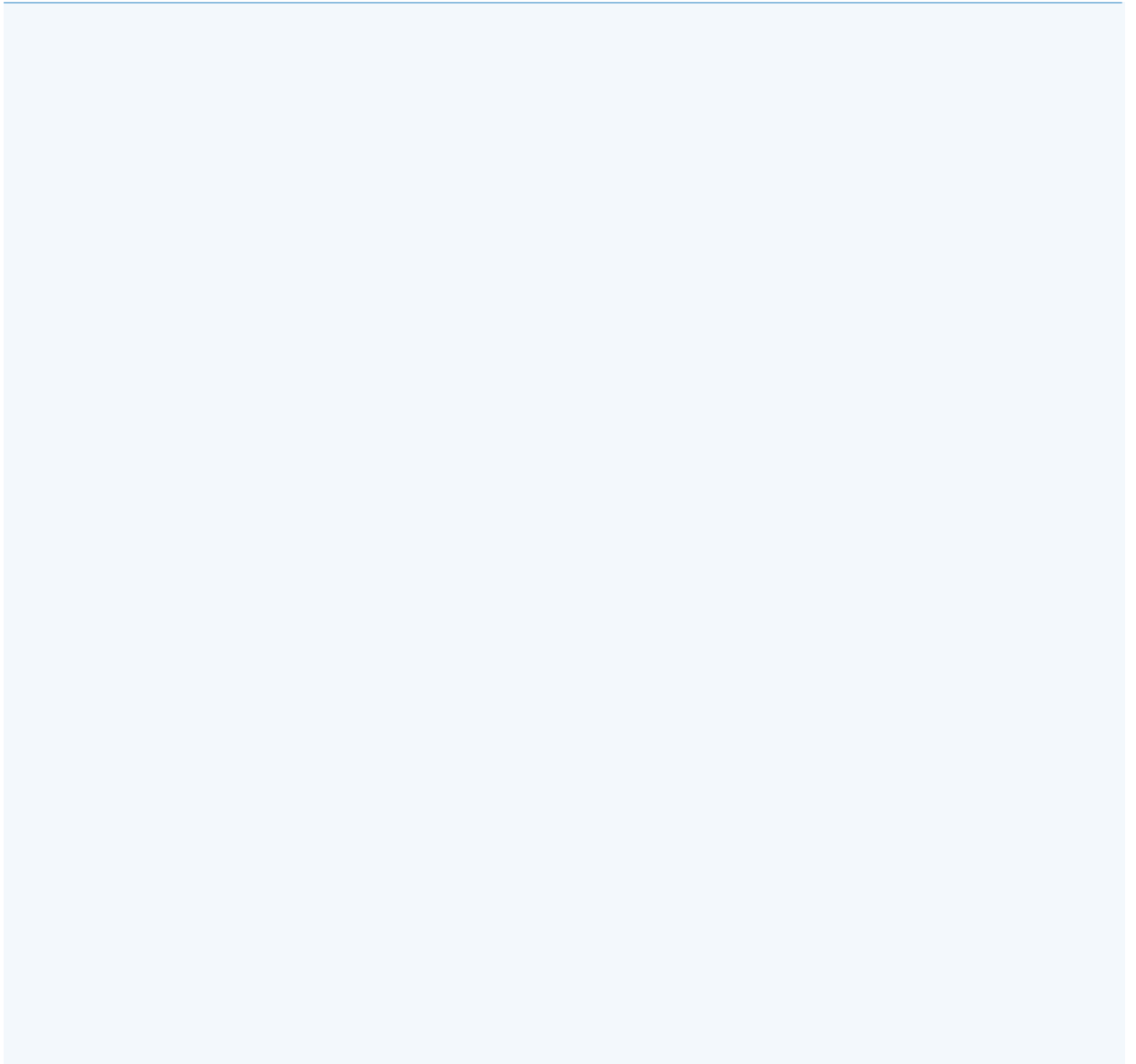

ELEMENTIS

A Global Specialty Chemicals Company
Elementis plc Annual Report

2006



Elementis is a specialty chemicals company comprising three businesses. Each business: Specialties, Pigments and Chromium, holds a leading market position in its chosen sector. Elementis employs 1,700 people at over 20 sites worldwide.

Elementis Specialties

Elementis Specialties is a leading manufacturer of specialty additives to improve the performance of our customers' products. The main products include solvent and water based rheology control agents including organoclays, acrylic and polyurethane polymers, polyamides and castor wax based materials. These primary products are supported by a complete line of dispersing agents, defoamers, interfacial tension modifiers and colorant dispersions enabling Elementis Specialties to provide its customers with comprehensive solutions to their rheology requirements. Elementis Specialties is a global business with manufacturing sites in the US, UK, the Netherlands and China.

Elementis Pigments

Elementis Pigments is a leading producer of synthetic iron oxides and complementary products. Facilities in China, UK and North America supply over 200 separate products to customers around the globe. A full range of iron oxide and chromium oxide pigments are offered to the coatings market while other Elementis Pigments products are used in construction and plastic applications. The Elementis Pigments chemical business unit offers high purity iron oxide pigments which are used in applications such as cosmetics, toners and pet food.

Elementis Chromium

Elementis Chromium is a leading producer of chromium chemicals with production facilities in the UK and US. Elementis Chromium enjoys a significant presence in all major product and market segments including merchant Sodium Dichromate, Chrome Sulphate (powder and liquid) for leather treatment, Chromic Oxide for metallurgical, pigmentary, ceramic and refractory applications and Chromic Acid for metal and timber treatment. Elementis Chromium operates three major facilities in Eaglescliffe, UK, and at Castle Hayne and Corpus Christi, in the US.

Highlights

From continuing operations

- Underlying sales up 6 per cent.

- Operating profit before exceptional items up 97 per cent.
 - Improved operating profit in all business segments.

- Profit before tax and exceptional items up 159 per cent.
 - Restructuring of overheads reduced costs by over £13 million.

- Retirement benefit obligations reduced by £24.7 million (40 per cent).

- Proposed final dividend up 9 per cent.

Financial summary

	2006	2005
Sales*	£395.9m	£399.4m
Operating profit*	£37.6m	£19.1m
Profit before tax*	£30.1m	£11.6m
Diluted earnings per share*	6.7p	2.6p
Dividend/distribution to shareholders		
- final proposed	1.2p	1.1p
- full year	2.4p	2.2p
Operating profit/(loss) after exceptional items	£40.6m	£(25.4)m
Diluted earnings per share after exceptional items	7.0p	(8.8)p

*from continuing operations and before exceptional items

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Chairman's statement

Robert Beeston



“It is pleasing to report the very significant result that has been achieved through the successful implementation of the Group's strategy.”

The business strategy announced by the Group in October 2005 was targeted to improve the base level of the Group's profits in 2006 from which to grow earnings in subsequent years. This objective would be achieved through a combination of overhead cost reduction, leveraging the Pigments cost base, increased focus on the Specialties business segment and repositioning of the Chromium business to stabilise earnings and reduce volatility.

