.1	(5.3)	4.6	139.7
- Surfactants	19.3	0.2	19.5	6.7	45.7
Specialties total	159.6	0.3	14.2	11.3	185.4
Pigments	79.1	0.9	13.4	(2.7)	90.7
Chromium	110.5	0.3	-	18.6	129.4
Specialty Rubber	45.9	(0.3)	(5.1)	-	40.5
Inter-segment	(5.9)	-	-	(0.2)	(6.1)
	389.2	1.2	22.5	27.0	439.9

International financial reporting standards (IFRS)

The Group has reported on the basis of IFRS as adopted by the European Union (EU), and comparative data has been restated accordingly. In addition, the Group has restated its segmental information, in order to provide a clearer view of the underlying profit performance of the business units. Consequently central costs, which are not identifiable as costs of particular segments, are reported as a separate item and consist of those expenditures incurred by the Board of Directors, Company Secretary, Group finance and internal legal costs.

IFRS requires separate disclosure of items of income and expense which are material by virtue of their nature or amount. These items are considered to be most appropriately disclosed as exceptional. Elementis plc management consider that the information presented in the OFR provides useful financial information relating to the performance of the Group. This information should not be considered as an alternative, but as a supplementary to the full IFRS income statement presented on page 12.

Group results

Group sales were £439.9 million in 2005 compared to £389.2 million for the previous year. Sales increased by £33.8 million as a result of having a full year of sales from Sasol Servo BV ('Servo'), which was acquired in June 2004. Two businesses were sold during the year, the Hardman adhesives business and Specialty Rubber, which reduced reported sales by £11.3 million. After adjusting for these changes, sales increased by 7 per cent over the previous year. Improved pricing in all businesses, but particularly in Elementis Chromium, was the main driver of the increase in sales, with average prices improving by 7 per cent. Sales volumes were 2 per cent lower due to softer demand in the US Coatings market and the effects of price improvement programs.

Operating profit before exceptional items increased by £8.8 million to £20.3 million (2004: £11.5 million). Improved pricing contributed £31.2 million, offsetting increases in energy of £6.0 million and raw materials of approximately £10.3 million, with most of the variances occurring in Elementis Chromium. Lower volumes reduced operating profit by £5.7 million, while currency movements had a positive impact of £2.2 million.

Exceptional items before taxation in 2005 were a charge of £47.7 million (2004: £2.6 million). Consequently the Group is reporting an operating loss for the year from continuing operations of £25.4 million (2004: profit of £5.2 million).

Elementis Specialties

Phase one of the integration of the Servo business, acquired in June 2004, was completed during the year, generating £3.5 million of annualised cost savings. Servo products in the coatings and oilfield sectors complement well the Elementis products in those same markets, and have been fully integrated into the Elementis Specialties commercial organisation. Servo also produces a range of surfactants for industrial

applications and the pulp and paper markets, and these do not directly overlap with existing Elementis products and markets.

In addition, Servo produces a range of driers for the coatings market, which were reported as part of Elementis Specialties in 2004. These were transferred to Elementis Pigments in 2005 where there is a similar range of products serving the same markets.

Operating profit			2005			2004
£million	Operating profit	Exceptional items*	Adjusted operating profit	Operating profit	Exceptional items*	Adjusted operating profit
Continuing operations						
Specialties						
- Specialty products	14.6	2.4	17.0	16.5	2.3	18.8
- Surfactants	0.1	0.5	0.6	(2.9)	1.6	(1.3)
	14.7	2.9	17.6	13.6	3.9	17.5
Pigments	(5.9)	7.1	1.2	1.8	-	1.8
Chromium	(21.7)	29.5	7.8	(0.9)	1.3	0.4
Central costs	(12.5)	5.0	(7.5)	(9.3)	-	(9.3)
	(25.4)	44.5	19.1	5.2	5.2	10.4
Discontinued operations						
Specialty Rubber	1.2	-	1.2	3.7	(2.6)	1.1
	(24.2)	44.5	20.3	8.9	2.6	11.5

* excluding profit / (loss) on disposal of business

Specialty Products

Global markets for Specialty products grew by around 2-3 per cent in the year, with China showing above average growth. The market for architectural coatings benefited from a robust US housing market, while growth in industrial coatings was strong in Asia, but relatively flat in Europe and the US, due in part to lower car production rates. The market for oil field products benefited from strong growth in North America, where there was a record number of drilling programs in Canada and good growth in the US despite some slowdown in the second half of the year due to hurricane damage. Growth in this sector is also being enhanced by the search for new reserves in increasingly remote and extreme environments, that require greater quantities of performance chemicals such as those produced by Elementis Specialties.

