

ELEMENTIS

Making chemistry work harder
Interim Report 2002



Key financials for the six months to 30 June 2002

Sales on continuing operations

£194.5 million (2001: £209.4 million)

Operating profit on continuing operations

£14.5 million* (2001: £13.8 million* restated[†])

Profit before tax

£13.3 million* (2001: £15.1 million* restated[†])

Earnings per share

2.4 pence* (2001: 2.9 pence* restated[†])

Net cash inflow from operating activities

£13.3 million (2001: £0.4 million)

Net borrowings

£37.1 million (2001: £72.5 million)

Net gearing

9.9 per cent** (2001: 14.7 per cent** restated[†])

* before goodwill amortisation and exceptionals

** the ratio of net borrowings to shareholders' funds plus net borrowings

[†] results of prior periods restated to reflect adoption of FRS17 'Retirement Benefits' and FRS19 'Deferred Tax'

Our business

Elementis Chromium is the world's largest producer of chromium chemicals

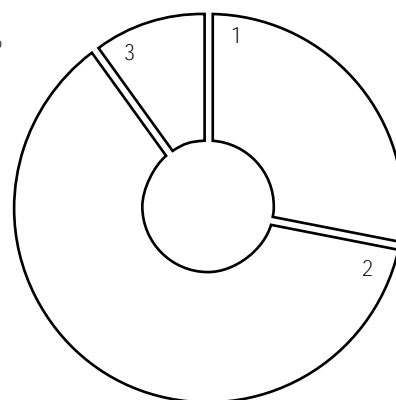
Elementis Pigments is a world leading producer of synthetic iron oxide pigments

Elementis Specialties is a world leading producer of rheological additives

Specialty Rubber's Linatex is a leading brand of abrasion-resistant rubber for materials handling

Sales by division for continuing operations**

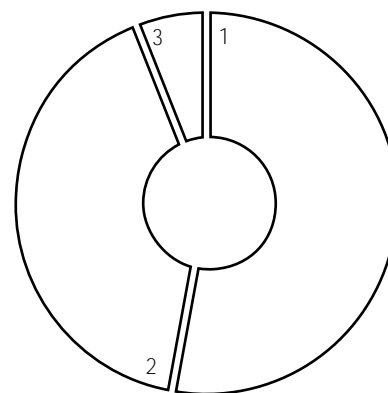
- 1 Chromium 28%
- 2 Pigments & Specialties 62%
- 3 Specialty Rubber 10%



** after elimination of inter-group sales

Sales by area of operation for continuing operations**

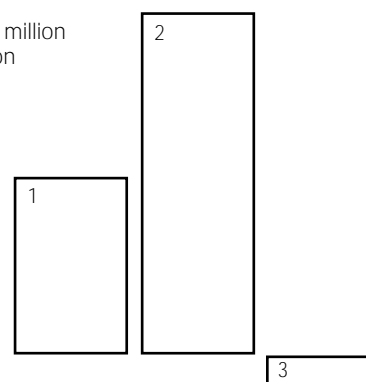
- 1 North America 53%
- 2 Europe 41%
- 3 Rest of the World 6%



** after elimination of inter-group sales

Group operating profit/(loss) by division for continuing operations*

- 1 Chromium £5.2 million
- 2 Pigments & Specialties £10.2 million
- 3 Specialty Rubber £(0.9) million



* before goodwill amortisation and exceptionals

Chairman's statement

Overview

I am pleased to report an operating profit before goodwill amortisation and exceptionals on continuing operations for the first half of the year of £14.5 million. While this is a long way below the level recorded prior to the global economic downturn in 2001, it represents a big improvement on the second half of last year and is similar to the results for the first half of last year. The results have benefited from a determined effort, led by the Chief Executive, to focus on the short-term trading position and tightly control costs. He has also taken firm measures to conserve cash; as a consequence net borrowings were down to £37.1 million from £72.5 million a year earlier. Sales on continuing operations decreased by 7 per cent on the first half of 2001 to £194.5 million, reflecting the lower economic activity and the weakening of the US dollar.

The Group will continue its efforts at cost control. Fortunately, the high energy costs which plagued us during 2001 have now reduced. Further, our Six Sigma programme is yielding excellent benefits and there is more to come from this source.

Strategy

The Annual Report 2001 outlined the strategy to put Elementis on a growth footing. This has now been further refined and the direction for each business clarified. Elementis Chromium will strengthen and leverage its market leadership. Elementis Pigments will build on its globally competitive cost base in Asia Pacific to drive growth. Elementis Specialties will leverage technology, markets and acquisitions to drive significant growth, and Specialty Rubber will streamline fabrication and use its low cost base, product innovation and quality to accelerate performance improvement.

Implementation of the growth strategy will include acquisitions that generate synergies with the existing portfolio, with an emphasis on Elementis Specialties. Such

acquisitions will meet the rigorous capital disciplines set by management and be financed from available debt and cash resources. A new corporate finance analysis and execution team has been appointed to lead this effort. The team operates in conjunction with the existing, business-specific, strategic development resources.