It is pleasing to report the very significant result that has been achieved through the successful implementation of this strategy.

Results

Operating profit from continuing operations, before exceptional items, improved by 97 per cent over the previous year to £37.6 million and all businesses showed an increase. This significant improvement was in large part due to the Group's restructuring exercise announced during 2005 which has resulted in fixed costs falling by over £13 million in 2006. In addition Specialties and Pigments have benefited from strong markets in most parts of the world and Chromium showed improved earnings on the back of higher selling prices and the restructuring of the Eaglescliffe site.

Revenue for the year was £395.9 million which is an increase of 6 per cent after adjusting for businesses sold or exited. Pricing in Chromium was 11 per cent higher than the previous year, largely due to actions taken in 2005, while more modest price improvements were achieved in our other businesses and margin improvement will remain a priority for 2007. Pigments and Specialties both benefited from strong markets and the Surfactants business was restructured by eliminating low margin business to provide a sound platform as we move into 2007.

Diluted earnings per share from continuing operations, before exceptional items, was 6.7 pence versus 2.6 pence in 2005. There were a number of exceptional items recorded in the year as part of the restructuring exercise which resulted in a net gain of £3.0 million. After exceptional items, diluted earnings per share was 7.0 pence. Debt levels remained at a similar level to the previous year.

Dividend

The Board is recommending a final dividend of 1.2 pence taking the total return to shareholders for the year to 2.4 pence. Subject to approval at the Annual General Meeting, the dividend will be paid on 8 May 2007 to members on the register at the close of business on 10 April 2007. The Board intends to continue to review the dividend policy as earnings performance permits.

The Board

I joined the Board as Chairman in September 2006 at which time Edward Bramson stepped down as Executive Chairman, but remains on the Board as non-executive director. Edward was the architect of the recent restructuring and I would like to thank him on behalf of the whole Board for his excellent contribution to shareholder value and the future prospects of the Group. In January 2007 David Dutro joined the Board as Group Chief Executive having previously been Chief Operating Officer, Elementis Worldwide and before that President of Elementis

Pigments. David brings a wealth of experience in our businesses and our industry, and has played a leading role in developing and implementing the recent reorganisation and improvement in performance. I am confident that Elementis will continue to benefit from his leadership going forward.

Environmental, health and safety

Our performance in this area continues to be at the high end of industry standards and the Board is committed to driving continuous improvement in this important part of our business.

People

In the short time I have been on the Board I have visited a number of sites and offices around the Group, and have been impressed by the quality and dedication of our people. I would like to thank them for their hard work in delivering the excellent results in 2006.

Outlook

We will continue to focus on the highest margin Specialties business segment as the most significant driver of profitable growth in 2007. The Group will also continue to benefit across all business segments from the successful restructuring, undertaken during the last two years, to improve business efficiency. Improved cash flow and corresponding debt reduction will also be evident now that the cash costs of restructuring are largely behind us.

2007 has started on a positive note and we believe that the current global environment will support further progress and growth in shareholder value.

Robert Beeston
Chairman
27 February 2007

Business review



David Dutro
Group Chief Executive

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

Principal activities

The main activities of the Company and its subsidiaries are the manufacture and sale of specialty chemicals. The Group has three separate divisions: Elementis Specialties, which manufactures rheological additives, compounded products, colourants and surfactants; Elementis Pigments, which manufactures synthetic iron oxides and complementary products; and Elementis Chromium, which manufactures chromium chemicals.

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

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

Objectives

In March 2006, the Group announced the second phase of its strategic review. The objectives of the strategic review were:

- to continue to increase the base earnings level;
- to focus on Elementis Specialties; and
- to increase the quality and predictability of earnings.

Strategic initiatives taken in 2005 to reduce head office costs and to combine the US based administrative functions of Specialties and Pigments reduced annual overheads in 2006 by £11.1 million. In March 2006 the Group announced further initiatives to increase the base level of earnings in 2007. Together with the initiatives taken in 2005, these amounted to annual overhead savings of £5.3 million for the 2007 financial year. In December 2006, the Group was able to announce that £2.0 million of these savings had been realised early and would add to the 2006 result.

Elementis Specialties is the Group's largest and most profitable division. It has attractive growth opportunities and the objectives for this division are to increase the rate of sales growth, to achieve volume growth and to enhance operating margins.

One of the actions announced in 2005 and implemented in 2006 to increase the quality and predictability of earnings was the strategic repositioning of the Chromium business. Production capacity was reduced by 50 per cent in the UK and fixed costs were reduced more than proportionately. This was completed on plan at the end of the first quarter of 2006 and significantly lowered the minimum operating rate for the Chromium segment.

Strategic developments Background

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

Elementis Specialties

Elementis Specialties has four manufacturing sites in North America, two sites in Europe and a smaller facility in China. In June 2004 the business of Sasol Servo BV, based in Delden, The Netherlands, was acquired and this has been successfully integrated during the two years following acquisition.

The division's products are purchased on the basis of performance rather

than specification and are typically a small percentage of the cost of the end product. The business has a limited number of key competitors and its end-use markets are consumables. The strategic priorities of this division are:

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

Specialty Products

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

During 2006, as part of its margin improvement strategy, Specialty Products has identified and implemented efficiencies within selling, general and administrative overheads ('SG&A'). In 2005 the ratio of SG&A to sales was 22 per cent and this has been reduced to 18 per cent in 2006. In addition the division is targeting efficiencies from improved manufacturing utilisation and comprehensive procurement, supply chain and pricing initiatives.

Surfactants

Surfactants was acquired in 2004 as part of the Sasol Servo business and consists of surface active ingredients used primarily in the formulation of detergents. Since the acquisition activities have been reorganised by reducing or eliminating low margin business and improving the productivity of the main manufacturing site in the Netherlands. In addition, margins were improved at key accounts during the second half of 2006. Its strategy is to continue to move to higher margin products while at the same time improving its cost base.

Business review continued

“Strong global demand for our products, together with the cost benefits of restructuring, resulted in improved earnings and underlying sales growth of 6 per cent.”

David Dutro
Group Chief Executive

Elementis Pigments

Following the successful commissioning of its second plant in China, which is located at Tai Cang, Elementis Pigments announced in June 2005 the idling of the majority of its operations at the East St Louis, US, plant. This marked the culmination of a strategy to transition the manufacturing base of the division to a lower cost model, whilst modernising its plants and improving both the quality of manufacturing and health and safety. Production of the division's differentiated high purity product remains in the US.

Its strategy following the successful relocation of manufacturing operations was to obtain approval from its major customers for the Chinese manufactured iron oxides and this was successfully achieved by June 2006. Subsequently the strategy has been to realise during 2006 and 2007, the profit improvements as a result of the reduced cost of manufacturing.

Elementis Chromium

The Chromium industry has been characterised by excessive supply through the early part of this decade. Elementis Chromium acquired the only other US producer in 2002 and rationalised capacity by closing its own plant at Corpus Christi and focusing its US activities at the newly acquired plant at Castle Hayne.