Product development programs resulted in four new products being introduced in the year for the growing Chinese market and for the oilfield sector.

Sales of Elementis Specialty products in 2005 were £139.7 million (2004: £140.3 million). Having a full year of sales from the Servo acquisition added £7.6 million to 2005 sales, but the sale of the Hardman adhesives business in June 2005 and the transfer of the Servo driers business to Pigments reduced reported turnover by £12.9 million. After adjusting for these changes, sales increased by 3 per cent over the previous year. Improved pricing added 4 per cent while volumes were down 2 per cent due to the softer US coatings market and the effects of the price improvement program. Volumes were also impacted by changes in supply chain processes following the implementation of the ERP program. Within this overall result, personal care made good progress and oil field sales enjoyed strong growth due to the market dynamics described above, and new opportunities from the Servo business. The latter included a one time opportunity to supply a large customer during a plant expansion, and the opening of a new pipeline in Azerbaijan.

Operating profit before exceptional items was £17.0 million (2004: £18.8 million) which is £0.4 million lower than the previous year after adjusting for acquisitions and disposals. Higher pricing was more than offset by lower volumes and higher energy costs and overheads. In addition, the revaluation of hectorite ore at its mine in California contributed £0.8 million to its result in the first half of 2005.

Surfactants

The surfactants business was acquired as part of the Servo acquisition. The global market for surfactants grew by around 3 per cent in 2005, but margins remained low due to strong competition and high raw material costs. A surfactant is a surface active ingredient used primarily in the formulation of detergents.

Sales of surfactants in 2005 were £45.7 million (2004: £19.3 million). The effect of owning Servo for a full year in 2005 increased reported sales by £19.5 million. Otherwise sales volumes improved by 18 per cent following the reorganisation of the commercial group as part of the acquisition integration process. Overall pricing was flat versus the previous year.

The operating profit before exceptional items in 2005 was £0.6 million (2004: loss of £1.3 million). If the Group had owned Servo for a full year in 2004, this would have represented an annualised improvement of £3.2 million and was the result of higher sales volumes and £1.5 million of cost savings from the reorganisation announced in July 2005. As part of this reorganisation employee numbers were reduced and business processes were streamlined to improve efficiency.

Elementis Chromium

Elementis Chromium for 2005 was characterised by a significant improvement in selling prices, which more than offset higher raw material and energy costs, and improved profitability by £7.4 million.

The global market for Chrome chemicals grew by 1-2 per cent in 2005, driven by strong growth in the US industrial CCA (Chromated copper arsenate) market and strong aerospace demand. The US CCA market for timber treatment benefited from exceptionally high demand for treated timber, especially utility poles, to repair hurricane damage in the second half of the year. The chromium oxide market for aerospace alloys grew by around 10 per cent driven by good recovery in aircraft production. Other market segments showed more modest growth while chromium oxide demand for pigments was depressed by a weaker US coatings market. Global supply-demand balances during the year were favourable, leading to higher sales prices, and were supported by plant closures in the Far East.

	2005	2004
	£million	£million
Sales		
- UK	56.4	51.7
- US	73.0	58.8
	129.4	110.5
Adjusted operating profit/(loss)*		
- UK	(0.3)	(6.3)
- US	8.1	6.7
	7.8	0.4

* before exceptional items

Elementis Chromium sales in 2005 were £129.4 million, an improvement of 17 per cent over the previous year. This was largely driven by a program of quarterly price increases, led by Elementis to restore profit margins, and resulted in a 21 per cent improvement in average prices versus the previous year. Prices improved in all major product sectors, but there were some related volume losses which resulted in an overall volume reduction of 4 per cent compared to 2004. Volumes were higher in North America, due to strong CCA demand, but lower in all other major geographic sectors. In Asia Pacific, there was a reduction in China, where pricing was less robust, but an increase in Japan where plant closures led to additional supply opportunities.

