

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

Elementis plc (ELM.L), a global specialty chemicals company, announces its results for the year ended 31 December 2012.

HIGHLIGHTS

- Group earnings per share increased by 12 per cent*
- Operating margin* improved to 19.0 per cent (2011: 18.0 per cent)
- Resilient performance in Specialty Products
 - Constant currency sales up 4 per cent; Operating profit* up 3 per cent
 - Investing in growth
 - New plant commissioned; new technical facilities; acquisition in Brazil
- Solid performance in Chromium
 - Robust earnings and strong cash flow
- Excellent cash generation
 - Net cash position increased to \$44.0 million
- Final ordinary dividend increased by 14 per cent, full year up 11 per cent
- First payment announced under special dividend programme, proposing to distribute 50 per cent of year end net cash

FINANCIAL SUMMARY

	2012	2011	change
Sales	\$757.0m	\$760.5m	
Operating profit	\$143.9m	\$137.1m*	+5%
Profit before tax	\$141.2m	\$134.5m*	+5%
Diluted earnings per share	23.3c	20.8c*	+12%
Net cash	\$44.0m	\$26.2m	+68%
Profit for the year	\$107.1m	\$124.1m**	
Basic earnings per share	23.7c	27.8c**	
Dividends to shareholders:			
- Interim dividend	2.45c	2.34c	+5%
- Final proposed	5.32c	4.66c	+14%
- Total ordinary dividend	7.77c	7.00c	+11%
- Special dividend	4.79c	-	

* before exceptional items, all of which relate to 2011

** includes one-time gain from recovery of funds from EU commission

Commenting on the results, Group Chief Executive, David Dutro said:

“It is my pleasure to report another excellent year for Elementis, as 2012 marked a new level of achievement for the Group. Collectively our businesses delivered the highest earnings per share in our Company's history. This strong performance was achieved in the face of a global economy and market environment that grew more uncertain as the year progressed. Importantly, these results further validate the resilience and inherent quality of our businesses.

Consistent with our strategic focus on growth in 2012, Specialty Products has introduced new products, expanded our geographic presence and made investments to serve our customers' growing demand. We announced the acquisition of Watercryl, a Brazilian based coatings additives company, in June 2012. The integration of Watercryl is well underway and delivering a number of exciting growth opportunities in the fast growing Latin America markets.

The announcement on 20 February 2013 that we have acquired Hi-Mar, a leading supplier of defoamers, demonstrates our continued commitment to targeting bolt on acquisitions that extend our product range into adjacent, high growth markets and that are synergistic with our current technologies, product portfolio, customer base and margin expectations.

These investments will contribute significantly to our continued growth and further strengthen our product innovation model and technological leadership. We are in the enviable position of having manufacturing facilities that are extremely well invested, thus requiring only modest levels of maintenance capital, resulting in the majority of our capital spend being invested in growth projects. Our Chromium business delivered another solid set of results, further confirming its ability to adjust to rapidly changing market dynamics to produce strong earnings and cash flow.

In July 2012 the Elementis Board announced that, in addition to its current progressive dividend policy, a special dividend programme would be instituted to provide an additional return to shareholders of up to 50 per cent of year end net cash on the balance sheet. This programme reflects the Board's high level of confidence in the Company's financial strength and its ability to deliver continued strong cash flows, and we are pleased to recommend the first payment under the programme of 4.79 cents per share, which is the equivalent of the full 50 per cent of the year end net cash balance.

Trading in 2013 has started on a solid footing, although economic uncertainties are still in evidence. Having continued to make strategic investments in our products and plants throughout 2012, we are confident that Elementis can make further progress in the coming year."

ENDS

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Matthew Cole

Chairman's statement

I am pleased to report another year of excellent progress at Elementis. As has been widely documented, the economic environment remained challenging in 2012 and continues to test the resilience of our strategy and business model. It is therefore gratifying to report that we have yet again delivered improvements in earnings and operating margin in the year.

The well invested and cash generative nature of our businesses means that we have been able to make further value added investments and yet still increase the amount of net cash on our balance sheet in 2012 by \$17.8 million, to a total of \$44.0 million at the end of the year. As a result the Board is recommending the first distribution under the recently announced special dividend programme.

The Group has continued to benefit from its strategy of investing in Specialty Products, where opportunities are plentiful and prospective returns are high, funding this investment through the positive cash flow generated by this business and the stable earnings and cash flow from the Chromium business. The period has seen several exciting investments in Specialty Products, and already in 2013 we have announced the acquisition of Hi-Mar, further expanding our product offering and technical service in the area of defoamers. These investments will further enhance the growth prospects and resilience of both Specialty Products and the Group as a whole.

Group revenues in 2012 were \$757.0 million compared to \$760.5 million in the previous year, with Specialty Products and Chromium both showing revenue growth, while the Surfactants business continued to reduce revenue in low margin activities in line with its strategy. Group operating profit* increased by 5 per cent to \$143.9 million, or 7 per cent on a constant currency basis, and operating margin* increased from 18.0 per cent in 2011 to 19.0 per cent in the year. Diluted earnings per share* improved by 12 per cent to 23.3 cents per share.

* before exceptional items, all of which relate to 2011

Balance sheet

The Group continues to be in a robust financial position and has a balance sheet that provides a strong platform to fund future growth. During the year a new funding plan was agreed with the trustees of the Group's UK pension plan that will finance the agreed funding deficit over the next six years. Under the new plan the Group will make affordable contributions that strike the right balance between meeting our commitments under the plan, while supporting our growth, and providing appropriate returns to our shareholders and other stakeholders. Under IAS 19 the total deficit in the Group's retirement plans at the end of 2012 was \$136.0 million, compared to \$94.8 million in the previous year. This increase is largely due to decreases in real bond yields during the year.