Although the acquisition realised significant cost savings, the division faced falling sales prices and increasing costs throughout 2003 and 2004. In 2005 Elementis Chromium led an industry wide price increase which resulted in a 21 per cent increase in average prices compared to 2004. This resulted in increased profitability for the division for the year, however the UK Chromium operation reported a loss in both 2004 and 2005 and experienced a high degree of earnings volatility. As a result, it was decided to reduce production capacity in the UK and reduce fixed costs proportionately.

This strategic action materially reduced the worldwide minimum operating rate for Elementis Chromium and reduced the division's sensitivity to cyclical fluctuations in the future. The UK restructure was completed in March 2006 on plan and on budget.

Business environment Structure

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

Sales and marketing Elementis Specialties

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

In 2006, approximately 66 per cent of its products were rheological additives and the balance comprised colorants, additives and surfactants. The coatings market represented about 40 per cent of sales and the next largest market was oil drilling at 18 per cent. Geographically, sales to Europe were 56 per cent of the total in 2006, North America represented 28 per cent and the balance was sold to the rest of the world.

Elementis Pigments

Elementis Pigments is a major supplier to the global coatings, construction and plastics markets. The division is focused on providing high quality iron oxide pigments and excellent customer service to some of the world's largest paint manufacturers. The business also aims to supply the construction sector with high value granular and liquid products and

applies a regional approach to this market. Driers are manufactured at the Durham, UK site and supplied to the coatings industry.

In 2006, 61 per cent of sales were of iron oxide pigments and 21 per cent were driers. Approximately 47 per cent of revenue came from coatings, chemicals and plastics, 29 per cent from construction and the balance related to driers and complementary products. Geographically, 57 per cent of sales in 2006 were in North America, 29 per cent were in Europe and most of the remainder were in China and Asia Pacific.

Elementis Chromium

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

In 2006, approximately 31 per cent of its sales were chromic acid, 35 per cent were chromic oxide, 24 per cent were merchant dichromate and the balance chrome sulphate. Geographically, 47 per cent of sales were in North America, 26 per cent in Europe, 11 per cent in Japan and the balance to the rest of the world. The division made 75 per cent of its sales in 2006 directly to customers. Distributors sold 14 per cent during the year and sales through agents were 11 per cent of the total.

Rheological additives, iron oxide, chrome oxide and driers are sold into the global coatings market and this complementary product portfolio provides an excellent platform to align with market leading customers.

Competition

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

Elementis Pigments competes with producers of both organic and inorganic pigments and with other producers of natural iron oxide pigments. Its main competitors are large multi-national companies and Chinese producers of synthetic iron oxide.

Elementis Chromium competes with one large multi-national public company and a number of privately owned producers. In the last few years Elementis acquired the chromium business of Oxychem and idled its own operations in Corpus Christi. Elementis Chromium also agreed to supply dichromate to two Japanese producers after they closed their plants. As a result of the reduced supply, demand balance was improved.

Supply chain

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

Two key raw materials for Elementis Specialties are quarternary amines and bentonite clay for which Elementis owns and operates a mine. Elementis Pigments is a purchaser of scrap steel, sulphuric acid and feedstock particles sourced primarily from Chinese supply partners. Elementis Chromium's key raw materials are soda ash and chrome ore. All businesses purchase energy in the form of natural gas, fuel oil and electricity. Elementis Chromium is the largest energy user in the Group.

Elementis has identified that there is a risk inherent in its supply chain in maintaining a sufficiently broad base of suppliers able to deliver high quality products to schedule. In certain markets the Group is limited to a small number of suppliers and as part of the Group's risk review, an overdependence on any particular supplier is reviewed and, where possible, mitigating action is taken.

Elementis is also exposed to the risk of raw material price increases, particularly in markets where there are a small number of suppliers or with regards to energy where the price is driven by oil price and regional supply and demand issues. In 2006 Elementis entered into agreements with suppliers to lock in the price of approximately 40 per cent of its electricity costs and 60 per cent of its natural gas costs for the year. Elementis Chromium recently completed the final period of a five year fixed price chrome ore contract and is in negotiation with a number of suppliers regarding its future requirements.

Computer systems

High performing information technology ('IT') systems are important to the successful running of the Group's business. The Specialties and Chromium divisions have implemented an Enterprise Resource Planning ('ERP') system and are supported by two shared service centres, based in East St Louis, US for North American operations and Eaglescliffe, UK for European operations. Elementis Pigments intends to implement the Group's ERP system in North America and Europe during 2007.

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

The Group's IT strategy strives to protect the integrity and security of its data, network and systems through various tools such as encryption, authorisation, anti-virus programs and proactive monitoring.

A continued investment in IT signifies its commitment to utilising technology for achieving corporate objectives in an ever-changing, global market.

Business review continued

“Ebitda increased by 36 per cent to £52.4 million due to the higher operating profit, and retirement benefit obligations fell by 40 per cent to £37.3 million.”

Brian Taylorson
Finance Director

Regulatory issues, health, safety and environment

Elementis is committed to preventing harm to its employees, third parties and the environment in a sustainable manner. A separate health, safety and environment report is set out on pages 14 to 15 of this report.

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

Financial performance

Revenue

	2006 £million	2005 £million
Continuing operations		
Specialties		
- Specialty Products	144.8	139.7
- Surfactants	46.1	45.7
	190.9	185.4
Pigments	94.2	90.7
Chromium	116.8	129.4
Inter-segment	(6.0)	(6.1)
	395.9	399.4
Discontinued operations		
Specialty Rubber	-	40.5
	395.9	439.9

Introduction

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

Elementis management consider that the information presented in the tables in the Business review provides useful financial information relating to the performance of the Group. This information should not be considered as an alternative, but as supplementary to the full IFRS income statement presented on page 29.

Group results

Group revenue increased by 6 per cent to £395.9 million in 2006, after adjusting for businesses sold or exited and the Chromium, UK capacity rationalisation. Higher average selling prices were the main driver of the increase with pricing across the Group up by 5 per cent over the previous year, due to increases in Chromium and Specialties. Volumes improved in both Speciality Products and Pigments due to good market demand in Coatings, Oilfield and Construction. In Chromium, volumes were lower due to the price increases implemented in 2005, while Surfactant volumes were lower due to product mix optimisation initiatives which resulted in lower volumes but which will achieve higher margins.

Group operating profit from continuing operations, before exceptional items, was £37.6 million versus £19.1 million in the previous year, an increase of 97 per cent. Energy costs increased by £3.3 million, just under 10 per cent versus the previous year and other raw materials and variable costs increased by around 9 per cent, with most of the increases occurring in Chromium. These increases were more than offset by improvements in sales and, in addition, Group fixed costs were reduced by over £13.0 million versus the previous year as a result of the restructuring programme that was initiated by the Board in 2005. Operating profit also benefited from £1.8 million of currency hedging gains which were split equally between Specialties and Chromium.