We need to improve our business processes across the Group and to this end have authorised a £13.0 million investment in an Enterprise Resource Planning (ERP) system. Approximately £4.5 million will be spent in 2002 and at least £3.5 million of annual efficiency savings are expected to result. There will be additional benefits, including enhanced customer service.

Programmes addressing opportunities for step change financial performance improvement are being implemented in Elementis Pigments and Specialty Rubber. A strategic review of the facility at Birtley, near Durham, UK was initiated in February and will be completed and actioned in the second half of 2002. In Specialty Rubber, the ongoing programme to improve manufacturing structure has resulted in a decision to close the Phoenix, US, service centre, which will also be completed in the second half of 2002. In addition, further streamlining of manufacturing is planned, with the fabrication of high labour content products being moved from the US and Europe to Malaysia.

Dividends and issue of redeemable B shares

The Board has not declared an interim ordinary dividend. Instead, it will continue with the programme, started in 2000, of issuing and redeeming redeemable B shares. The Board intends to issue further redeemable B shares to ordinary shareholders on the register on 28 October 2002, such that they receive redeemable B shares with

a total nominal value of 1.1 pence for each ordinary share held. The Board believes that this is appropriate for the business, taking into account the current trading environment and the stated strategy to focus on growth. The nominal value of any further issue of redeemable B shares is currently anticipated to increase as our strategy delivers value, albeit at a rate that may not match the Group's underlying growth rate.

The issue will be coupled with an offer to redeem the new shares for cash at their nominal value on 4 November 2002. A further offer will also be made to existing holders of redeemable B shares to redeem these shares for cash at their nominal value on the same date.

A circular providing full details of the issue and redemption of redeemable B shares will be posted to all ordinary shareholders on 27 September 2002.

The Board

Brian Taylorson was appointed Finance Director on 2 April 2002, replacing George Fairweather who left to take up a similar position at Alliance UniChem Plc.

Chromated copper arsenate

On 12 February 2002, the US Environmental Protection Agency (EPA) announced restrictions, from 2004, on the use of chromated copper arsenate (CCA) as a wood preservative in the US, affecting CCA treated timber for consumer use. Elementis Chromium supplies chromic acid which is used in the manufacture of CCA and, in view of this ruling, and as previously announced, its global sales of chromium chemicals could be adversely affected by around 15 per cent by 2004.

Elementis did not experience any adverse impact on sales in the first half of 2002 from this EPA ruling and does not expect its sales in 2002 as a whole to be materially affected. Following the public consultation period, the EPA is now considering its final position.

Current trading and outlook

Market conditions are currently stable but no improvement in underlying demand is expected in the near future. The outlook for the US economy, and the resulting impact on the global economy, remains the most significant factor in determining the short-term prospects for Elementis.

Favourable cost trends are expected to continue in the second half of 2002. While sales in the second half are typically lower than the first half due to seasonal effects, a repeat of the extreme levels of customer destocking that took place in the last quarter of 2001 is not anticipated.

Jonathan Fry
Chairman
31 July 2002

Review of operations

for the six months to 30 June 2002

	2002 Sales £million	2002 Operating profit* £million	2001 Sales £million	2001 Operating profit* restated £million
Continuing operations				
Chromium	59.5	5.2	68.2	3.4
Pigments & Specialties	119.7	10.2	119.7	9.7
Specialty Rubber	19.7	(0.9)	25.3	0.7
Inter-group	(4.4)	-	(3.8)	-
	194.5	14.5	209.4	13.8

*before goodwill amortisation and exceptionals

Financial results

With effect from the current financial year, Elementis has adopted Financial Reporting Standards FRS17 'Retirement Benefits' and FRS19 'Deferred Tax' and the results of previous periods have been restated accordingly. There has been no impact on the Group's underlying performance.

Sales on continuing operations decreased in sterling terms by 7 per cent on the first half of 2001 to £194.5 million, reflecting the lower economic activity and the weakening of the US dollar. On a constant currency basis, sales declined by 6 per cent.

Operating profit before goodwill amortisation and exceptionals on continuing operations was £14.5 million, compared to £13.8 million (restated) in the first half, and a loss of £1.3 million (restated) in the second half, of 2001. Lower energy costs favourably impacted operating profit by £3.3 million versus the first half of 2001 on a comparable basis. Other cost initiatives, including Six Sigma and people reductions, also had a favourable impact on operating profit. Operating profit before goodwill amortisation and exceptionals for the first half of 2001 was impacted by a restructuring charge of £2.3 million at Corpus Christi, Texas, US. Currency effects were minimal.

Profit before goodwill amortisation, exceptionals and tax was £13.3 million compared to £15.1 million (restated) in the first half of 2001 and a loss of £0.6 million (restated) in the second half. Basic earnings per share before goodwill amortisation and exceptionals were 2.4 pence (2001: 2.9 pence restated).

Chromium

Elementis Chromium is the world's largest producer of chromium chemicals.

Elementis Chromium recovered sharply from the decline in the second half of 2001, improving sales mix, reducing costs and generating strong cashflow.