Ordinary dividend

The Board is recommending a final dividend of 5.32 cents (2011: 4.66 cents) per share which will be paid on 31 May 2013 in pounds sterling at an exchange rate of £1=\$1.5266 (equivalent to a sterling amount of 3.4849 pence per share), to shareholders on the register on 3 May 2013. This brings the total ordinary dividend to shareholders for the year to 7.77 cents (2011: 7.00 cents), representing an increase of 11 per cent over the previous year. Going forward the Board intends to maintain a progressive ordinary dividend policy as the Group's dollar earnings and cash flow permit.

Special dividend

Following a review of the Group's capital in the year the Board announced that it intended to institute a special dividend programme to provide shareholders with an enhanced return, in recognition of the strong cash generative nature of the Group. Under this programme, at any year end when the Group is in a net cash position and there are no immediate investment plans for that cash, the Board will recommend an additional special dividend of up to 50 per cent of the net cash amount. The Board is confident in the Group's ability to continue to fund growth investments, similar to those made in 2012,

from internally generated cash flow. The Board has therefore concluded that it would be appropriate to distribute the full 50 per cent of the net cash balance at the end of 2012 as a special dividend. The amount of this special dividend will therefore be \$22 million, or 4.79 cents per share (equivalent to a sterling amount of 3.1377 pence per share), and will be paid under the same terms and exchange rate as the ordinary dividend, bringing the combined dividend for the full year to 12.56 cents per share.

Health, safety and the environment

Our performance in this important area of our business continues to be of a high industry standard and showed an improvement over the previous year. Nevertheless, we remain extremely vigilant in monitoring and continuously improving our processes and activities that impact upon the safety of our employees and the environment.

Corporate governance

Your Board remains committed to maintaining high standards of corporate governance and is satisfied that the Company has complied fully with all of the relevant provisions of the UK Corporate Governance Code (June 2010 version) ("CGC") throughout the financial year ended 2012. In my introduction to the corporate governance report for 2012, I set out how your Board has applied the main principles in the CGC relating to the role and effectiveness of the Board.

The Board welcomes the changes that have been made to the UK Corporate Governance Code (September 2012 version) and is confident that the Company will comply fully with these new provisions during 2013.

As previously reported, a recruitment process is underway that should lead to changes being made to the Board during the course of 2013. Two additional directors will be appointed to replace Chris Girling and Kevin Matthews, who will be retiring towards the end of the year. Both individuals have served as non-executive directors since 2005. Chris Girling is Chairman of the Audit Committee and it is planned that this role will be taken over by one of the two new appointees after a period of induction and handover. Kevin Matthews is Chairman of the Remuneration Committee and he will be succeeded in this role by current Board member Andrew Christie. The Board is mindful of the benefits of gender diversity on boards and has taken these factors into consideration in the recruitment process. All Board changes will be announced at the appropriate time.

People

Our progress and successes are only possible through the significant efforts and dedication of our employees around the world. I would therefore like to thank and congratulate them on behalf of the Board for yet another year of notable achievements.

Outlook

The resilient performance demonstrated by the Group in 2012, combined with new investments in Specialty Products, are further evidence that Elementis is adopting the right strategy to drive profitable growth and create value for shareholders and other stakeholders. The Board is therefore confident that the Group can continue to make progress in the medium term.

Robert Beeston
Chairman

26 February 2013

Group Chief Executive's overview

Dear Shareholders,

It is my pleasure to report another excellent year for Elementis, with 2012 marking a new level of achievement for our Company. Collectively our businesses delivered the highest EPS* level in the Group's history. Even more remarkably, this strong performance was achieved in the face of a global economy and market environment that grew more uncertain as the year progressed. These results further validate the resilience and inherent quality of our businesses. This record performance is especially notable when viewed as a continuation of the striking improvements in performance we have achieved over the past three years, during which we increased EPS* by more than 440 per cent. Our total shareholder return of 375 per cent over this period puts the Group in the top percentile of all FTSE All Share companies. We are resolute in our commitment to deliver profitable growth across all stages of the economic cycle and our internal performance targets continue to be independent of improvements in market conditions.

The Board recently announced that, in addition to its current progressive dividend policy, a special dividend programme has been instituted that will provide an additional return to shareholders of up to 50 per cent of year end net cash on the balance sheet. This programme reflects the Board's high level of confidence in the Company's financial strength and our ability to continue to deliver strong cash flows. With a positive outlook for the future and ample cash to fund bolt on acquisitions and growth investments, we are sure that our new dividend programme will enhance our ability to provide strong returns to our shareholders.

Specialty Products

Consistent with our strategic focus on growth in 2012, Specialty Products introduced new products, expanded our geographic presence and made investments to serve our customers' growing demand. These investments included:

- The acquisition of Watercryn in Brazil, strengthening Specialty Products's position in Latin America.
- Completion of a new Specialty Products North American additives plant – supporting the sale of recently introduced products in decorative coatings.
- A new world class US based technology centre and pilot plant – to better support our innovation model and product development programme.
- On-going investment in new capacity to support both the current high demands and future growth of our coatings, personal care and oilfield customers.
- An office and technical service lab being opened in Mumbai, India.

These investments will contribute significantly to our continued growth and further strengthen our product innovation model and technological leadership. We are in the enviable position of having manufacturing facilities that are extremely well invested, thus requiring only modest levels of maintenance capital, resulting in the majority of our capital spend being invested in growth projects.

The Specialty Products business provides a robust growth platform, with our balanced geographic exposure across mature and emerging economies, strong technology base and strategic market diversification. In addition to an impressive proprietary product offering, we also own and operate a high purity hectorite clay mine. Hectorite clay is highly valued by coatings and personal care, and increasingly by our oilfield, customers for its unique rheology characteristics and colour purity, which create a distinct long term competitive advantage for both Specialty Products and our customers. Specialty Products has a significant technical service and application support presence in our market segments, which has been built on long term relationships of trust, collaboration and technical expertise. Our differentiated technological innovation is supported by best in class process technology and tightly held manufacturing know-how.