Diluted earnings per share from continuing operations, before exceptional items, was 6.7 pence compared to 2.6 pence in the previous year. The increase was largely driven by the improvement in operating profit. After exceptional gains of £3.0 million, which are described below, diluted earnings per share was 7.0 pence versus a loss per share of 7.2 pence in 2005.

Elementis Specialties

Specialty Products

Revenue in Specialty Products was £144.8 million in 2006, an increase of 7 per cent over the previous year after adjusting for a business sold

Operating profit

	Operating profit £million	Exceptional items* £million	2006 Adjusted operating profit £million	Operating profit £million	Exceptional items* £million	2005 Adjusted operating profit £million
Continuing operations						
Specialties						
- Specialty Products	25.9	(0.9)	25.0	14.6	2.4	17.0
- Surfactants	0.3	0.3	0.6	0.1	0.5	0.6
	26.2	(0.6)	25.6	14.7	2.9	17.6
Pigments						
Chromium	7.1	(1.0)	6.1	(5.9)	7.1	1.2
Central costs	13.3	(1.4)	11.9	(21.7)	29.5	7.8
	(6.0)	-	(6.0)	(12.5)	5.0	(7.5)
	40.6	(3.0)	37.6	(25.4)	44.5	19.1
Discontinued operations						
Specialty Rubber						
	-	-	-	1.2	-	1.2
	40.6	(3.0)	37.6	(24.2)	44.5	20.3

* Excluding profit/(loss) on disposal of business.

in 2005. Improved volumes in both Coatings and Oilfield additives was the main cause of the increase, while overall pricing was over 2 per cent better than the previous year largely due to selective increases in these two sectors during the second half. In Coatings strong demand drove volume improvements of close to 15 per cent in Europe and Asia, while the demand in North America was initially strong but slowed in the second half due to a slow down in housing starts so that full year volumes ended higher by around 5 per cent. Oilfield volumes improved by around 8 per cent versus the previous year due to higher oil prices and increased drilling activity, and were particularly strong in Europe due to new business in the Nordic region. In the US, the largest region, volumes improved by around 4 per cent while Canadian markets were somewhat softer due to some switching of drilling resources away from deeper wells and growing activity in oil sands projects.

Operating profit before exceptional items in 2006 improved by 47 per cent to £25.0 million. Fixed costs decreased by more than £5.0 million due to the restructuring programme initiated in 2005 to reduce selling, general and administration costs. Otherwise, higher revenue more than offset increases in raw materials and energy.

Surfactants

Revenue in Surfactants was £46.1 million in 2006, marginally higher than the previous year. Good

volume growth was seen in the oilfield sector but this was offset by the planned optimisation initiative. As part of this initiative, low margin business has been reduced and margin enhancement programmes were introduced during the second half of the year which should continue to benefit the business into 2007.

Operating profit before exceptional items was unchanged at £0.6 million in 2006. Improvements in the sales mix were not sufficient to offset around £3.0 million of increases in raw materials and energy costs, but the business also benefited from over £2.0 million of fixed cost improvements due to rationalisation of the manufacturing site in the Netherlands.

Elementis Pigments

Revenue in Pigments increased by 4 per cent in 2006 to £94.2 million and by 6 per cent excluding sales to the US driers market which was exited during the year. Higher volumes in Coatings, Chemical and Construction applications were the main driver of the increase and prices were raised on a number of key products in response to higher energy and raw material prices, although pricing measured across the whole business was relatively stable year on year. In Coatings, the North American customers were successfully transitioned to the new Chinese product following the start up of the plant in Tai Cang, and volumes increased with key customers due to strong consumer demand. Volumes

also improved in Europe and Asia Pacific. Construction volumes were higher in North America and Asia Pacific due to good demand while volumes in Europe were impacted by a decision to exit from some low margin sales. The granular iron oxide product continued to make good progress. In Driers a decision was made during the year to exit the unprofitable North American business and this reduced revenue by around £1.5 million.

Operating profit before exceptional items was £6.1 million for the year versus £1.2 million in 2005. As well as the positive impact of higher sales, the current year also benefited from a reduction of £3.6 million in fixed costs due mainly to improved manufacturing costs following the start up of the Tai Cang plant in 2005.

Elementis Chromium

The Chromium business was significantly restructured during the first half of 2006. Part of the Eaglescliffe, UK plant was closed in March 2006 reducing the global manufacturing capacity of the business by 25 per cent. The net impact of this on operating profit in 2006 was largely neutral as the loss of sales volumes was offset by a reduction in manufacturing costs. In addition more hedging activity has been undertaken in both energy and currency, and contract discussions with customers have focused more on sharing the volatile cost elements or setting a fixed price that allows Elementis to hedge them.

Business review continued

Revenue

	Revenue 2005 £million	Effect of exchange rates £million	Disposals £million	Increase/ (decrease) 2006 £million	Revenue 2006 £million
Specialties					
- Specialty Products	139.7	0.1	(4.7)	9.7	144.8
- Surfactants	45.7	0.4	-	-	46.1
Specialties total	185.4	0.5	(4.7)	9.7	190.9
Pigments	90.7	0.7	(1.5)	4.3	94.2
Chromium	129.4	(0.6)	-	(12.0)	116.8
Specialty Rubber	40.5	-	(40.5)	-	-
Inter-segment	(6.1)	-	-	0.1	(6.0)
	439.9	0.6	(46.7)	2.1	395.9

All of this has been done to improve the quality of earnings by reducing volatility and thereby improving predictability. Results for the year also benefited from the aggressive price improvement programme that was implemented throughout 2005. Consequently average selling prices in 2006 were around 11 per cent higher than the previous year, more than offsetting increases in raw materials and energy of around £13.0 million, of which £1.7 million was energy. Selling prices have been relatively stable during 2006.

	2006 £million	2005 £million
Sales		
- UK	38.4	56.4
- US	78.4	73.0
	116.8	129.4
Adjusted operating profit/(loss)*		
- UK	1.7	(0.3)
- US	10.2	8.1
	11.9	7.8

* Before exceptional items.

In the US sales increased by 7 per cent over the previous year with higher pricing being the main driver of the improvement. Otherwise volumes were lower in the chromic acid market due to changes in the Chromated Copper Arsenate ('CCA') market for timber treatment at the beginning of 2005. Operating profit before exceptional items improved by 26 per cent to £10.2 million as higher selling prices outpaced increases in energy and raw materials, and fixed costs benefited from £0.5 million of insurance recoveries relating to a historic legal settlement.

In the UK sales also increased by 7 per cent over the previous year after adjusting for the effects of the plant closure. Metal oxide volumes were down by around 10 per cent due to increases in price implemented in 2005, but sales of first pass oxide to the Southern European ceramics market were up on higher demand. Operating profit before exceptional items improved to £1.7 million in 2006 from a loss of £0.3 million in the previous year. Higher selling prices more than offset lower volumes and increases in energy and raw materials.