Global demand for chromium chemicals is estimated by Elementis to be about the same as in the first half of 2001, with the overriding market characteristic being one of intense competition.

Operating profit before exceptionals was £5.2 million, compared to £3.4 million (restated) in the first half of 2001, on sales down 13 per cent to £59.5 million. On a constant currency basis, sales decreased by approximately 12 per cent.

Sales volumes were down by 4 per cent, largely as a result of manufacturing problems in the UK in June, which have now been resolved; otherwise modest volume growth in most downstream products was offset by lower dichromate sales. Increased sales volumes to Europe and Asia Pacific were offset by lower sales volumes to North America and the rest of the world.

Lower energy costs favourably impacted operating profit by £2.6 million versus the first half of 2001. Operating profit before exceptionals in the first half of 2001 was impacted by a one-off cost of £2.3 million related to restructuring at Corpus Christi, Texas, US. The cost benefits of this, together with £1.2 million lower raw material costs and benefits from Six Sigma projects, were also a significant factor in controlling costs in the first half of 2002. The project to link the Corpus Christi site to a steam and electricity co-generation plant being constructed at an adjacent oil refinery, will be fully on-stream in August, further reducing energy costs.

In May, Elementis Chromium was honoured with the Queen's Award

for Enterprise in the Innovation category for the development of CA21™.

On 12 February 2002, the US Environmental Protection Agency (EPA) announced restrictions, from 2004, on the use of chromated copper arsenate (CCA) as a wood preservative in the US, affecting CCA treated timber for consumer use. Elementis Chromium supplies chromic acid which is used in the manufacture of CCA and acts primarily as a binding agent. As previously indicated, Elementis estimates that as a result of the EPA's decision, the global and US demand for chromium chemicals would reduce by around 5 and 30 per cent respectively.

Elementis Chromium's sales for industrial applications of CCA, such as utility poles, rail sleepers and marine pilings are relatively strong and are not affected by the EPA ruling. Nevertheless, its global sales of chromium chemicals could be adversely affected by around 15 per cent by 2004. Elementis Chromium did not experience any adverse impact on sales in the first half of 2002 from this EPA ruling and does not expect its sales in 2002 as a whole to be materially affected. Following the public consultation period, the EPA is now considering its final position.

Pigments & Specialties

Elementis Pigments is a world leading producer of synthetic iron oxide pigments.

Elementis Specialties is a world leading producer of rheological additives.

Operating profit before goodwill amortisation was £10.2 million compared to £9.7 million (restated) in the first half of 2001, on flat sales of £119.7 million. On a constant currency basis sales increased by approximately one per cent.

Elementis Pigments' performance improved significantly compared to the prior six months as a result of increases in volume, effective cost management and high production levels.

In Elementis Pigments sales of iron oxide pigments were higher than the first half of 2001 offset by lower sales of zinc oxide. Sales into coatings and chemicals applications showed some improvement over the first half of 2001, offset by lower sales into the construction market.

Some modest improvement in demand in the North American coatings market was evident in the period, while the global construction market remained highly competitive. Sales of construction grade Ferrispec™ granular product nevertheless continued to show strong growth. Sales volumes improved in both North America and Asia Pacific but declined in Europe. Sales into global markets from the Shenzhen manufacturing facility in China reached record levels and this facility is being further expanded.

Underlying operating profit for Elementis Pigments improved over the same period last year.

The operating loss at the carboxylates and zinc businesses at the Birtley site in Durham, UK, were reduced as a result of improving contribution margins. As announced earlier in the year, a strategic review of the site was launched in February 2002 and will be completed and actioned during the second half of 2002.

In July, an agreement was signed to sell the anhydrous aluminium chloride business in Allentown, US, for £1.7 million. As a result, a provision for loss on sale of £2.1 million has been taken as an exceptional item in the first half of 2002 (including an adjustment related to goodwill previously written off to reserves).

Elementis Specialties' sales and operating profit recovered quickly from the year end downturn, driven by restored volume and improved sales mix.

Sales at Elementis Specialties in the first half of 2002 were flat compared to the prior year. There was no net currency impact. Improved sales for coatings applications, due to modest improvements in demand, were offset by lower sales to the inks market. Sales to the oilfield market grew at a more modest rate than in the first half of 2001 due to reduced drilling activity in North America. Compared to the first half of 2001,

sales in Asia Pacific showed strong gains, helped by greater focus and the allocation of additional resource, while trading in North America and Europe was relatively stable.

Operating profit before goodwill amortisation at Elementis Specialties improved over the first half of 2001. Tight control on costs, savings from Six Sigma programmes and lower energy costs contributed to this improvement.

A new colourant system, TINT-AYD® NV, was launched. This new product line satisfies a leading global coating manufacturer's requirement for a low volatile, low heavy metal content colourant and meets demanding performance needs for use in the oil and transport sectors.

A new structure to support accelerated innovation and drive a sustainable, high rate of growth within Elementis Specialties has been approved by the Board. This new structure is based on a stage gate process, a widely used model emanating from the pharmaceutical industry. New capabilities to expedite internal research and development and to identify and import new technologies and commercial opportunities from external sources are being put in place. Opportunities to expand operations in China are also being pursued.