Operating profit before exceptional items in 2005 was £7.8 million compared to £0.4 million in 2004. Higher selling prices were the main driver of the overall improvement, and more than offset increases of £5.6 million in energy costs and £6.8 million in raw material costs.

The US business reported a profit of £8.1 million for the year (2004: £6.7 million) while the UK business, which is being restructured, reported a loss of £0.3 million (2004: £6.3 million). The UK business made a loss in the first half of the year but was profitable in the second half due to higher selling prices.

Operating profit before exceptional items

	Operating profit * 2004 £million	Effect of exchange rates £million	Acquisitions and disposals 2005 £million	Inc/(dec) 2005 £million	Operating profit * 2005 £million
Specialties					
- Specialty products	18.8	1.2	(1.3)	(1.7)	17.0
- Surfactants	(1.3)	-	(1.3)	3.2	0.6
Specialties total	17.5	1.2	(2.6)	1.5	17.6
Pigments	1.8	0.5	3.0	(4.1)	1.2
Chromium	0.4	0.9	-	6.5	7.8
Specialty Rubber	1.1	(0.1)	-	0.2	1.2
Central costs	(9.3)	(0.3)	-	2.1	(7.5)
	11.5	2.2	0.4	6.2	20.3

* before exceptional items

Elementis Pigments

In 2005 Elementis Pigments successfully completed the transitioning of its North American manufacturing base to a new plant in China. The majority of operations at the East St Louis plant closed on 30 June 2005 and most major customers have approved the new Chinese material.

Coatings markets served by Elementis Pigments showed the same overall trends as described under Elementis Specialty products. Good growth was seen in Asia but demand was relatively flat in the US and Europe. The US represents Elementis Pigments largest market and while there was reasonable growth in the architectural sector, demand for industrial applications was lower than the previous year leading to an overall softer coatings market for the year. In the construction market demand was also lower, albeit from record levels in the previous year.

Sales in Elementis Pigments were £90.7 million (2004: £79.1 million). The transfer of the driers business from Elementis Specialties in early 2005 contributed £13.4 million of the increase in sales. Otherwise prices improved by approximately 3 per cent due to increases being applied in all key market sectors to offset rising raw material and energy costs. Volumes were 6 per cent lower than 2004 due to the effects of the price increases as well as softer market demand.

Operating profit before exceptional items for the year was £1.2 million (2004: £1.8 million). Benefits from higher pricing and the inclusion of the Servo driers business were offset by lower sales volumes and second half inefficiencies from the transfer of production to the China plant. Additional inventory was produced at the higher cost East St Louis plant to support key customers during the transition, and this effectively delayed the benefits of selling the lower cost Chinese product until 2006. In addition the US plant continued to run during July and August as part of the shut down process and this led to some duplication of manufacturing costs with the Chinese plant, which started up at the same time. Going forward, the transfer of production to the new plant is expected to reduce annualised manufacturing costs by around £3.0 million, once the East St Louis inventory is fully depleted. Consequently 2006 is expected to benefit from around 70 per cent of this saving.

Central costs

Central costs in 2005 were reduced by £1.8 million to £7.5 million (2004: £9.3 million). The reduction was the result of a reorganisation of head office in which functions were downsized or absorbed by business units. Annual employee related costs were reduced by around 80 per cent, by the end of 2005 and the full effect of the reductions will be reflected in 2006.

Exceptional items

In the first half, exceptional charges of £6.3 million were announced. These comprised the closure of the majority of operations at the Pigments' East St Louis plant, the first phase of the Servo integration, a head office restructure and the disposal of the Hardman adhesives business. The first phase of a strategic review

was announced on 31 October 2005, which resulted in exceptional charges of £38.4 million. These related to the closure of a kiln at Chromium, together with severance and other restructuring costs. Further exceptional items of £3.0 million have been incurred in the second half from the sale of Specialty Rubber, curtailment gains on pension schemes related to the restructuring and the settlement of legal and insurance claims.