Central costs

Central costs are costs that are not identifiable as expenses of a particular business, and are comprised of expenditures of the Board of Directors and the corporate office. In 2006, as a result of restructuring initiated in 2005 to reduce overheads, central costs have been reduced by £1.5 million to £6.0 million.

Exceptional items

There were net exceptional gains before taxation of £3.0 million (2005: charges of £47.7 million) in the year. In the first half of 2006 there was a curtailment gain of £1.7 million which arose as a result of changes to the Group's US defined benefit pension scheme. This was offset by a charge of £1.7 million in relation to further restructuring of the administrative activities of Elementis Specialties which reduced the head count by 34 employees.

In the second half, Elementis amended its post retirement medical benefit scheme in its Specialties division where participants have become eligible for similar benefits from the

government. As a result an exceptional gain of £2.0 million was recorded. In addition, a credit of £1.0 million is included as exceptional which relates to the release of restructuring provisions no longer required.

Interest Continuing operations

	2006 £million	2005 £million
Finance income	0.2	0.3
Finance cost of borrowings	(8.3)	(6.6)
	(8.1)	(6.3)
Pension finance income/(charge)	1.6	(0.4)
Discount on provisions	(1.0)	(0.8)
	(7.5)	(7.5)

An increase of £1.8 million in net interest payable on bank borrowings, due to a combination of higher interest rates and higher borrowings, was offset by a favourable variance of £2.0 million in pension finance income/(charge). An increased return on UK pension scheme assets and lower interest costs on scheme liabilities resulted in pension income of £1.6 million in 2006 compared to an expense in the previous year of £0.4 million.

Interest cover, the ratio of operating profit before exceptional items to interest on net borrowings, was 4.6 times (2005: 3.3 times).

Taxation

	£million	Effective rate per cent
Tax charge		
Before exceptional items	(0.1)	-
Exceptional items	(1.3)	43.3
Total	(1.4)	4.2

Operating profit before exceptional items

	Operating profit* 2005 £million	Effect of exchange rates £million	Disposals £million	Increase/ (decrease) 2006 £million	Operating profit* 2006 £million
Specialties					
- Specialty Products	17.0	-	(0.1)	8.1	25.0
- Surfactants	0.6	0.2	-	(0.2)	0.6
Specialties total	17.6	0.2	(0.1)	7.9	25.6
Pigments	1.2	0.5	(0.7)	5.1	6.1
Chromium	7.8	0.5	-	3.6	11.9
Specialty Rubber	1.2	-	(1.2)	-	-
Central costs	(7.5)	-	-	1.5	(6.0)
	20.3	1.2	(2.0)	18.1	37.6

* Before exceptional items.

The tax charge on profit before exceptional items comprised overseas corporation tax of £1.1 million less prior period credits of £1.0 million.

Tax on exceptional items of £1.3 million relates to deferred taxation in respect of exceptional gains of £3.7 million on pension and post retirement medical benefits. The overall tax charge was 4.2 per cent of profit before taxation which is lower than the standard rate of UK corporation tax due to the amortisation of goodwill in the US for tax purposes.

Earnings per share

Reported basic and diluted earnings per share from continuing operations were 7.1 pence (2005: loss of 8.8 pence) and 7.0 pence (2005: loss of 8.8 pence) respectively. After adjusting for exceptional items, basic and diluted earnings per share from continuing operations were 6.8 pence (2005: 2.6 pence) and 6.7 pence (2005: 2.6 pence) per share respectively. Diluted earnings per share from continuing operations, before exceptional items increased by 158 per cent on previous year mainly due to the increase in operating profit before exceptional items.

Distribution to shareholders

In 2005 the Group ceased its policy of issuing and redeeming B shares to shareholders as a method of making a distribution. As a result, all of the redeemable B shares outstanding on 1 November 2006 were compulsorily redeemed for £2.1 million. During 2006 the Group paid a final dividend in respect of the year ended 31 December 2005 of 1.1 pence per share. An interim dividend of 1.2 pence per share was paid on 3 November 2006 and the

Board is proposing a final dividend of 1.2 pence per share which will be paid on 8 May 2007.

Cash flow

The cash flow is summarised below:

	2006 £million	2005 £million
Ebitda ¹	52.4	38.5
Change in working capital	(13.0)	1.9
Capital expenditure	(13.2)	(16.8)
Pension	(7.8)	(14.1)
Interest and tax	(8.7)	(9.4)
Other	(0.2)	(1.8)
	9.5	(1.7)
Distribution to shareholders	(10.1)	(9.7)
Acquisitions and disposals	1.4	23.7
Exceptional items	(10.8)	(12.7)
Currency fluctuations	8.8	(8.8)
Increase in net borrowings	(1.2)	(9.2)
Net borrowings at start of year	(99.4)	(90.2)
Net borrowings at end of year	(100.6)	(99.4)

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

Ebitda¹ increased by 36 per cent to £52.4 million (2005: £38.5 million) in the year due to the higher operating profit. The Group invested £13.0 million in additional working capital, partly due to a strategic build of inventory at Elementis Chromium and partly to support growth at Elementis Specialties. Capital expenditure amounted to 89 per cent of depreciation (2005: 93 per cent) and payments to pension schemes, net of service cost, decreased by

£6.3 million following a £7.0 million contribution in 2005 in connection with the disposal of Specialty Rubber. As a result of the restructuring that was announced in 2005, there was a cash outflow on exceptional items of £10.8 million (2005: £12.7 million) in the year.

Currency fluctuations had a positive impact on net borrowings of £8.8 million and despite the restructuring spend and investment in working capital the increase in net debt was limited to £1.2 million.

Balance sheet

	2006 £million	2005 £million
Intangible fixed assets	151.6	170.6
Other net assets	148.3	118.6
	299.9	289.2
Equity	199.3	189.8
Net borrowings	100.6	99.4
	299.9	289.2
Gearing ² (per cent)	34	34

² The ratio of net borrowings to equity plus net borrowings.

Currency fluctuations also had a significant effect on equity during the year. The main exchange rates relevant to the Group are set out below:

	2006		2005	
	Year end	Average	Year end	Average
US Dollar	1.96	1.84	1.72	1.82
Euro	1.48	1.47	1.46	1.46

The majority of the Group's assets are denominated in US dollars and the weaker US dollar in the year resulted in a reduction to equity of £23.0 million (2005: increase of £18.3 million).

Business review continued

Diluted earnings per share from continuing operations, before exceptional items, was 6.7 pence.

Goodwill, which the Group does not hedge, decreased by £18.7 million as a result of currency fluctuations.

The main movements in equity were the retained profit for the year of £31.7 million, actuarial gains on pension schemes of £8.6 million, the exchange loss on translation of foreign operations of £23.0 million and dividends paid of £10.1 million.