The Specialty Products growth strategy is two pronged: internally generated growth through innovative new products, geographic expansion and gains in market share, along with value adding acquisitions that are consistent with our business model.

On the acquisition front, Specialty Products acquired Watercryn, a Brazilian based specialty additives manufacturer. Through this acquisition, we enhanced our penetration of the very important, high growth Latin American region and obtained a portfolio of innovative products that complements our own. While our global presence enables us to develop and leverage solutions for our customers around the world, a strong local presence is critical in allowing us to truly understand our customers and their specific needs, and to respond proactively to address them. The integration of Watercryn, which is expected to be accretive to our earnings in 2013, is well underway and delivering a number of exciting growth opportunities in the fast growing Latin America markets. The announcement on 20 February 2013 that we have acquired Hi-Mar, a leading supplier of defoamers, demonstrates our continued commitment to targeting bolt on acquisitions that extend our product range into adjacent, high growth markets and that are synergistic with our current technologies, product portfolio, customer base and margin expectations.

At the heart of nearly every investment we make in this business is innovation. Innovation at Elementis is about leveraging our expertise, market knowledge and deep customer relationships to develop and commercialise value added solutions for our customers and markets. This concept is captured in the Specialty Products tagline "your one-stop solution provider." Our R&D pipeline is stronger than ever and, more importantly, our new products are delivering real value to our customers and to the bottom line. Our ability to consistently deliver innovative products has been a critical component of our growth strategy and performance improvement to date, and it will drive our next level of success as well.

Elementis Chromium

Elementis Chromium reported its best year ever in terms of earnings, further confirming the business's ability to adjust to rapidly changing market dynamics. In 2012 this business delivered operating margins of 26.2 per cent and a return on capital employed (before tax and excluding goodwill) of 65 per cent.

The Chromium business's strategy is primarily focused on reducing cyclical fluctuations and consistently delivering more predictable and therefore higher quality earnings and cash flow. The business provides products that serve a diverse range of customers, geographies and applications, allowing it to quickly shift products and resources away from sluggish areas to those offering better returns. As the only North American based manufacturer of chromium chemicals, the business is able to provide North American customers with a differentiated and highly valued closed loop delivery model, providing a long term competitive advantage to Elementis. The business has a significant share of North American chromium chemicals sales and 58 per cent of its sales were into this region in 2012. In addition, on the manufacturing side, the business completed its alternative energy project, which allows the Castle Hayne, North Carolina facility to operate on natural gas as well as fuel oil. This investment gives the business far greater flexibility to procure energy in a more cost effective manner going forward.

Elementis Surfactants

We continue to improve the quality of the product portfolio and margins in our Surfactants business. This business, located in Delden, the Netherlands, shares its production facility with the Specialty Products business. The goal remains to utilise more of the facility's capacity over time to support the higher margin product range in the Specialty Products business. The Delden facility is a large and well maintained site and we are pleased to have the available capacity to support the Specialty Products growth strategy.

Summary

I am proud of Elementis's accomplishments in 2012, which are a direct reflection of the hard work and dedication of our global team and performance driven culture.

Regardless of the overall economic conditions, Elementis will continue to execute our well defined growth strategy of focusing on market share gains, introducing new products and strengthening our position in new geographies and technologies with complementary bolt on acquisitions.

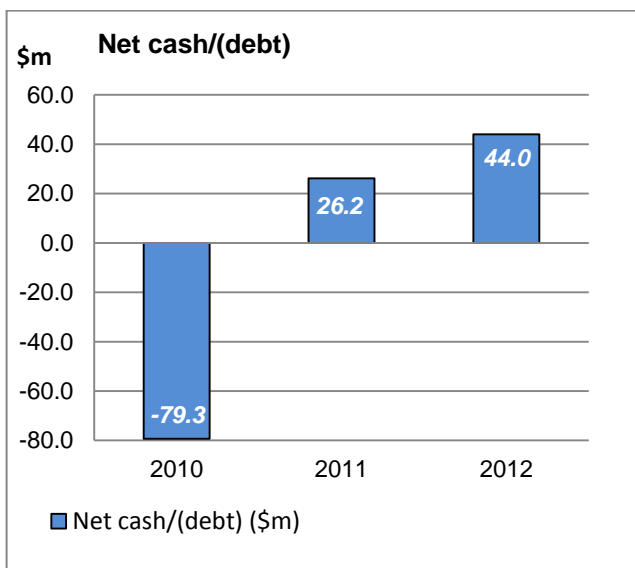
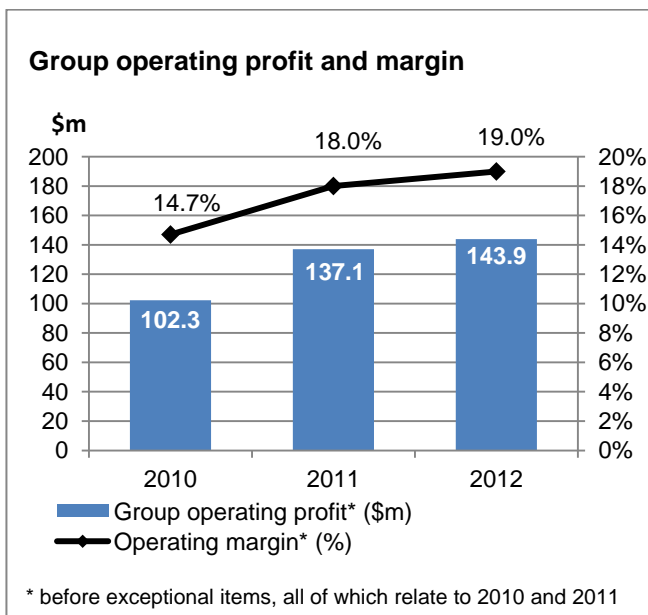
As we embark on a new financial year we have excellent momentum. What's more, I believe we are only now beginning to see the full earnings and cash generating ability of the businesses.