Total exceptional items before taxation in the year were £47.7 million (2004: £2.4 million) and are set out in note 5.

Interest

Net interest payable increased by £2.0 million to £7.6 million in 2005 (2004: £5.6 million). This includes £0.1 million (2004: £0.2 million) in respect of discontinued operations. Interest payable on net borrowings increased by £2.6 million to £6.4 million (2004: £3.8 million) due to higher average borrowings and higher interest rates. The finance charge in respect of pension and post-retirement benefits decreased by £0.7 million in the year, to £0.4 million (2004: £1.1 million) due to a higher expected return on UK pension scheme assets and contributions paid into the UK scheme.

Interest cover - the ratio of operating profit before exceptional items to interest on net borrowings - was 3.3 times (2004: 3.3 times).

Taxation

Tax charge	£million	Effective rate per cent
Before exceptional items	0.3	2.6
Exceptional items	3.1	(7.8)
Total	3.4	(12.0)

The low rate of taxation on profit before exceptional items is due to the amortisation of goodwill in the US for tax purposes. Taxation on exceptional items of £3.1 million arose on pension scheme curtailment gains and due to the write off of £2.3 million in relation to deferred tax previously provided on UK pension schemes. Potential deferred tax assets of £31.6 million (2004: £28.8 million) in respect of carried forward losses have not yet been recognised.

The effective tax rate on profit before exceptional items in 2006 will continue to be dependent on the mix of profits primarily between the UK and overseas, and the utilisation of tax losses in the UK and the US.

Earnings per share

Earnings per share for the year was a loss of 8.8 pence per share (2004: earnings of 0.8 pence), due to the exceptional charges in the year. Basic earnings per share before exceptional items increased to 2.8 pence (2004: 1.3 pence) due to the increased operating profit partly offset by increased net interest costs.

Dividends and issue of redeemable B shares

The Board has decided not to continue with the programme of issuing and redeeming redeemable B shares, and is proposing a final dividend of 1.1 pence per share. The total nominal value of redeemable B shares that were issued to shareholders during 2005 was 2.2 pence per ordinary share. A final offer will be made to existing holders of redeemable B shares to redeem any remaining B shares in issue for cash at their nominal value in November 2006.

Cash flow

The cash flow is summarised below:

	2005	2004
	£million	£million
Ebitda ¹	38.5	27.0
Change in working capital	1.9	(5.1)
Capital expenditure	(16.8)	(22.0)
Pension	(14.1)	(4.6)
Interest and tax	(9.4)	1.8
Other	(1.8)	(2.2)
	(1.7)	(5.1)
Redemption of B shares	(9.7)	(9.2)
Acquisitions and disposals	23.7	(36.3)
Exceptional items	(12.7)	3.8
Currency fluctuations	(8.8)	3.5
Increase in net borrowings	(9.2)	(43.3)
Net borrowings at start of year	(90.2)	(46.9)
Net borrowings at end of year	(99.4)	(90.2)

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

Net borrowings increased by £9.2 million in the year to £99.4 million. The strengthening of the US dollar against sterling increased reported borrowings by £8.8 million. Ebitda¹ increased by £11.5 million to £38.5 million (2004: £27.0 million) due to the improved operating performance. Cash flow from working capital was an inflow of £1.9 million. Inventory and debtors for continuing businesses both improved compared to the previous year end. Debtor days were 4 days lower at 57 days and inventory was 12 days lower at 77 days. Year end creditors were down 6 days to 66 days.

Capital expenditure in the year was £5.2 million lower than previous year at £16.8 million due to the completion of the ERP project in 2004 and the Tai Cang Pigments plant in June 2005. Total spend in 2005 represented 93 per cent of depreciation (2004: 143 per cent).

Payments to pension schemes net of service cost were £9.5 million higher than 2004 at £14.1 million as the Group made an additional contribution of £7.0 million into the UK scheme following the disposal of Specialty Rubber.