Pensions and other post retirement benefits

Retirement benefit obligations decreased by £24.7 million in the year to £37.3 million (2005: £62.0 million). Total contributions to pension and post retirement benefit schemes amounted to £12.0 million (2005: £19.1 million). Actuarial gains of £8.6 million (2005: loss of £1.5 million) and curtailment gains and settlements of £3.7 million (2005: £10.4 million) also reduced the liability. In addition, net finance income of £1.6 million (2005: expense of £0.4 million) and currency gains of £2.9 million were partly offset by the current service cost of £4.2 million (2005: £6.0 million). This was lower than previous year because of the Elementis Chromium and Elementis Specialties Delden restructuring in 2005 and as a result of changes to the US defined benefit pension scheme.

Critical accounting policies

The analysis of the Group's results and its financial position is based on the consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of financial statements requires the application of estimates and judgements that affect the reported amounts of assets and liabilities, revenues and costs and related disclosures at the balance sheet date. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are those that require significant judgements or estimates and potentially result in materially different results under different assumptions or conditions. It is considered that the Group's

critical accounting policies are limited to those described below. The development of the estimates and disclosures related to each of these matters has been discussed by the Audit Committee. Additional information on the accounting policies of the Group is set out in note 1 to the financial statements.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The Group had a provision for environmental issues of £15.8 million at 31 December 2006 (2005: £18.0 million). Approximately one third of the provision relates to continuing operations and the remainder relates to businesses previously owned by the Group. Provisions for environmental issues are judgemental by their nature and more difficult to estimate when they relate to sites no longer directly controlled by the Group. Elementis has taken a consistent approach to estimating environmental provisions.

Pension and other post retirement benefits

The Group accounts for pension and other post retirement benefits in accordance with IAS 19. The Group has pension scheme assets of £447.5 million (2005: £440.9 million) and liabilities of £484.1 million (2005: £502.4 million). The actuarial evaluation of these assets and liabilities is based on assumptions in respect of inflation, future salary increases, discount rates, returns on equities and bonds and mortality rates. Due to the size of the pension scheme assets and liabilities, relatively small changes in the assumptions can have a significant impact on the expense recorded in the income statement and on the pension liability recorded in the balance sheet.

Goodwill and other intangible assets

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

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

Financial instruments and derivative instruments

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

Due to the requirement to measure the effectiveness of hedging instruments, changes in market conditions can result in the recognition of unrealised gains or losses on hedging instruments in the income statement.

Exceptional items

The Group presents certain items separately as 'exceptional'. These 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.

Taxation

The Group is required to estimate the income tax in each of the jurisdictions in which it operates. This requires an estimation of current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting

and tax treatments. These temporary differences result in deferred tax assets and liabilities which are included within the balance sheet. Deferred tax assets and liabilities are measured using substantially enacted tax rates expected to apply when the temporary differences reverse.

The Group operates in a number of countries in the world and is subject to many tax jurisdictions and rules. As a consequence the Group is subject to tax audits, which by their nature are often complex and can require several years to conclude. Management's judgement is required to determine the total provision for income tax. Amounts are accrued based on management's interpretation of country specific tax law and likelihood of settlement. However the actual tax liabilities could differ from the position and in such events an adjustment would be required in the subsequent period which could have a material impact.

Tax benefits are not recognised unless it is probable that the tax positions are sustainable. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation. Deferred tax assets are not recognised where it is more likely than not that the asset will not be realised in the future. This evaluation requires judgements to be made including the forecast of future taxable income.

Property, plant and equipment

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

Key performance indicators

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

1. Operating profit/operating margin

Operating profit is the profit derived from the normal operations of the business. Operating margin is the ratio of operating profit or loss to sales before exceptional items. The Group achieved an operating profit from continuing operations before exceptional items of £37.6 million for the year ended 31 December 2006 (2005: £19.1 million). This is an increase of 97 per cent on the previous year. The Group's operating margin from continuing businesses was 9.5 per cent compared to 4.8 per cent in 2005.

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 receivables and trade payables but specifically excludes prepayments, capital or interest related receivables or payables, business acquisition related payables or receivables and items classified as other receivables and other payables. The Group's trade working capital to sales ratio at 31 December 2006 was 22.8 per cent (2005: 21.5 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 18.7 per cent for the year ended 31 December 2006 (2005: 8.2 per cent).

Business review continued

4. Lost time accidents

A lost time accident is any work related injury or illness sustained by an employee or directly employed contractor whilst working at the Group's premises and results in the person not being able to attend work on the following day or for their next scheduled shift. There were seven lost time accidents in 2006 (2005: eight). Five of these (2005: three) resulted in greater than three days of lost time, not including the day of injury.

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 2006 was 31 per cent (2005: 30 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 2006 the operating cash flow was £26.4 million (2005: £23.1 million).

Principal risks and uncertainties

The Group has a process that identifies certain risks that could affect the business operations and hence the financial results of Elementis. There may be other risks that are unknown. The specialty chemical industry is highly competitive with global competition on pricing. Significant increases in raw material and energy costs could impact the financial results of the Group. The Group's operations in China have significant cost advantages but expose the Company to risks over which Elementis has limited control including for example: supply chain disruption, currency fluctuations and regulatory controls.

Financial results may also be affected by IT risks. There may be other risks which emerge from time to time such as pandemics, non-compliance and litigation, which would be both industry-wide and Company specific.

Strategic risks

Several of the Group's products are subject to the global supply/demand balance. Additional market capacity affects the ability to pass on energy and raw material price increases. Further chromium capacity expansion in China is the most obvious threat. However, Elementis retains good flexibility in its production operations to respond to changes in demand.

Part of the Group's strategy is to create new products in the Specialties business. This is focused on high value added opportunities within existing areas of expertise, but inability to launch new products would put further pressure on existing product margins.

As experienced by other US and UK based companies, competition from Asia Pacific, with lower cost structures and rapid growth, is both a threat and an opportunity. China, in particular, has an ability to influence the economies of all the other countries in which Elementis operates. Elementis has a significant investment in pigment production in China to benefit from the opportunities. The rapid pace of development of the economy in China could lead to unpredictable consequences that are outside the control of Elementis.

The REACH Regulations affecting European manufacture and imports could lead to a reduction in product lines that can be manufactured economically. Those that are still manufactured could be subject to costly registration and testing, which will have to be borne either by the Company or passed on. This applies to all European manufacturers and importers but not to manufacturers outside the European Union (EU) who export finished articles to the EU.

Financial risk

Parts of the business, in particular Chromium, are energy intensive. Energy pricing is driven by global oil prices and regional supply/demand. Steps are however being taken to move to alternative energy sources to reduce costs and increase cost certainty.

Raw materials pricing is also a significant risk. Emphasis is being placed on procurement to ensure that costs remain competitive. Sales teams are intensifying their efforts to maintain margins where input costs are rising but there is a risk that this is not successful.

With global sales and a supply chain from China, Elementis is subject to the effects of currency fluctuations and other economic variables outside of its control.

Elementis maintains a comprehensive insurance programme with limits and deductibles that are set to optimise the balance between premiums and risk. This should limit the risk from uninsured losses. There is always the possibility of an uninsured claim and in the extreme a limit might be exceeded. Most current insurance risks are predictable statistically and steps are taken to reduce the probability of a claim. Examples of this are evident in the effective improvements in health, safety and environmental management, product stewardship and property protection. However, there is a risk of toxic tort and environmental claims from historic operations because of the time it takes for the effects of some chemicals to become apparent. There is insurance in place to mitigate against most of these claims but there is a residual risk that some claims may not be covered.