Elementis Specialties launched a new website in May which enables customers to make sample requests and place orders on-line. Over 1,000 customers have registered so far and internal productivity has increased significantly as the system replaces manual processes.

In July, the Elementis Specialties' portfolio was refined by the sale of its small, non-core paint business in the Netherlands. As a result, a provision for loss on sale of £0.8 million has been taken as an exceptional item in the first half of 2002 (including an adjustment related to goodwill previously written off to reserves).

Specialty Rubber

Linatex is a leading brand of abrasion resistant rubber for materials handling.

Operating loss before exceptionals was £0.9 million, compared to a profit of £0.7 million (restated) in the first half of 2001, on sales down 22 per cent to £19.7 million. Excluding sales for the engineering systems business, which was exited during 2001, sales fell by 12 per cent.

Sales declined in North America

primarily as a result of the continued downturn in the mining sector, which is experiencing weak metal prices and high levels of metal stocks. In Europe, sales into the sand and gravel market fell as a result of weakness in the construction market. Sales to Australia, China and South Africa continued to show good growth offset by currency devaluations in South Africa.

The operating loss before exceptionals was principally driven by the fall in sales. This was partially mitigated by cost improvements from headcount reductions in the US, lower raw material costs, benefits from Six Sigma projects and the positive impact of the exit from the engineering systems business in 2001.

A decision has been taken to close the Phoenix, US, service centre, which will be completed in the second half of 2002, and an exceptional charge of £0.5 million has been taken in respect of this in the first half of 2002. In addition, further streamlining of manufacturing is planned, with fabrication of high labour content products being moved from the US and Europe to Malaysia.

Commissioning of the £4.0 million continuous rubber sheet press in Malaysia will be completed in August. This will further reduce operating costs and enable Linatex sheet to be produced within tighter thickness tolerances for new applications and with enhanced bonding capabilities.

In July, the Linatex management team was strengthened by the appointment of a new Managing Director.

Six Sigma

Six Sigma is an integral part of the manufacturing process in Elementis and is being extended to commercial and supply chain processes. In total, over 50 Six Sigma projects have been either completed or are still in progress and have generated savings in the first half of 2002 of £1.8 million. Programme momentum continues with 14 'blackbelts' and 25 'greenbelts' in place and a further 20 'greenbelts' commence training in the Autumn.

Health, safety and the environment

Compared to the first half of 2001, lost time accident frequency for continuing operations reduced by 47 per cent, further reflecting the increased focus in this area. Non-compliance with environmental

consents declined substantially from 18 to three incidents.

Interest

The Group net interest charge was £1.2 million (2001: £0.6 million restated). In the current period, as a result of the adoption of FRS17 'Retirement Benefits', other finance charges of £0.2 million (2001: income of £1.8 million restated) have been recognised; this represents the expected return on defined benefit pension scheme assets less the expected increase in the present value of defined benefit pension and other post-retirement liabilities.

Exceptionals

Net exceptional charges before tax were £1.7 million (2001: £5.1 million) comprising:

- £1.0 million insurance recovery in Chromium in respect of an historic legal settlement previously taken through exceptionals
- £0.5 million of costs in respect of the Linatex restructuring in the US
- £1.4 million profit in respect of property disposals
- £2.9 million provision for loss on the sale of two Pigments & Specialties businesses in the second half of 2002 including the write back of goodwill previously written off to reserves
- £0.7 million additional costs incurred in respect of historic business disposals.

In July, agreements were signed for the sale of two surplus properties in the UK. Proceeds will amount to £8.5 million and an exceptional profit on sale of approximately £5.9 million will be recorded in the second half.

Cash flow and balance sheet

Net cash inflow from operating activities was £13.3 million, compared to £0.4 million in the first half of 2001, the increase largely reflecting the continued strong control over the working capital position.

Working capital outflow was £11.3 million, compared to £21.0 million in the first half of 2001 as a result of the continued management drive to reduce working capital levels despite normal seasonal effects. Inventories increased by £1.1 million over the half year. Debtors increased by £9.2 million, with trade debtor days increasing by three days. Creditors decreased by £1.0 million.

Cash expenditure on fixed assets totalled £5.0 million (2001: £7.5 million)

net of grants received of £0.7 million (2001: nil), compared with depreciation of £9.6 million (2001 : £9.4 million). Major projects included infrastructure to access steam and electricity from a co-generation plant being constructed at an oil refinery adjacent to Elementis Chromium's Corpus Christi plant and the Linatex continuous sheet press in Malaysia, which will be fully commissioned by August 2002. Capital expenditure for the full year, excluding the ERP programme, is still expected to be below depreciation.

Elementis has adopted early the new accounting standard FRS17 'Retirement Benefits', under which the net pension liability, now reflected in the balance sheet, was £58.0 million at the end of June compared to £25.3 million at the end of December 2001. The movement in the liability is principally accounted for by an actuarial loss arising from the downturn in equity markets and a revision of actuarial assumptions, partially offset by deferred tax thereon. The total charge against operating profit before goodwill amortisation and exceptionals for pensions and post-retirement medical benefits in the first half of 2002 was £2.9 million (2001: £3.4 million restated).