Balance sheet

	2005	2004
	£million	£million
Intangible fixed assets	170.6	155.7
Other net assets	118.6	155.8
	289.2	311.5
Equity	189.8	221.3
Net borrowings	99.4	90.2
	289.2	311.5

Gearing² 34% 29%

² the ratio of net borrowings to equity plus net borrowings

Currency fluctuations had a material impact on equity. The main currency exchange rates relevant to Elementis are set out below:

	2005		2004	
	Year end	Average	Year end	Average
US dollar	1.72	1.82	1.92	1.83
Euro	1.46	1.46	1.41	1.47

The majority of the Group's assets are stated in US dollars and the strengthening of the US dollar in 2005 increased equity by £18.3 million. This partly offset the loss after exceptional items in equity of £38.1 million.

Pensions and other post retirement benefits

The Group provides retirement benefits for the majority of its employees mainly through defined benefit schemes. A small number of defined contribution schemes are also provided and an unfunded post-retirement medical benefit scheme is provided in the US.

The net pension liability, which is calculated by the Group's actuaries and based upon fair value of the schemes' assets and present value of schemes' liabilities, decreased by £19.4 million to £62.0 million. This was due to a 16 per cent return from the assets of the UK pension plan plus employer contributions of £19.1 million and curtailment gains of £9.0 million associated with restructuring program. This more than offset liability increases of £33.3 million due to changes in mortality estimates and other assumptions. In 2005, due to the curtailment gains there was a net credit to the income statement of £3.0 million (2004: charge of £7.2 million). Excluding these gains the total cost of pensions and post-retirement health care in the year was similar to 2004. Total contributions to pension and post retirement schemes in the year amounted to £19.1 million (2004: £10.7 million). Estimated contributions in 2006 are approximately £12.0 million.

Consolidated income statement

for the year ended 31 December 2005

	Note	Before exceptional items £million	Exceptional items (note 5) £million	2005 After exceptional items £million	Before exceptional items £million	Exceptional items (note 5) £million	2004 After exceptional items £million
Continuing operations							
Revenue		399.4	-	399.4	343.3	-	343.3
Cost of sales		(280.8)	(41.0)	(321.8)	(236.6)	-	(236.6)
Gross profit		118.6	(41.0)	77.6	106.7	-	106.7
Distribution costs		(58.5)	(2.6)	(61.1)	(56.4)	-	(56.4)
Administrative expenses		(41.0)	(0.9)	(41.9)	(39.9)	(5.2)	(45.1)
Operating profit/(loss)		19.1	(44.5)	(25.4)	10.4	(5.2)	5.2
Profit on disposal of business		-	4.6	4.6	-	-	-
Investment income	3	0.3	-	0.3	0.8	-	0.8
Finance costs	4	(7.8)	-	(7.8)	(6.2)	-	(6.2)
Profit/(loss) before income tax		11.6	(39.9)	(28.3)	5.0	(5.2)	(0.2)
Tax	6	(0.3)	(3.1)	(3.4)	1.0	0.2	1.2
Profit/(loss) for the year from continuing operations		11.3	(43.0)	(31.7)	6.0	(5.0)	1.0
Discontinued operations							
Profit/(loss) from discontinued operation		1.1	(7.8)	(6.7)	(0.2)	2.6	2.4
Profit/(loss) for the year		12.4	(50.8)	(38.4)	5.8	(2.4)	3.4
Attributable to:							
Equity holders of the parent		12.2	(50.3)	(38.1)	5.8	(2.4)	3.4
Minority interests		0.2	(0.5)	(0.3)	-	-	-
		12.4	(50.8)	(38.4)	5.8	(2.4)	3.4
Earnings per share							
From continuing and discontinued operations:							
Basic (pence)	7	2.8	(11.6)	(8.8)	1.3	(0.5)	0.8
From continuing operations:							
Basic (pence)	7	2.6	(9.8)	(7.2)	1.4	(1.2)	0.2