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

Operational risks

As with most companies, Elementis is highly dependent on IT systems for managing the business. The main software for managing the business, the ERP system, is believed to be reliable and robust with adequate back-up and alternative options for operation. There are a small number of legacy systems, which could pose a risk from being less well supported by vendors.

Network infrastructure and hardware require regular updating and maintenance. Economic decisions have to be made on optimising the balance between repairing equipment or replacing it. There is a risk of equipment failure creating unplanned downtime with consequences across the Group if it affects business critical activities. Disaster recovery plans are in place and tested but with international communications there may be factors beyond the Company's control. As an IT dependent business, the systems are potentially under threat from third party attack through hacking and viruses.

Some manufacturing plants are ageing and despite planned maintenance there is an increased risk of breakdown and supply interruption.

Hazard risks

Health, safety and environmental risks are conscientiously managed but it is still possible that accidents will occur. There is a risk of harm to people and to the environment. Despite the existence of recovery plans there is a risk that the time to recover full operation could be significant, especially if complex or time consuming investigations are required. Further regulatory pressure on permitted exposure limits for chemicals can have a significant impact on operations and sales. Major steps are taken to ensure compliance with environmental, health and safety legislation through management commitment, training, audits and cooperating fully with regulators. If these steps were to fail or were inadequate there could be significant costs and loss of reputation.

Fire and natural disasters such as tornados, hurricanes, typhoons, earthquakes and flooding are risks that can often be predicted but not necessarily protected against fully. Elementis has a programme of surveys that identifies sites at risk. The Company then takes decisions on mitigating actions beyond insurance, based on an assessment of likelihood and severity. Data on which to base these judgements is often sparse.

Some risk will be treated in an overly cautious manner and on some occasions the assessment may be over optimistic. Insurance cover should limit the loss.

Epidemics and pandemics could occur with consequences beyond the Company's ability to control.

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 treasury risks, including interest rate and currency management.

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources. Certain derivative financial instruments (principally forward foreign currency contracts) are entered into in order to manage currency risks efficiently.

The Group does not hold or issue derivative financial instruments for speculative trading purposes.

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 rate profile. The policy does not require that a specific proportion of the Group's borrowings are at fixed rates of interest. During 2006 all borrowings were at floating interest rates, with no borrowings at fixed rates (2005: £nil).

Currency risk

Businesses mostly use forward foreign currency contracts to hedge transaction exposures where deemed appropriate in consultation with Group Treasury. Elementis uses Dollar and Euro borrowings to partially mitigate the currency translation exposure on its net investment in foreign operations, subject to the provisions of IAS 39 in respect of hedge accounting.

Liquidity risk

Group funding policy is to have committed borrowings in place to cover at least 125 per cent of peak forecast net borrowings for at least a 12 month forward period. At the year end, the Group had £49.0 million (2005: £65.6 million) of undrawn committed facilities.

Counterparty credit risk

The Group controls counterparty credit risk by entering into cash deposits and financial instruments only with authorised counterparties. Credit risk is managed by limiting the aggregate amount and duration of exposure to any one counterparty depending upon their credit rating and by regular review of these ratings. Counterparty positions are monitored on a regular basis.

David Dutro

Group Chief Executive
27 February 2007

Brian Taylorson

Finance Director
27 February 2007

Health, safety and environment report

Commitment

Elementis is committed to preventing harm to people and the environment in a sustainable way. Good health, safety and environmental (HSE) performance 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.

Health, safety and environmental policy

Elementis conducts its business with the highest concern for the health and safety of its employees, contractors, customers, neighbours and the general public and for the environment in which it operates.

Elementis seeks to identify and eliminate occupational health hazards, is committed to providing a safe workplace for all its employees and strives for zero injuries.

Elementis aspires to best in class performance in all aspects of environmental management. It views compliance with all applicable legal requirements and legal codes of practice as its minimum standard and works proactively to reduce emissions and waste from its products and processes.

Elementis supports the chemical industry's Responsible Care programme and applies these principles in its worldwide operations. Elementis recognises the importance of communications with all interested parties and is committed to informing its employees, contractors, customers, neighbours and the general public promptly of any significant hazards that arise from its operations.

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

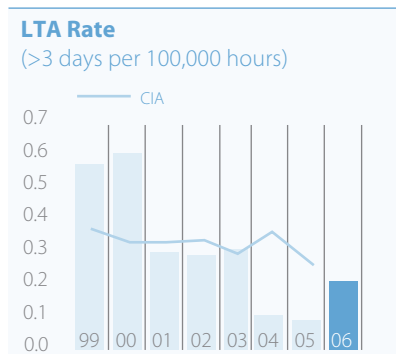
Social responsibility

Elementis strives to ensure equality of opportunity and fair rewards for expertise and knowledge.

Despite significant Company restructuring the health, safety and welfare of our employees and others affected by our activities was maintained at a high standard during 2006.

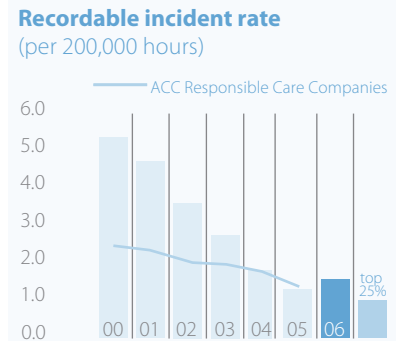
Lost time accidents (LTAs)

There were five LTAs¹ in 2006, corresponding to a rate of 0.16 per 100,000 hours worked. Although higher than last year this is still well below the CIA² member average of 0.23 in 2005.



Recordable incidents

A more detailed measure of safety performance is the number of recordable injuries and illnesses³. By maintaining a high standard of safety in 2006 we reduced the number of recordable injuries and illnesses by four (equivalent to 18%) giving an OSHA⁴ recordable incident rate of 1.12 per 200,000 hours worked. This rate is marginally higher than the rate in 2005 because of the reduced number of employees. The ACC⁵ member rate for US companies in 2005 was 1.23 per 200,000 hours as shown by the chart below.



1 LTAs are: injuries resulting in greater than three days lost (not including the day of injury).

2 Chemical Industry Association.

3 Workplace injuries and illnesses that require medical treatment beyond first aid, including LTAs.

4 The US government's Occupation Health & Safety Administration.

5 American Chemistry Council.

Commitment to the environment

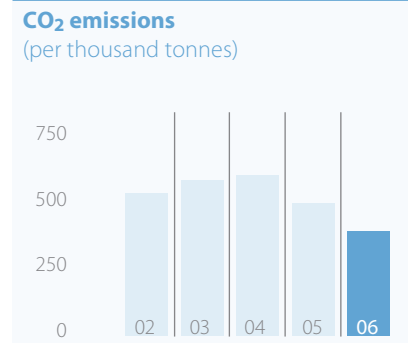
The Group's environmental goals are zero environmental incidents and a continual improvement in environmental performance.