We will continue to provide value for our customers, which will deliver results for you our shareholders. We have established goals and plans to make 2013 another exceptional year for our Company. We continue to be positive about the future at Elementis and our ability to continue to make progress in this outstanding company for our stakeholders. In closing, we would like to sincerely thank our shareholders and customers for their continued confidence and support.

David Dutro
Group Chief Executive

26 February 2013

* before exceptional items



Business commentaries

Revenue

	Revenue 2011 \$million	Effect of exchange rates \$million	Increase/ (decrease) 2012 \$million	Revenue 2012 \$million
Specialty Products	449.9	(9.6)	18.4	458.7
Chromium	231.0	-	9.1	240.1
Surfactants	94.3	(6.4)	(15.4)	72.5
Inter-segment	(14.7)	-	0.4	(14.3)
	760.5	(16.0)	12.5	757.0

Operating profit

	Operating profit 2011* \$million	Effect of exchange rates \$million	Increase/ (decrease) 2012 \$million	Operating profit 2012 \$million
Specialty Products	89.7	(2.9)	3.3	90.1
Chromium	56.1	-	6.7	62.8
Surfactants	5.4	(0.4)	(0.2)	4.8
Central costs	(14.1)	0.3	-	(13.8)
	137.1	(3.0)	9.8	143.9

* before exceptional items

Elementis Specialty Products

Elementis Specialty Products is a leading manufacturer of rheology control additives that are used to enhance the performance of our customers' products. It is the global leader in organoclay technology, with a unique position in hectorite clay, owning the only rheology grade hectorite mine in the world. Best in class technical support and customer service are critical core competencies of the business and provide the platform to deliver added value in the coatings, oilfield drilling and personal care markets. The strategy of the business is to grow in high value rheology products and complementary additives through new product innovation, expansion into new geographies and bolt on acquisitions. In coatings, the largest of its markets, Elementis has a unique global position, providing technical service and a broad product offering to both multinational and regional coatings companies. The rheology solutions of Elementis are critical to the performance of our coating customers' products. In personal care, Elementis is a significant player in additives for cosmetic products based on its expertise in hectorite rheology and other complementary technologies. In oilfield drilling, Elementis is the preferred supplier to oil service companies for high performance rheological additives used in oil and gas drilling. Its unique technologies and strong alignment with key industry players have allowed the business to benefit from the recent increase in drilling activity for shale gas in North America, as well as the continuing global trend of exploiting oil and gas reserves in more extreme environments, both of which require greater and more sophisticated rheological solutions.

Sales in Specialty Products for 2012 were \$458.7 million compared to \$449.9 million in the previous year, an increase of 2 per cent, or 4 per cent on a constant currency basis. The increase was primarily due to higher sales volumes as the business experienced good growth in most of its key markets and geographies.

In the coatings market, additives sales in North America increased by 7 per cent as the business continued to benefit from market share gains and new product launches. A particular feature was the growth in decorative paints where several new NiSAT products were launched and a new US plant producing these products began production in early 2013. Marine and ink coatings applications also showed robust growth, while a slowdown in some construction markets impacted sales in the second half of the year, such that first half sales were 14 per cent ahead of the same period last year, while second half sales were similar to the previous year.

In Europe, sales increased by 2 per cent after adjusting for currency movements due to market share gains in a number of end applications, including wood coatings and construction. Year on year constant currency sales were 3 per cent lower in the first six months of the year and 8 per cent higher than the previous year in the second half.

In Asia Pacific, coatings sales have continued to show good growth as a result of our strong presence in China and our ability to leverage a differentiated customer offering and technical service into other high growth markets, such as India. Comparisons with the previous year are somewhat impacted by a portfolio optimisation strategy, implemented during the first half of 2011 to improve margins. This strategy offset the underlying growth that the business was experiencing, such that first half sales in 2012 were 1 per cent higher than the same period last year. However, this programme did not impact the second half and sales in that period were 15 per cent higher than the previous year. For the year as a whole, coatings sales in Asia Pacific increased by 7 per cent.

In Latin America, coatings sales benefited from the acquisition of Watercryn in Brazil, which completed on 30 September 2012. The acquisition added \$2.5 million to sales in the fourth quarter of 2012 and contributed to the full year regional sales increase of 17 per cent.

In oilfield drilling, there is a strong underlying demand for rheology additives in North American shale drilling as well as drilling for oil and gas in extreme environments, such as deep water and high temperature and pressure. However, customer inventory adjustments in the North American market during the second half of the year had a significant impact on sales in that period. As a result, the strong sales growth seen throughout 2011 and into the first half of 2012, with sales 28 per cent ahead of the previous year, were offset in the second half of the year, such that overall sales for the year were 6 per cent lower than the previous year.

In personal care, sales for the year were 8 per cent higher than the previous year, or 13 per cent on a constant currency basis, as the business continued to experience good demand for rheology additives, particularly for applications such as aerosol antiperspirants and colour cosmetics. Organisational changes in the business during the year provided greater focus and helped drive higher growth in the second half, where sales grew by 18 per cent excluding currency, compared to 9 per cent in the first half.

Operating profit* in 2012 was \$90.1 million compared to \$89.7 million in the previous year, which is an increase of 4 per cent excluding currency movements. Operating margin* remained resilient, at just under 20 per cent, despite changes in the sales mix, while raw material inflation was less evident due to the diverse nature of the materials utilised by the business. Selective price increases during the year had a positive impact on operating profit and fixed costs increased by 6 per cent, partly to support a number of growth investments made during the year.

* before exceptional items, all of which relate to 2011

Elementis Chromium

Elementis Chromium is one of the world's largest suppliers of chrome chemicals, which are used in a variety of end markets, including metal alloys, metal finishing, leather tanning and timber treatment. Elementis Chromium's strategy is to focus on its existing production capacity and seeks to produce stable earnings and cash flow by serving higher value markets, leveraging its skills in operational excellence and by utilising its flexible manufacturing base to adjust to changes in demand. As the only global producer with its manufacturing base located in the US, Elementis Chromium is uniquely positioned to serve this market with value added products, offering just in time service via custom designed delivery systems.