Consolidated balance sheet

at 31 December 2005

	2005 31 December £million	2004 31 December £million
Non-current assets		
Goodwill and other intangible assets	170.6	155.7
Property, plant and equipment	141.1	173.0
Interests in associates	0.7	0.6
Other investments	2.6	1.3
Deferred tax assets	11.1	16.9
Total non-current assets	326.1	347.5
Current assets		
Inventories	63.5	68.3
Trade and other receivables	75.6	84.0
Cash and cash equivalents	13.0	11.5
Assets classified as held for sale	-	3.7
Total current assets	152.1	167.5
Total assets	478.2	515.0
Current liabilities		
Bank overdrafts and loans	(4.6)	(4.4)
Trade and other payables	(69.5)	(71.6)
Current tax liabilities	(5.6)	(8.2)
Provisions	(11.8)	(0.8)
Liabilities classified as held for sale	-	(1.3)
Total current liabilities	(91.5)	(86.3)
Non-current liabilities		
Loans and borrowings	(107.8)	(97.3)
Retirement benefit obligations	(62.0)	(81.4)
Deferred tax liabilities	(0.3)	(2.9)
Provisions	(22.4)	(21.6)
Government grants	(2.3)	(2.4)
Total non-current liabilities	(194.8)	(205.6)
Total liabilities	(286.3)	(291.9)
Net assets	191.9	223.1
Equity		
Share capital	21.8	23.8
Share premium	1.9	1.2
Other reserves	89.5	59.9
Retained earnings	76.6	136.4
Total equity attributable to equity holders of the parent	189.8	221.3
Minority equity interests	2.1	1.8
Total equity	191.9	223.1

Consolidated cash flow statement

for the year ended 31 December 2005

	2005 £million	2004 £million
Operating activities:		
(Loss)/profit for the year	(38.4)	3.4
Adjustments for:		
Investment income	(0.3)	(0.9)
Finance costs	7.9	6.5
Tax	3.4	(0.1)
Depreciation and amortisation	18.2	15.5
Decrease in provisions	(1.3)	(2.4)
Pension contributions net of current service cost	(14.1)	(4.6)
Share based payments	0.8	0.2
Exceptional items charged less cash flow	35.0	0.6
Operating cash flow before movement in working capital	11.2	18.2
Increase in inventories	(1.0)	(7.2)
Decrease/(increase) in trade and other receivables	0.3	(3.4)
Increase in trade and other payables	2.6	5.5
Cash generated by operations	13.1	13.1
Income taxes (paid)/received	(2.6)	4.5
Interest paid	(7.2)	(4.1)
Net cash flow from operating activities	3.3	13.5
Investing activities:		
Interest received	0.4	1.4
Disposal of property, plant and equipment	-	5.8
Purchase of property, plant and equipment	(16.8)	(22.0)
Acquisition of businesses	-	(36.3)
Disposal of businesses	23.7	-
Net cash flow from investing activities	7.3	(51.1)
Financing activities:		
Issue of shares	0.9	-
Redemption of B shares	(9.7)	(9.2)
Decrease in borrowings repayable within one year	(3.0)	(0.8)
Increase/(decrease) in borrowings repayable after one year	(0.9)	35.8
Repayment of obligations under finance lease	(0.2)	(0.2)
Net cash (used in)/from financing activities	(12.9)	25.6
Net decrease in cash and cash equivalents	(2.3)	(12.0)
Cash and cash equivalents at 1 January	10.3	22.6
Foreign exchange on cash and cash equivalents	0.4	(0.3)
Cash and cash equivalents at 31 December	8.4	10.3

Consolidated statement of recognised income and expense

for the year ended 31 December 2005

	2005 £million	2004 £million
Exchange differences on translation of foreign operations	18.3	(11.8)
Actuarial loss on pension and other post-retirement schemes	(1.5)	(4.7)
Deferred tax associated with pension and other post-retirement schemes	(0.9)	(8.9)
Gains on cash flow hedges taken to equity	0.7	-
Net income/(expense) recognised in equity	16.6	(25.4)
(Loss)/profit for the year	(38.4)	3.4
Total recognised income and expense	(21.8)	(22.0)
Effect of change in accounting policy		
Effect of adoption of IAS 32 and 39 on 1 January 2005 (with 2004 not restated) on:		
Share capital	(2.2)	-
	(24.0)	(22.0)
Total recognised income and expense is attributable to:		
Equity holders of the parent	(23.7)	(22.0)
Minority interests	(0.3)	-
	(24.0)	(22.0)

