

Preliminary Results

Year ended 31 December 2006

Tuesday 27 February 2007

Preliminary Results

ELEMENTIS

Continuing Operations (£m)	2006	2005	
Sales	395.9	399.4	
Operating Profit*	37.6	19.1	+97%
Profit before tax*	30.1	11.6	+159%
EPS before exceptional items	6.7p	2.6p	+139%
EPS reported	7.0p	(7.2p)	

*Before exceptional items

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Continuing Operations (£m)	2006	2005	Change
Specialty Products	25.0	17.0	+47%
Pigments	6.1	1.2	+408%
Chromium	11.9	7.8	+53%
Surfactants	0.6	0.6	-
Central Costs	(6.0)	(7.5)	-20%
Operating Profit*	37.6	19.1	+97%

- Increase base earnings level
- Reduce volatility of Chromium earnings
- Focus attention on Specialties

*Before exceptional items

Preliminary Results

ELEMENTIS

Continuing Operations (£m)	2006	2005
Reported Sales	395.9	399.4
Less:		
Exited Businesses	1.1	7.3
Chromium Plant Closure	6.2	26.4
Net Sales	<u>388.6</u>	<u>365.7</u>
	+6%	
Operating Profit*	37.6	19.1
Operating Margin*	9.5%	4.8%
Return On Book Equity*	14.9%	5.9%

*Before exceptional items

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Chromium

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	(£m)	2006	2005
Sales	- UK	38.4	56.4
	- US	78.4	73.0
		<u>116.8</u>	<u>129.4</u>
Operating profit*	- UK	1.7	(0.3)
	- US	10.2	8.1
		<u>11.9</u>	<u>7.8</u>

- Industry supply/demand balance improved
- Higher pricing offsets variable cost increases
- Profit improvement on significantly reduced volume

*Before exceptional items

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Pigments

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(£m)	2006	2005
Sales	94.2	90.7
Operating Profit*	6.1	1.2

- Transition of NA customers completed
- Cost model benefits consistent with expectations
- Higher sales driven by
 - Favourable coatings market
 - Market share gains in NA and Asia construction markets
- Plastics and Redimix market opportunities

*Before exceptional items

Preliminary Results

Surfactants

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(£m)	2006	2005
Sales	46.1	45.7
Operating Profit*	0.6	0.6

- Shares facility with certain Specialty Products
- Product mix optimisation initiative
- Price increases secured during 4th quarter 2006
- Recent management changes

*Before exceptional items

Preliminary Results Specialty Products

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(£m)	2006	2005
Sales	144.8	139.7
Operating Profit*	25.0	17.0

- Restructuring cost benefits of over £5 million
- Revenue growth
 - Strong demand in coatings and oilfield
 - Market share gains in construction
- Price increases in second half of 2006

*Before exceptional items

Specialty Products Growth Opportunities

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- Emerging markets
 - Current demand in Asia Pacific greater than regional capacity
 - Capable and well supported Asia Pacific team in place
 - Procurement and investment opportunities
- Margin enhancement
 - Leverage the value of our products to the market
 - Incentive plans centred around margin improvement
 - Culture of aggressive pursuit of cost efficiencies
- Product Development
 - Colorant stabilisers and multifunctional additives
 - Oilfield deep water drilling applications
 - Nanoclays for plastics

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Exceptional Items

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(£m)	US Pension & PRMB	Specialties Restructuring	Prior Year Surplus	Total	
				2006	2005*
Specialty Products	2.3	(1.4)	-	0.9	(2.4)
Surfactants	-	(0.3)	-	(0.3)	(0.5)
Pigments	1.0	-	-	1.0	(7.1)
Chromium	0.4	-	1.0	1.4	(29.5)
Central Costs	-	-	-	-	(5.0)
Total	3.7	(1.7)	1.0	3.0	(44.5)
Gain/(charge)					

* Excludes Profit/Loss On Disposal Of Business

Preliminary Results

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Cash Flow (£m)	2006	2005
Ebitda*	52.4	38.5
Capital expenditure	(13.2)	(16.8)
Working capital	(13.0)	1.9
Pensions	(7.8)	(14.1)
Net finance costs	(8.0)	(6.8)
Other	(0.5)	(2.2)
Operating cash flow	10.9	(0.5)
Restructuring	(10.8)	(12.7)
Free cash flow	0.1	(12.2)

* Before exceptional items

Preliminary Results

Net Debt

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(£m)	2006	2005
Opening net debt	(99.4)	(90.2)
Free cash flow	0.1	(12.2)
Dividend/B share	(10.1)	(9.7)
Reclassification of B shares	-	(2.2)
Disposals	-	23.7
Currency	8.8	(8.8)
Closing net debt	(100.6)	(99.4)

- New £150m 5 year bank facility signed in July

Tax

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	2006		2005	
	£m	Rate	£m	Rate
On profit before exceptional items	(0.1)	-	(0.3)	3%
Exceptional items	(1.3)	43%	(3.1)	-
Total tax charge	<u><u>(1.4)</u></u>	4%	<u><u>(3.4)</u></u>	-

- Low rate due to US goodwill amortisation (\$23mm pa)
- Current improved level of earnings will accelerate use of losses
- Book rate around 5% in 2007, rising thereafter
- Cash tax rate will remain below 5%

Retirement Benefit Plans

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	2006 £m	2005 £m
Total Deficit 31 Dec 2005	(62.0)	(81.4)
Return on Scheme assets	30.3	54.8
Cost of Liabilities	(24.6)	(25.2)
Contributions Net of Service Costs	7.8	12.8
Curtailment Gains	3.7	10.4
Other Changes in Assumptions	(4.5)	(30.6)
Currency	3.0	(2.8)
Closing Deficit	<u>(37.3)</u>	<u>(62.0)</u>

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Dividend

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	2006	2005*	
Interim	1.2p	1.1p	+9%
Final	1.2p	1.1p	
Total	2.4p	2.2p	

* Issue of redeemable B shares

- 9% increase reflects progress made so far
- Dividend reviewed as earnings progress
- Significant progress on free cash flow in 2007

2007 Objectives

- High quality revenue growth
 - Impressive product pipeline that falls within our technical strength.
 - Continued investment to support growth in emerging markets.
 - Technical solutions/products that make our customers more successful.
- Continued improvement in quality of earnings
 - Additional opportunities identified from procurement, supply chain and operational productivity.
 - Hedging programs for energy and currency
- Increase conversion of earnings to cash flow
 - Restructuring completed.
 - Capex below depreciation.
 - Debt reduction

Outlook

- Energy costs moderating / currency hedged
- Raw materials inflation in certain areas
- Developing markets positioned to deliver solid performance
- Weaker NA housing starts counterbalanced by stronger global Industrial Coatings
- Profit Improvement programs will support continued earnings progress

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