Chromium sales in 2012 were \$240.1 million compared to \$231.0 million in 2011, an increase of 4 per cent. Currency had no material impact on year on year sales. Sales volumes were 1 per cent higher than the previous year, as the business operated at high rates of capacity and adjusted its production mix to optimise output in response to changes in global demand patterns. Sales volumes in the first half of the year were 2 per cent ahead of the previous year, while second half volumes were similar to the previous year. In North America, which accounted for 58 per cent of sales in 2012

(2011: 57 per cent), sales volumes were 5 per cent higher than the previous year, as higher sales of chromic acid used in timber treatment offset lower sales of chrome sulphate for leather tanning applications. The demand in timber treatment was driven by a continuing preference by consumers for chrome based products over more expensive petrochemical based alternatives, while the softer demand in leather tanning applications was a result of lower herd sizes in North America following recent drought conditions.

In Europe, sales volumes were significantly higher than the previous year, growing by 29 per cent, as solid growth in the global chrome metal market for aerospace applications created opportunities to sell high quality chrome oxide to key manufacturers, a number of whom are based in Europe.

In Asia Pacific, sales volumes were 18 per cent lower than the previous year as strong sales of chromic acid for auto applications in China were more than offset by lower sales in Japan caused by the merger of two major customers. Average selling prices increased by 3 per cent in response to higher raw material prices.

Operating profit improved by 12 per cent versus the previous year to \$62.8 million and operating margin increased to 26.2 per cent from 24.3 per cent. Lower energy costs contributed \$7.4 million to the operating profit improvement and were largely a result of the conversion of Castle Hayne to natural gas during the first quarter of 2011, as well as lower average gas prices compared to the previous year. This, combined with higher average selling prices, more than compensated for higher raw material costs experienced in the year, while fixed costs remained firmly under control.

Elementis Surfactants

Elementis Surfactants is a specialty surfactant manufacturer offering innovative products to markets, such as oilfield chemicals, textile and leather, construction and household products, which it produces at its facility in the Netherlands. Its strategy is to focus on higher margin markets and transition its manufacturing facility over time to produce more high value additives for the Specialty Products business, which currently shares the facility. At the same time, the business seeks to improve margins through superior customer service and by continually enhancing the productivity of its manufacturing operations.

Sales in Surfactants for 2012 were \$72.5 million compared to \$94.3 million in the previous year, a decrease of 23 per cent, or 18 per cent on a constant currency basis. The majority of sales in this business are denominated in euros. In line with the business's strategy to produce more additives for Specialty Products, sales volumes in Surfactants declined by 21 per cent compared to the previous year. This was exacerbated by the economic downturn in Europe, with approximately 80 per cent of sales in Surfactants going into this region. During this transition, the business continues to improve the sales portfolio by increasing the proportion of higher value products and this was evident in the 2012 sales mix. Average selling prices improved by 3 per cent in response to increases in raw material costs.

Operating profit* in 2012 was \$4.8 million compared to \$5.4 million in the previous year. Operating profit was lower due to the planned reduction in sales volumes, however, operating margin* improved to 6.6 per cent, compared to 5.7 per cent in the previous year. Improved selling prices largely compensated for increases in raw material costs and the increase in operating margin was a result of portfolio optimisation and positive cost control.

* before exceptional items, all of which relate to 2011

Finance report

Revenue \$million	2012	2011
Specialty Products	458.7	449.9
Chromium	240.1	231.0
Surfactants	72.5	94.3
Inter-segment	(14.3)	(14.7)
	757.0	760.5

Group results

Group sales in 2012 were \$757.0 million compared to \$760.5 million in the previous year, an increase of 2 per cent excluding currency movements. Sales in both Specialty Products and Chromium increased over the previous year, while sales in Surfactants declined, in line with that business's strategy. Overall sales volumes for the Group were higher than the previous year, largely due to growth in Specialty Products, and pricing also improved, compensating for increases in raw material costs.

Group operating profit* increased by 5 per cent to \$143.9 million, an increase of 7 per cent on a constant currency basis. Operating margin* improved to 19.0 per cent, compared to 18.0 per cent in the previous year, as each business continued to focus on sustainable higher margin and differentiated business opportunities, and maintained a strict operating discipline. The Group also benefited from lower energy costs in the year as a result of structural changes in Chromium operations and generally lower gas prices in North America.

* before exceptional items, all of which relate to 2011

Currency hedging

Although a large proportion of the Group's business is transacted in US dollars, the Group also transacts in other currencies, in particular euros and pounds sterling. In order to reduce earnings volatility from these currency exposures, the Group takes out cash flow hedges in these currencies each year. In 2012 a credit of \$1.2 million (2011: \$0.3 million cost) resulted from these hedge transactions and was reported in the Specialty Products results.

Operating profit \$million	Operating profit	Exceptional items	2012 Adjusted operating profit	Operating profit	Exceptional items	2011 Adjusted operating profit
Specialty Products	90.1	-	90.1	87.9	1.8	89.7
Chromium	62.8	-	62.8	56.1	-	56.1
Surfactants	4.8	-	4.8	0.2	5.2	5.4
Central costs	(13.8)	-	(13.8)	20.4	(34.5)	(14.1)
	143.9	-	143.9	164.6	(27.5)	137.1

Central costs

Central costs are costs that are not identifiable as expenses of a particular business and comprise expenditures of the Board of directors and the corporate office. In 2012 central costs were \$0.3 million lower than the previous year, before exceptional items, at \$13.8 million. The decrease was largely due to foreign currency movements.

Exceptional items

There were no exceptional items in 2012.