FRS19 'Deferred Tax' has also been adopted, under which deferred tax is now provided in full for the future tax effect of past transactions. As a result, the Group's tax charge takes full account of the impact of accounting losses arising in the US.

Net borrowings at the end of June were £37.1 million compared to £72.5 million at June 2001 and £40.0 million at the end of December 2001. Shareholders' funds at the half year were £338.3 million compared to £420.3 million (restated) at June 2001 and £378.5 million (restated) at the end of December 2001. Net gearing (the ratio of net borrowings to shareholders' funds plus net borrowings) was 9.9 per cent compared to 14.7 per cent (restated) at June 2001 and 9.6 per cent (restated) at the end of December 2001.



Geoff Gaywood
Chief Executive
31 July 2002

Consolidated profit & loss account

for the six months to 30 June 2002

	Note	Before goodwill amortisation & exceptionals £million	Goodwill amortisation £million	Exceptionals £million	2002 Six months to 30 June £million	2001 Six months to 30 June restated £million	2001 Year to 31 Dec restated £million
Turnover							
Continuing operations		194.5	-	-	194.5	209.4	392.9
Discontinued operations		-	-	-	-	87.3	137.5
Group turnover	3	194.5	-	-	194.5	296.7	530.4
Group operating profit/(loss)							
Continuing operations							
Before goodwill amortisation and exceptionals		14.5	-	-	14.5	13.8	12.5
Goodwill amortisation		-	(7.0)	-	(7.0)	(6.9)	(14.0)
Exceptionals		-	-	0.5	0.5	(5.1)	(5.1)
	3	14.5	(7.0)	0.5	8.0	1.8	(6.6)
Discontinued operations		-	-	-	-	1.9	2.4
		14.5	(7.0)	0.5	8.0	3.7	(4.2)
Associates		-	-	-	-	-	0.1
Operating profit/(loss)		14.5	(7.0)	0.5	8.0	3.7	(4.1)
Profit on disposal of properties		-	-	1.4	1.4	-	-
Provision for loss on disposal of businesses – continuing operations		-	-	(2.9)	(2.9)	-	-
Profit/(loss) on disposal of business – discontinued operations		-	-	(0.7)	(0.7)	-	1.3
Profit/(loss) on ordinary activities before interest		14.5	(7.0)	(1.7)	5.8	3.7	(2.8)
Net interest payable	4	(1.2)	-	-	(1.2)	(0.6)	(0.5)
Profit/(loss) on ordinary activities before tax							
Before goodwill amortisation and exceptionals		13.3	-	-	13.3	15.1	14.5
Goodwill amortisation		-	(7.0)	-	(7.0)	(6.9)	(14.0)
Exceptionals		-	-	(1.7)	(1.7)	(5.1)	(3.8)
		13.3	(7.0)	(1.7)	4.6	3.1	(3.3)
Tax on profit/(loss) on ordinary activities	5	(2.6)	2.5	-	(0.1)	-	8.0
Profit on ordinary activities after tax		10.7	(4.5)	(1.7)	4.5	3.1	4.7
Minority interests – equity		(0.1)	-	-	(0.1)	(0.1)	(0.1)
Profit for the financial period		10.6	(4.5)	(1.7)	4.4	3.0	4.6
Dividends – non-equity		-	-	-	-	-	(0.1)
Amount transferred to reserves		10.6	(4.5)	(1.7)	4.4	3.0	4.5
Earnings per ordinary share							
	6						
Basic and diluted					1.0p	0.7p	1.0p
Basic and diluted before goodwill amortisation and exceptionals					2.4p	2.9p	2.9p

Consolidated balance sheet

at 30 June 2002

	2002 30 June £million	2001 30 June restated £million	2001 31 Dec restated £million
Fixed assets			
Goodwill	204.7	233.5	219.2
Tangible assets	182.1	195.7	192.0
Investment in associated undertakings	3.6	2.1	3.8
	390.4	431.3	415.0
Current assets			
Stocks	56.1	84.6	56.3
Debtors	81.3	118.6	83.6
Cash at bank and in hand	42.2	28.3	39.5
	179.6	231.5	179.4
Creditors: amounts falling due within one year			
Borrowings	(4.9)	(12.1)	(5.8)
Creditors	(58.4)	(99.6)	(73.1)
	(63.3)	(111.7)	(78.9)
Net current assets	116.3	119.8	100.5
Total assets less current liabilities	506.7	551.1	515.5
Creditors: amounts falling due after more than one year			
Borrowings	(74.4)	(88.7)	(73.7)
Government grants	(1.5)	(0.6)	(0.8)
	(75.9)	(89.3)	(74.5)
Provisions for liabilities and charges	(32.6)	(33.3)	(34.5)
	(108.5)	(122.6)	(109.0)
Net assets excluding net pension liability	398.2	428.5	406.5
Net pension liability	(58.0)	(5.6)	(25.3)
Net assets including net pension liability	340.2	422.9	381.2
Capital and reserves			
Called up share capital	23.6	24.4	23.9
Share premium	1.2	1.1	1.2
Capital redemption reserve	48.0	33.8	43.4
Profit and loss account	265.5	361.0	310.0
Shareholders' funds	338.3	420.3	378.5
Minority interests	1.9	2.6	2.7
	340.2	422.9	381.2
Shareholders' funds			
Equity	336.3	417.5	376.2
Non-equity	2.0	2.8	2.3
	338.3	420.3	378.5
Net borrowings	(37.1)	(72.5)	(40.0)