Notes to the financial statements

1 Preparation of the preliminary announcement

The financial information in this statement is unaudited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The comparative figures for the year ended 31 December 2004 are not the Group's financial statements for that year. Those financial statements, which were prepared under UK Generally Accepted Accounting Principles, have been reported on by the Group's auditor and delivered to the Registrar of Companies. The report of the auditor was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985. The preliminary announcement was approved by the Board of Directors on 20 February 2005.

2 Basis of preparation

Elementis plc is a company incorporated in the UK. The information within this document has been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS).

The Group financial statements have been prepared on the historical cost basis except that derivative financial instruments and financial instruments held for trading or available for sale are stated at their fair value. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. The accounting policies have been consistently applied across group companies to all periods presented and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to adopted IFRS, other than in respect of IAS 32 and IAS 39 which, as allowed by IFRS 1, have been implemented from 1 January 2005. The principal exception is that financial instruments accounting is determined on a different basis in 2005 and 2004 due to the transitional provisions of IAS 32 and IAS 39.

3 Investment income

	Continuing operations		Discontinued operations		2005 £million	Total 2004 £million
	2005 £million	2004 £million	2005 £million	2004 £million		
Interest on bank deposits	0.3	0.2	-	0.1	0.3	0.3
Interest on other loans	-	0.4	-	-	-	0.4
Interest on corporation tax refunds	-	0.2	-	-	-	0.2
	0.3	0.8	-	0.1	0.3	0.9

4 Finance costs

	Continuing operations		Discontinued operations		2005 £million	Total 2004 £million
	2005 £million	2004 £million	2005 £million	2004 £million		
Interest on bank loans	6.5	4.1	0.1	0.3	6.6	4.4
Interest on other loans	0.1	0.1	-	-	0.1	0.1
Total borrowing costs	6.6	4.2	0.1	0.3	6.7	4.5
Interest on corporation tax payments	0.1	-	-	-	0.1	-
Unwind of discount on provisions	0.7	0.9	-	-	0.7	0.9
Expected return on pension scheme assets	(24.8)	(23.4)	-	-	(24.8)	(23.4)
Interest on pension scheme liabilities	25.2	24.5	-	-	25.2	24.5
Pension and other post retirement liabilities	0.4	1.1	-	-	0.4	1.1
	7.8	6.2	0.1	0.3	7.9	6.5

5 Exceptional items

	Cost of sales	Distribution costs	Administrative expenses	Profit /(loss) on disposal of business	2005	2004
	£million	£million	£million	£million	£million	£million
Continuing operations:						
Pigments East St Louis rationalisation	(6.2)	(0.5)	(0.4)	-	(7.1)	-
Chromium restructure	(29.7)	-	(1.7)	-	(31.4)	(1.3)
Integration of Specialties and Pigments	(2.0)	(0.6)	(0.7)	-	(3.3)	-
Integration of Servo business	(3.1)	(1.5)	(1.9)	-	(6.5)	(1.6)
Disposal of business	-	-	-	4.6	4.6	-
Insurance recovery	-	-	1.1	-	1.1	-
Settlement of legal claims	-	-	(2.4)	-	(2.4)	-
Head office restructure	-	-	(3.4)	-	(3.4)	-
Curtailment gains on pension schemes	-	-	8.5	-	8.5	-
Impairment of joint venture	-	-	-	-	-	(2.3)
	(41.0)	(2.6)	(0.9)	4.6	(39.9)	(5.2)
Discontinued operations:						
Disposal of business	-	-	-	(7.8)	(7.8)	-
Profit on disposal of property	-	-	-	-	-	2.6
	(41.0)	(2.6)	(0.9)	(3.2)	(47.7)	(2.6)
Tax (charge)/ credit on exceptional items	-	-	-	-	(3.1)	0.2
					(50.8)	(2.4)

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.