Two items were recorded in 2011 under "Exceptional items". The first item was in relation to the recovery of \$34.5 million from the European Commission as first reported in the 2011 interim results announcement. The recovery of these funds came about after the Commission repealed its decision

of November 2009 to impose fines on Elementis. The second item was a provision of \$7.0 million relating to the Group's pension arrangements in the Netherlands.

Net finance costs

	2012 \$million	2011 \$million
Finance income	0.8	0.7
Finance cost of borrowings	(3.4)	(4.0)
	(2.6)	(3.3)
Net pension finance income	1.2	1.9
Discount on provisions	(1.3)	(1.2)
	(2.7)	(2.6)

Net finance costs increased by \$0.1 million in 2012 to \$2.7 million, largely due to a reduction in the net pension credit on the Group's pension deficits under IAS 19. Net interest costs on borrowings and deposits were \$2.6 million compared to \$3.3 million in the previous year. A significant part of the finance cost of borrowings is fixed in nature and relates to arrangement and commitment fees on the Group's borrowing facilities. The discount on provisions of \$1.3 million (2011: \$1.2 million) relates to environmental provisions, which are evaluated on a discounted basis and hence the cost of the discount is recognised each year as an interest charge.

Taxation

	2012 Effective rate per cent	2011 Effective Rate per cent
	\$million	\$million
Tax charge		
Before exceptional items	34.1	39.7
Exceptional items	-	(1.8)
Total	34.1	37.9

The tax charge of \$34.1 million (2011: \$39.7 million) represents an effective tax rate of 24.2 per cent (2011: 29.5 per cent) with the decrease in tax rate resulting from structural changes within the Group's financing arrangements, as well as certain credits for the cost of share options. Set against these credits is an increase in deferred taxation due to the changes in the UK tax rate resulting in a reduction in the amount of the deferred tax asset as well increases in overseas taxes.

Earnings per share

Note 7 on page 23 sets out a number of calculations of earnings per share. To better understand the underlying performance of the Group, earnings per share reported under IFRS is adjusted for items classified as exceptional.

Diluted earnings per share* was 23.3 cents compared to 20.8 cents in the previous year, with the improvement mainly due to an increase in operating profit* of \$6.8 million and a reduction in the Group tax rate from 29.5 per cent to 24.2 per cent.

Basic earnings per share including exceptional items (all of which relate to 2011) was 23.7 cents compared to 27.8 cents in 2011. The 2011 result benefited from a one-time recovery of funds from the EU Commission of \$34.5 million.

* before exceptional items, all of which relate to 2011

Distribution to shareholders

During 2012 the Group paid a final dividend in respect of the year ended 31 December 2011 of 4.66 cents per share (2011: 2.60 cents). An interim dividend of 2.45 cents per share (2011: 2.34 cents) was paid on 5 October 2012 and the Board is recommending a final dividend of 5.32 cents per share (2011: 4.66 cents) and a special dividend of 4.79 cents per share, both of which will be paid on 31 May 2013.

Cash flow

The cash flow is summarised below:

	2012	2011
	\$million	\$million
EBITDA ¹	165.2	157.0
Change in working capital	(12.9)	(9.3)
Capital expenditure	(37.4)	(20.8)
Other	2.3	(0.6)
Operating cash flow	117.2	126.3
Pension deficit payments	(27.9)	(22.0)
Interest and tax	(15.7)	(11.3)
Exceptional items	(3.7)	31.8
Other	3.1	1.7
Free cash flow	73.0	126.5
Dividends paid	(32.2)	(21.9)
Acquisitions and disposals	(24.0)	-
Currency fluctuations	1.0	0.9
Movement in net cash	17.8	105.5
Net cash/(borrowings) at start of year	26.2	(79.3)
Net cash at end of year	44.0	26.2

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

The Group delivered a positive cash flow performance in 2012 and, as a result, increased net cash on the balance sheet from \$26.2 million at the end of 2011 to \$44.0 million at the end of 2012. Contributing to operating cash flow in the year, EBITDA increased from \$157.0 million to \$165.2 million consistent with the improvement in operating profit. Cash flow relating to working capital was an outflow of \$12.9 million compared to an outflow of \$9.3 million in 2011. The increase was largely due to additional spending of \$13.3 million to increase the strategic level of chrome ore inventories held by the Chromium business, in order to mitigate supply chain risks. This was offset by other structural improvements in working capital, as part of the Group's programme to continuously improve working capital efficiency. Capital expenditure in 2012 increased by \$16.6 million to \$37.4 million as the Group continued to invest in the growth of the Specialty Products. In Specialty Products, spending on the new technical centre in the US, the new plant to produce innovative products for decorative coatings and the plant expansion to serve the oilfield drilling sector accounted for almost \$15 million of the Group capital spend in 2012, while capital spending on plant maintenance across the Group was approximately \$15 million (2011: \$13 million). Pension deficit payments in 2012 were \$27.9 million, compared to \$22.0 million in the previous year, and mostly relate to payments to the UK plan which is discussed further below. Interest and tax payments in 2012 were \$15.7 million (2011: \$11.3 million) and the increase relates mostly to higher tax payments associated with a higher level of profits in 2012. Dividends paid are in line with distributions described in the previous paragraph and acquisition spending of \$24.0 million in 2012 relates to the acquisition of Watercryl in Brazil by Specialty Products.

Balance sheet

	2012	2011
	\$million	\$million
Intangible fixed assets	342.6	335.1
Other net assets	94.0	87.9
Net cash	44.0	26.2
	480.6	449.2
Equity	480.6	449.2

Group equity increased by \$31.4 million in 2012 (2011: \$69.5 million). Capital expenditure and the recognition of plant acquired with Watercryl led to an increase in property, plant and equipment of \$33.4m (2011: \$0.7 million) and working capital increased by \$17.0 million (2011: \$11.8 million), much of which related to the increase in strategic stocks of chrome ore. Offsetting these increases, the retirement benefit obligation increased by \$41.2 million (2011: increase of \$27.4 million) driven mainly by actuarial losses following a decline in corporate bond yields. Net cash increased by

\$17.8 million (2011: \$105.5 million) as the Group continues to be cash generative after its operating, investment and financing activities.