Cash flow statement

for the six months to 30 June 2002

	Note	2002 Six months to 30 June £million	2001 Six months to 30 June restated £million	2001 Year to 31 Dec restated £million
Net cash inflow from operating activities				
Continuing operations		13.3	1.2	37.1
Discontinued operations		-	(0.8)	0.8
Returns on investments and servicing of finance				
Interest received		0.4	3.7	6.7
Interest paid		(1.1)	(6.5)	(11.5)
Taxation		(1.8)	(4.6)	(7.2)
Capital expenditure and financial investment				
Purchase of fixed assets (less grants received)		(5.0)	(7.5)	(16.8)
Disposal of fixed assets		1.4	0.1	0.8
Acquisitions and disposals				
Acquisition of businesses in prior periods		(1.3)	-	-
Disposal of businesses in prior years		1.1	(0.2)	16.3
Cash inflow/(outflow) before use of liquid resources and financing				
Financing and management of liquid resources	7	(12.0)	10.7	(18.1)
(Decrease)/increase in cash	8	(5.0)	(3.9)	8.1

Reconciliation of operating profit/(loss) to net cash inflow from operating activities

for the six months to 30 June 2002

	2002 Six months to 30 June £million	2001 Six months to 30 June restated £million	2001 Year to 31 Dec restated £million
Operating profit/(loss)	8.0	3.7	(4.1)
Goodwill amortisation	7.0	6.9	14.0
Depreciation (less grants credited)	9.6	9.4	18.8
Share of profits of associated undertakings	-	-	(0.1)
Profit on disposal of fixed assets	-	-	-
Exceptionals in operating profit	(0.5)	5.1	5.1
Cash inflow/(outflow) on exceptionals	1.0	(4.3)	(5.2)
(Increase)/decrease in stocks	(1.1)	(5.1)	6.6
(Increase)/decrease in debtors	(9.2)	(9.5)	13.5
Decrease in creditors	(1.0)	(6.4)	(10.3)
Decrease in provisions	(1.7)	(1.5)	(2.3)
Increase in net pensions liability	1.2	2.1	1.9
Net cash inflow from operating activities	13.3	0.4	37.9

Statement of total recognised gains and losses

for the six months to 30 June 2002

	2002 Six months to 30 June £million	2001 Six months to 30 June restated £million	2001 Year to 31 Dec restated £million
Profit for the financial period	4.4	3.0	4.6
Actuarial loss on pension and other post-retirement schemes	(48.0)	(53.4)	(86.2)
Deferred tax associated with pension and other post-retirement schemes	14.6	16.8	26.9
Currency translation differences	(10.6)	16.8	4.8
Taxation on currency translation differences on foreign currency borrowings	1.3	(1.3)	(1.0)
Total recognised losses for the financial period	(38.3)	(18.1)	(50.9)
Prior period adjustment – adoption of FRS17/FRS19	(19.0)		
Total recognised losses since last Annual Report	(57.3)		

Reconciliation of movements in shareholders' funds

for the six months to 30 June 2002

	2002 Six months to 30 June £million	2001 Six months to 30 June restated £million	2001 Year to 31 Dec restated £million
Profit for the financial period	4.4	3.0	4.6
Dividends – redeemable B shares	-	-	(0.1)
Amounts transferred to reserves	4.4	3.0	4.5
Redemption of redeemable B shares (including issue costs)	(4.7)	(13.4)	(23.1)
Share option scheme allotments	-	-	0.1
Goodwill on businesses acquired prior to 1 January 1998 charged to profit and loss account	2.8	-	0.7
Actuarial loss on pension and other post-retirement schemes	(48.0)	(53.4)	(86.2)
Deferred tax associated with pension and other post-retirement schemes	14.6	16.8	26.9
Currency translation differences	(10.6)	16.8	4.8
Taxation on currency translation differences on foreign currency borrowings	1.3	(1.3)	(1.0)
Net decrease in shareholders' funds	(40.2)	(31.5)	(73.3)
At beginning of the financial period as restated*	378.5	451.8	451.8
At end of the financial period	338.3	420.3	378.5
*Shareholder's funds at beginning of period			
As originally stated	397.5	411.2	411.2
Prior year adjustment – adoption of FRS17/FRS19	(19.0)	40.6	40.6
As restated	378.5	451.8	451.8

Notes to the financial statements

1 Accounting policies

Basis of preparation The financial information for the first six months of 2002 and 2001, which is unaudited but has been reviewed by the Company's auditors, does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 and, except for the changes set out below, it is presented on the basis of accounting policies set out in the financial statements of Elementis plc for the year ended 31 December 2001.