Subsequent to its reorganisation in June, the Board has been conducting a review of the Group's strategy. The first phase of the strategic review set out three main goals: to increase the base level of future earnings, to refocus resources on Specialties and to improve the quality and consistency of future earnings. As a result of strategic action taken in the first half of 2005 and, following the implementation of the first part of the Board's strategic review, a number of exceptional charges and credits have arisen.

In Chromium, in order to reduce the volatility of its UK business, one of its kilns at Eaglescliffe was closed resulting in an asset impairment of £25.2 million and redundancy costs of £6.2 million. The business also received £1.1 million of insurance recoveries in relation to claims from several years ago.

In Specialties, the integration of Sasol Servo BV, which was acquired in June 2004, was implemented resulting in redundancy charges of £6.5 million. In addition, the US based administration functions of the Specialties and Pigments businesses, were combined resulting in a charge of £3.3 million. Specialties also disposed of its Hardman adhesives business in June 2005 resulting in a profit of £4.6 million.

On 30 June 2005, the majority of operations at Pigments' East St Louis plant were closed resulting in an asset impairment of £4.8 million and redundancy and decommissioning costs of £2.3 million.

The Elementis head office was also restructured during 2005 for a charge of £3.4 million, which comprised £0.7 million in respect of an onerous lease and £2.7 million in respect of redundancies. In addition, the Group settled a legal claim, previously disclosed as a contingent liability, for £4.8 million. This related to a contract for the sale of Pauls Malt Limited and the repayment of refunds to the Department for Environment, Food and Rural Affairs. This was partly offset by the receipt of £2.4 million in respect of an environmental claim. Curtailment gains on pension schemes following the restructuring during 2005 amounted to £8.5 million.

Exceptional charges and income have been classified in the profit and loss account in accordance with their nature. Exceptional items in 2004 comprised £5.2 million which was charged to administrative expenses, less a gain on disposal of property of £2.6 million which was included in other operating income.

6 Income tax expense

	Continuing operations		Discontinued operations		2005 £million	Total 2004 £million
	2005 £million	2004 £million	2005 £million	2004 £million		
Current tax:						
UK corporation tax at 30%	(0.3)	(0.1)	-	0.3	(0.3)	0.2
Overseas corporation tax	0.5	0.5	0.1	(0.2)	0.6	0.3
Adjustments in respect of prior years - overseas	0.3	(2.2)	(0.3)	-	-	(2.2)
Total current tax	0.5	(1.8)	(0.2)	0.1	0.3	(1.7)
Deferred tax:						
United Kingdom	(4.0)	(3.6)	-	1.0	(4.0)	(2.6)
Overseas	2.4	0.1	-	-	2.4	0.1
Adjustments in respect of prior periods	2.1	1.3	0.2	-	2.3	1.3
ACT written off	2.4	2.8	-	-	2.4	2.8
Total deferred tax	2.9	0.6	0.2	1.0	3.1	1.6
Income tax expense for the year	3.4	(1.2)	-	1.1	3.4	(0.1)

The tax charge on profit before exceptional items of £0.3 million (2004: £0.1 million) results in an effective tax rate on profit before exceptional items for the year to 31 December 2005 of 2.6 per cent (2004: 2.0 per cent). The rate is lower than the standard UK corporation tax due to the utilisation of losses. Tax on exceptional items was a charge of £3.1 million (2004: credit of £0.2 million).

7 Earnings per share

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

	2005 £million	2004 £million
Earnings:		
Earnings for the purpose of basic earnings per share	(38.1)	3.4
Exceptional items net of tax	50.3	2.4
Adjusted earnings	12.2	5.8

	2005	2004
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	434.2	431.9

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

	2005 £million	2004 £million
(Loss)/profit for the year attributable to equity holders of the parent	(38.1)	3.4
(Loss)/profit for the year from discontinued operations	6.7	(2.4)
Loss from continuing operations	(31.4)	1.0
Exceptional items from continuing operations after minority interest	42.5	5.0
Adjusted earnings from continuing operations	11.1	6.0