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

	2012		2011	
	Year end	Average	Year end	Average
Pounds sterling	0.62	0.63	0.64	0.62
Euro	0.76	0.78	0.77	0.71

Provisions

A provision is recognised in the balance sheet when the Group has a present obligation as a result of past events, which is expected to result in an outflow of economic benefits in order to settle the obligation. At the end of 2012 the Group held provisions of \$40.5 million (2011: \$43.6 million), of which \$37.6 million (2011: \$41.3 million) relates to environmental matters, including the closure of the Eaglescliffe facility in the UK. The Group's environmental provision has been calculated using a methodology consistent with previous years. Approximately \$25.2 million relates to sites maintained by the Group (2011: \$28.8 million) with the remainder relating to sites no longer under Group control. \$3.7 million was spent on the Eaglescliffe closure programme in 2012 with an anticipated spend in 2013 of approximately \$2.5 million.

Pensions and other post retirement benefits

	2012 \$million	2011 \$million
Net liabilities:		
UK	72.9	35.0
US	51.3	49.6
Other	11.8	10.2
	136.0	94.8

UK plan

The largest of the Group's retirement plans is the UK defined benefit pension scheme ("UK Scheme") which had a deficit under IAS 19 of \$72.9 million at the end of 2012, compared to \$35.0 million at the end of 2011. The UK Scheme is relatively mature, with approximately 66 per cent (2011: 66 per cent) of its gross liabilities represented by pensions in payment, and was closed to new members during 2012.

Funding

The most recent triennial valuation was completed as of 30 September 2011 and resulted in an agreed deficit with the trustees of the UK Scheme, for funding purposes, of £91.1 million. The deficit at the previous triennial valuation (30 September 2008) was £101.7 million. A new funding plan was agreed with the trustees in 2012 which includes a fixed payment schedule plus two contingent payments linked to dividends paid to shareholders in each of 2012 and 2013. Based on dividends paid in 2012, the first contingent payment of £2.9 million was made to the fund in 2012. A second payment will be made in the first half of 2014 based on dividends paid in 2013. For example, based on the ordinary and special dividends announced on 26 February 2013 and assuming that the interim dividend in 2013 is the same as 2012 (2.45 cents per share), the second contingent payment would be approximately £8.2 million. The overall payment schedule is designed to eliminate the funding deficit by the end of 2018 and, using the above example, the combined fixed and contingent payments are likely to be as follows:

Year payable	Amount (£ million)
2012	12.9
2013	14.5
2014	23.8
2015	14.9
2016	10.9
2017	9.7
2018	7.4

IAS 19 valuation

In 2012 the UK Scheme deficit, under IAS 19, increased to \$72.9 million (2011: \$35.0 million) as a result of an increase in scheme assets of \$47.6 million (2011: \$29.0 million), offset by an increase in scheme liabilities of \$85.5 million (2011: increase of \$35.1 million). The scheme assets increased due to a 5 per cent return on investments for the year (2011: 9 per cent), contributions from the Company of \$21.1 million (2011: \$16.3 million), less benefit payments of \$40.2 million (2011: \$40.0 million). Currency movements also increased the asset value by \$31.6 million (2011: reduced by \$3.9 million). The scheme liabilities increased due to actuarial losses of \$57.5 million (2011: \$41.9 million), mainly due to a decline in real corporate bond yields of approximately 30 basis points (2011: 30 basis points), finance costs of \$33.2 million (2011: \$36.5 million) and currency movements of \$34.1 million (2011: decreased by \$4.2 million), which were offset by benefit payments as described above.

Investment strategy

With the support of the Company, the trustees are operating an investment strategy that broadly includes 50 per cent of the assets being invested in a “liability matching fund” and 50 per cent in an “investment fund”. The liability matching fund consists of bonds, gilts and liquid assets, plus a portfolio of interest and inflation swaps constructed in such a way as to match the interest and inflation risks inherent in a similar percentage of the scheme liabilities. The purpose of this fund is to finance a portion of the liabilities without creating significant volatility in the reported deficit. The investment fund, on the other hand, consists of a portfolio of “return seeking” assets, largely equity based, with the aim of funding part of the liabilities by generating higher returns with an acceptable level of risk, while also contributing to reducing the deficit over time.

US plans

The US liabilities in 2012 comprised a defined benefit pension plan, with a deficit value of \$42.8 million (2011: \$41.4 million), and a post-retirement medical plan with a value of \$8.5 million (2011: \$8.2 million). The US pension plan is smaller than the UK Scheme and is closed to future accruals. The deficit in the plan increased by \$1.4 million (2011: \$15.2 million) during the year, due to an increase in the scheme assets of \$10.5 million (2011: decrease of \$2.8 million) and an increase in the scheme liabilities of \$11.9 million (2011: \$12.4 million). The scheme assets were 73 per cent (2011: 74 per cent) invested in equities and generated a return of 13 per cent in the year (2011: minus one per cent), which was the main contributor to the increase in value. The scheme liabilities increased mainly due to a fall in real corporate bond yields during the year of approximately 60 basis points (2011: 100 basis points).

Other plans

In the Netherlands, the Group operates an insured defined benefits plan as is customary in that country. At the end of 2012 the deficit value for this plan was \$8.5 million, compared to \$7.5 million in the previous year and the increase was mostly due to a fall in real corporate bond yields of 125 basis points. In 2005 a number of changes were made to the benefits provided by the plan, as well as other non-pension benefits, as part of a negotiation with labour unions. In 2009 a group of pensioners challenged the benefit changes in court, on the basis that they should not be applied to them, and in 2010 the court ruled in favour of Elementis. The pensioner group challenged the court’s decision in an appellate court and in 2011 the appellate court overturned the original decision. Elementis has appealed that court’s decision to the Supreme Court of the Netherlands, which is expected to review the case sometime in 2013. The majority of the deficit value in 2012 relates to this case.