Elementis has adopted early FRS17 'Retirement Benefits', which replaces SSAP24 'Accounting for Pension Costs'. In accordance with FRS17, the Group includes the assets and liabilities of its defined benefit pension and post-retirement medical benefit schemes in the financial statements. Current service costs, curtailment and settlement gains and losses, and financial returns are included in the profit and loss account in the period to which they relate. Actuarial gains and losses are recorded through the statement of total recognised gains and losses. A prior period adjustment of £13.8 million is the cumulative prior period effect of this change of pension accounting policy and has been charged against reserves.

In accordance with FRS19 'Deferred Tax', which is effective for accounting periods ending on or after 23 January 2002, deferred tax is accounted for on a full provision basis recognising in total the potential future tax effects of past transactions. No discounting has been applied. A prior period adjustment of £5.2 million is the cumulative prior period effect of this change of deferred tax accounting policy and has been charged against reserves.

Comparatives have been restated accordingly for these changes in accounting policy.

2 Exchange rates

For the six months to 30 June 2002, the average sterling exchange rate was \$1.45 and €1.61 (2001: \$1.44 and €1.61, year to 31 December 2001: \$1.45 and €1.61). The sterling exchange rate at 30 June 2002 was \$1.52 and €1.54 (2001: \$1.41 and €1.66, 31 December 2001: \$1.46 and €1.63).

3 Segmental information

	Group turnover			Group operating profit/(loss)		
	2002 Six months to 30 June £million	2001 Six months to 30 June £million	2001 Year to 31 Dec £million	2002 Six months to 30 June £million	2001 Six months to 30 June restated £million	2001 Year to 31 Dec restated £million
Analysis by activity						
Chromium						
Before exceptionals	59.5	68.2	126.9	5.2	3.4	2.6
Exceptionals	-	-	-	1.0	-	-
Inter-group turnover	(4.4)	(3.8)	(8.0)	-	-	-
	55.1	64.4	118.9	6.2	3.4	2.6
Pigments & Specialties						
Before goodwill amortisation	119.7	119.7	228.0	10.2	9.7	10.8
Goodwill amortisation	-	-	-	(7.0)	(6.9)	(14.0)
	119.7	119.7	228.0	3.2	2.8	(3.2)
Specialty Rubber						
Before exceptionals	19.7	25.3	46.0	(0.9)	0.7	(0.9)
Exceptionals	-	-	-	(0.5)	(0.5)	(0.5)
	19.7	25.3	46.0	(1.4)	0.2	(1.4)
Group exceptionals	-	-	-	-	(4.6)	(4.6)
Total – continuing operations						
Before goodwill amortisation and exceptionals	194.5	209.4	392.9	14.5	13.8	12.5
Goodwill amortisation	-	-	-	(7.0)	(6.9)	(14.0)
Exceptionals	-	-	-	0.5	(5.1)	(5.1)
	194.5	209.4	392.9	8.0	1.8	(6.6)
Total – discontinued operations						
	-	87.3	137.5	-	1.9	2.4
	194.5	296.7	530.4	8.0	3.7	(4.2)

3 Segmental information (continued)

	Group turnover			Group operating profit/(loss)		
	2002 Six months to 30 June £million	2001 Six months to 30 June £million	2001 Year to 31 Dec £million	2002 Six months to 30 June £million	2001 Six months to 30 June restated £million	2001 Year to 31 Dec restated £million
Analysis by area of operations						
Continuing operations						
North America	103.1	113.2	213.3	3.4	3.4	(3.4)
Europe	79.8	84.7	156.7	3.0	(2.0)	(4.6)
Rest of the World	11.6	11.5	22.9	1.6	0.4	1.4
	194.5	209.4	392.9	8.0	1.8	(6.6)
Discontinued operations						
North America	-	87.3	137.5	-	1.9	2.4
	194.5	296.7	530.4	8.0	3.7	(4.2)

	2002 Six months to 30 June £million	2001 Six months to 30 June £million	2001 Year to 31 Dec £million
Group turnover analysed by geographical markets			
North America	94.3	104.2	197.0
Europe	68.7	72.4	134.6
Rest of the World	31.5	32.8	61.3
	194.5	209.4	392.9
Discontinued operations			
North America	-	87.3	137.5
	194.5	296.7	530.4

4 Net interest payable

	2002 Six months to 30 June £million	2001 Six months to 30 June restated £million	2001 Year to 31 Dec restated £million
Interest payable	(1.5)	(5.6)	(10.4)
Interest receivable	0.5	3.2	6.2
Other finance (charges)/income	(0.2)	1.8	3.7
	(1.2)	(0.6)	(0.5)

Other finance (charges)/income represents the interest charge on accrued pension and other post-retirement liabilities offset by a credit equivalent to the Group's long-term return on assets based on the market value of the defined benefit pension scheme assets at the start of the period.