In 2006, as in 2005, there were no Tier 3 incidents (incidents with a significant impact). There were six Tier 2 incidents (releases with no significant harm to the environment). In 2005 there were two Tier 2 incidents. All these incidents regardless of Tier are subject to a comprehensive investigation process, reinforcing the Group's culture of zero tolerance of environmental incidents.

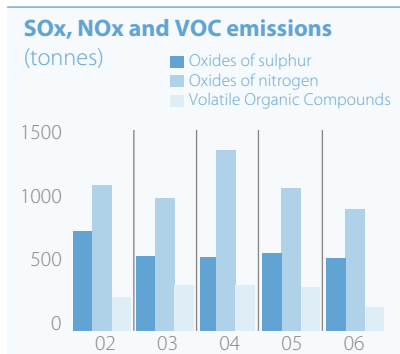
Emissions to air

Emissions to air are closely regulated within Elementis.

Emissions of carbon dioxide, a 'greenhouse gas' which facilitates global warming and leads to other consequences of climate change, were lower versus 2005 levels. This was partly due to the reduction in production at the UK chromium facility in Eaglescliffe. See chart below:

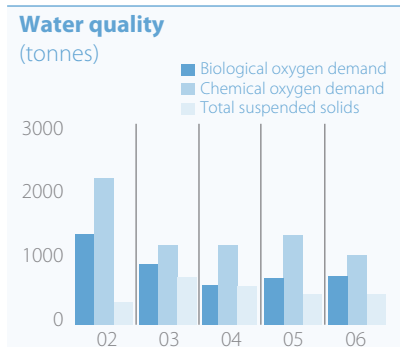


Emissions of the oxides of sulphur and nitrogen (SOx and NOx), which can cause acid rain also improved, as did emissions of Volatile Organic Compounds (VOCs), which can combine with NOx to form smog. See chart below:



Discharges to water

Discharges in wastewater are controlled and monitored as necessary using industry standard measures. Total suspended solids remained fairly constant. The chemical oxygen demand reduced while the biological oxygen demand increased slightly.

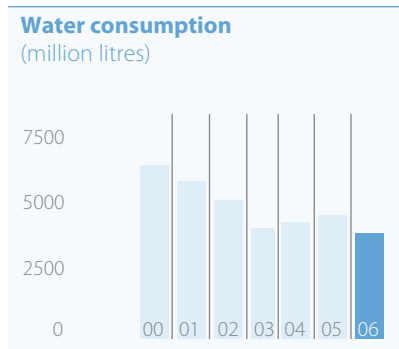


Solid waste

Due to the nature of the Group's business, some hazardous waste is generated. The volume of this waste has been dramatically reduced since 1999 from around 20 per cent of production to around 1 per cent. Even then, during 2006, a significant part of the hazardous waste was a one off quantity of waste arising in a properly controlled process from cleaning tanks associated with discontinued operations.

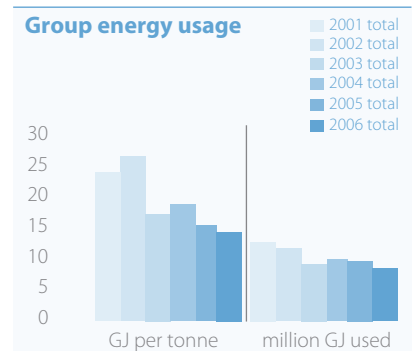
Water consumption

Elementis does not operate manufacturing facilities in areas of extreme water shortage, with the exception of the Specialties Hectorite mine in California. Nevertheless the Company recognises the global need to conserve water and monitors consumption. In 2006 there was a reduction in water consumption, see chart below:



Energy consumption

Energy efficiency improved, and consumption continued to reduce in 2006. The improvement in 2006 was partly due to the reduction from two to one chromate kilns at Eaglescliffe in March and partly due to the energy efficient Pigments plant in China that came on-stream during 2005 at Tai Cang, see chart below:



Product stewardship

Elementis works actively to protect the health and safety of people who transport or use our products. We provide technical advice on environmental matters throughout the product life cycle.

Community well being

Elementis aims to promote the safety and well being of the communities in which it operates. We encourage and support employees in volunteering or fund raising to support local community organisations.

Board of directors



1. Robert Beeston, age 65 Chairman

Robert Beeston joined the Board and was appointed Chairman of Elementis on 21 September 2006. He is 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. Brian Taylorson, age 51 Finance Director

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

3. David Dutro, age 51 Group Chief Executive

David Dutro joined the Board on 17 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. Mr Dutro was vice president, 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. Mr Dutro was born and educated in the US and holds a Bachelor of Science degree in marketing.

4. Edward Bramson, age 55**Non-executive Director** N

Edward Bramson was appointed to the Board in June 2005, initially as Executive Chairman until September 2006 when he became a non-executive director. He is Chairman of the Company's Nomination Committee. Mr Bramson was the chairman of 4imprint Group plc from October 2003 to July 2004 and a non-executive director until his resignation from the board of 4imprint in April 2005. He is chairman of Ampex Corporation and Spirent Communications plc. He is also a principal of Sherborne & Company Incorporated.

5. Ian Brindle, age 63**Non-executive Director** A,N

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

6. Chris Girling, age 53**Non-executive Director** A,N,R

Chris Girling was appointed to the Board as a non-executive director in April 2005. He is group finance director of Carillion plc, a construction and support service group, a role he has held since 1999, and was finance director with Vosper Thornycroft plc for ten years previously. He holds an MBA and is a fellow of the Institute of Chartered Accountants in England and Wales.

7. Kevin Matthews, age 43**Non-executive Director** A,N,R

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

8. Ken Minton, CBE, age 70**Senior Independent Director** N,R

Ken Minton was appointed to the Board as a Senior Independent Director in June 2005. He is Chairman of the Remuneration Committee. Ken has served on the board of several FTSE 250 companies, including as a non-executive director of Tomkins plc and ten years as chief executive of Laporte PLC. He is currently a non-executive director of PayPoint plc and executive chairman of 4imprint Group Plc.

He served as the UK representative to CEFIC (the European Chemical Industry Council) from 1988 to 1995 and is a past president of the Society of Chemical Industry (SCI). He was awarded the SCI Centenary Medal and received a CBE in 1995 for services to the chemical industry.

9. Matthew Peacock, age 45**Non-executive Director**

Matthew Peacock was appointed to the Board as a non-executive director in June 2005. Matthew is the founding partner of Hanover Investors, a specialist turnaround investment firm. He began his career with Credit Suisse in New York and then as head of the International M&A team at BZW. Since then, he has had 16 years boardroom experience leading investments across a wide range of industry sectors. He currently is non-executive chairman of Renold PLC and a non-executive director of SMG PLC.

Key to membership of committees:

A Audit Committee

N Nomination Committee

R Remuneration Committee