5 Taxation

The tax charge of £2.6 million (2001: £2.5 million restated) is based on an estimated effective tax rate on profit before goodwill amortisation and exceptionals for the year to 31 December 2002 of 20 per cent (2001: 17 per cent restated) after taking account of a deferred tax credit of £1.0 million (2001: £2.1 million restated) under FRS19. The rate is lower than the standard UK corporation tax rate primarily due to the utilisation of surplus ACT. Tax on exceptional charges was £nil (2001: £ nil).

Notes to the financial statements

continued

6 Earnings per ordinary share

	2002 Six months to 30 June pence per share	2001 Six months to 30 June restated pence per share	2001 Year to 31 Dec restated pence per share
Basic earnings per ordinary share	1.0	0.7	1.0
Goodwill amortisation (net of taxation)	1.0	1.0	2.1
Exceptionals net of taxation	0.4	1.2	(0.2)
Basic earnings per ordinary share before goodwill amortisation and exceptionals	2.4	2.9	2.9

Basic earnings per ordinary share are based on profit for the period of £4.4 million (2001: £3.0 million restated, year to 31 December 2001: £4.5 million restated) and on the weighted average number of ordinary shares in issue during the period of 431.6 million (2001: 431.5 million, year to 31 December 2001: 431.5 million). Basic earnings per ordinary share before goodwill amortisation and exceptionals are based on earnings of £10.6 million (2001: £12.5 million restated, year to 31 December 2001: £12.7 million restated).

Diluted earnings per ordinary share are based on an adjusted weighted average number of shares of 434.0 million (2001: 435.0 million, year to 31 December 2001: 435.1 million).

7 Financing and management of liquid resources

	2002 Six months to 30 June £million	2001 Six months to 30 June £million	2001 Year to 31 Dec £million
Issue of ordinary share capital – share options	-	-	0.1
Redemption of B shares (including issue costs)	(4.7)	(13.4)	(23.1)
(Decrease)/increase in net borrowings	(7.3)	24.1	4.9
	(12.0)	10.7	(18.1)

Redeemable B shares, of nominal value £4.3 million, were issued for nil consideration during the period (2001: £14.2 million; year to 31 December 2001: £23.3 million).

8 Reconciliation of net cash flow to movement in net borrowings

	2002 Six months to 30 June £million	2001 Six months to 30 June £million	2001 Year to 31 Dec £million
Change in net borrowings resulting from cash flows:			
(Decrease)/increase in cash in the period	(5.0)	(3.9)	8.1
(Increase)/decrease in borrowings	(1.1)	(5.0)	13.4
Increase/(decrease) in liquid resources	8.4	(19.1)	(18.3)
	2.3	(28.0)	3.2
Currency translation differences	0.6	(2.8)	(1.5)
Decrease/(increase) in net borrowings	2.9	(30.8)	1.7
Net borrowings at beginning of the financial period	(40.0)	(41.7)	(41.7)
Net borrowings at end of the financial period	(37.1)	(72.5)	(40.0)

9 Contingent liabilities

The Group was notified of a potential warranty claim in 1998, under the contract for the sale of Pauls Malt Limited, relating to export refunds from the Intervention Board for Agricultural Produce (now the Rural Payments Agency). Should such a claim materialise, this will be vigorously defended and, in any event, in the opinion of the directors, this will not have a significant effect on the financial position of the Group.

Independent review report to Elementis plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2002, which comprises the consolidated profit and loss account, balance sheet, cash flow statement, statement of total recognised gains and losses, reconciliation of movements in shareholders' funds and related notes. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The Interim Report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review, we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2002.

PricewaterhouseCoopers, London

Chartered Accountants
31 July 2002

Shareholder services

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:

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Telephone: +44 (0) 870 600 3966
Facsimile: +44 (0) 1903 854 031
Website: www.lloydstsb-registrars.co.uk

Registrars text phone for shareholders with hearing difficulties:

Telephone: +44 (0) 870 600 3950

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.

New issue of redeemable B shares

A further issue of redeemable B shares will be made to ordinary shareholders on the share register on 28 October 2002. Shareholders will have the opportunity to redeem these redeemable B shares for cash at their nominal value on 4 November 2002.

A circular providing full details of the issue and redemption of redeemable B shares and a redemption form will be posted to all ordinary shareholders on 27 September 2002.

Previously issued redeemable B shares

Any holders of previously issued redeemable B shares that have not yet redeemed them will have a further opportunity to redeem them for cash at their nominal value on 4 November 2002. The redemption form is on the reverse of the redeemable B shares certificate.

Registrars helpline for redeemable B shares enquiries:

Telephone: +44 (0) 800 169 6946

Web-based enquiry service

www.shareview.co.uk

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

Low-cost share dealing service

This service, arranged with the Company's stockbrokers Cazenove, offers a low cost method of buying and selling Elementis shares. Full details of the service and dealing forms can be obtained from Cazenove.

Telephone: +44 (0) 20 7606 1768

Dividend re-investment plan

The dividend re-investment plan arrangements made with Lloyds TSB Registrars and Cazenove will not operate whilst a cash dividend is not being paid.



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