Other liabilities amounted to \$3.3 million (2011: \$2.7 million) and relate to pension arrangements for a relatively small number of employees in Germany.

Amendments to IAS 19 impacting reporting from 2013 onwards

Amendments to IAS 19 Employee Benefits make substantial changes to the recognition, measurement and disclosure of retirement benefit obligations. The most significant change is that the expected return on plan assets, currently calculated using management's estimate of the return on the appropriate assets, will be replaced by a figure calculated by applying the liability discount rate to the pension plan assets. The Group estimates that had the revised standard been applied in the 2012 financial year the profit before tax figure would have been lower by \$7.8m, or 1.5 cents per share. The impact in 2013 is likely to be of a similar amount.

**Consolidated income statement
for the year ended 31 December 2012**

	Note	Before exceptional items \$million	Exceptional items (note 5) \$million	2012 After exceptional items \$million	Before exceptional items \$million	Exceptional items (note 5) \$million	2011 After exceptional Items \$million
Revenue		757.0	-	757.0	760.5	-	760.5
Cost of sales		(465.6)	-	(465.6)	(473.6)	-	(473.6)
Gross profit		291.4	-	291.4	286.9	-	286.9
Distribution costs		(80.6)	-	(80.6)	(82.7)	-	(82.7)
Administrative expenses		(66.9)	-	(66.9)	(67.1)	27.5	(39.6)
Operating profit		143.9	-	143.9	137.1	27.5	164.6
Finance income	3	2.0	-	2.0	2.6	-	2.6
Finance costs	4	(4.7)	-	(4.7)	(5.2)	-	(5.2)
Profit before income tax		141.2	-	141.2	134.5	27.5	162.0
Tax	6	(34.1)	-	(34.1)	(39.7)	1.8	(37.9)
Profit for the year		107.1	-	107.1	94.8	29.3	124.1
Attributable to:							
Equity holders of the parent		107.1	-	107.1	94.8	29.3	124.1
Non-controlling interests		-	-	-	-	-	-
		107.1	-	107.1	94.8	29.3	124.1
Earnings per share							
Basic (cents)	7			23.7			27.8
Diluted (cents)	7			23.3			27.2

**Consolidated statement of comprehensive income
for the year ended 31 December 2012**

	2012 \$million	2011 \$million
Profit for the year	107.1	124.1
Other comprehensive income:		
Exchange differences on translation of foreign operations	1.4	1.3
Actuarial loss on pension and other post-retirement schemes	(67.3)	(44.7)
Effective portion of changes in fair value of cash flow hedges	(0.5)	(0.8)
Fair value of cash flow hedges transferred to income statement	0.8	(0.9)
Deferred tax associated with pension and other post-retirement schemes	5.1	8.1
Other comprehensive income	(60.5)	(37.0)
Total comprehensive income for the year	46.6	87.1
Attributable to:		
Equity holders of the parent	46.6	87.1
Non-controlling interests	-	-
Total comprehensive income for the year	46.6	87.1

Consolidated balance sheet at 31 December 2012

	2012 31 December \$million	2011 31 December \$million
Non-current assets		
Goodwill and other intangible assets	342.6	335.1
Property, plant and equipment	197.2	163.8
Deferred tax assets	12.4	7.4
Total non-current assets	552.2	506.3
Current assets		
Inventories	128.8	119.8
Trade and other receivables	119.1	99.1
Derivatives	-	0.8
Cash and cash equivalents	63.1	48.2
Total current assets	311.0	267.9
Total assets	863.2	774.2
Current liabilities		
Bank overdrafts and loans	(5.6)	(6.2)
Trade and other payables	(100.3)	(88.3)
Derivatives	(0.4)	(1.0)
Current tax liabilities	(8.7)	(4.6)
Provisions	(6.6)	(7.9)
Total current liabilities	(121.6)	(108.0)
Non-current liabilities		
Loans and borrowings	(13.5)	(15.8)
Derivatives	-	(0.4)
Retirement benefit obligations	(136.0)	(94.8)
Deferred tax liabilities	(75.4)	(67.7)
Provisions	(33.9)	(35.7)
Government grants	(0.6)	(1.0)
Total non-current liabilities	(259.4)	(215.4)
Total liabilities	(381.0)	(323.4)
Net assets	482.2	450.8
Equity		
Share capital	43.7	43.4
Share premium	14.7	12.7
Other reserves	130.3	125.8
Retained earnings	291.9	267.3
Total equity attributable to equity holders of the parent	480.6	449.2
Non-controlling interests	1.6	1.6
Total equity	482.2	450.8

Consolidated statement of changes in equity

	Share Capital	Share premium	Transla- tion reserve	Hedging reserve	Other reserves	Retained earnings	Total	Non- controll- ing interest	Total Equity
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Balance at 1 January 2011	43.2	11.6	(30.3)	(6.1)	163.1	198.2	379.7	1.6	381.3
Comprehensive income									
Profit for the year	-	-	-	-	-	124.1	124.1	-	124.1
Other comprehensive income									
Exchange differences	-	-	1.3	-	-	-	1.3	-	1.3
Fair value of cash flow hedges transferred to the income statement	-	-	-	(0.9)	-	-	(0.9)	-	(0.9)
Effective portion of changes in fair value of cashflow hedges	-	-	-	(0.8)	-	-	(0.8)	-	(0.8)
Actuarial loss on pension scheme	-	-	-	-	-	(44.7)	(44.7)	-	(44.7)
Tax credit on actuarial loss on pension scheme	-	-	-	-	-	8.1	8.1	-	8.1
Transfer	-	-	-	-	(3.1)	3.1	-	-	-
Total other comprehensive income	-	-	1.3	(1.7)	(3.1)	(33.5)	(37.0)	-	(37.0)
Total comprehensive income	-	-	1.3	(1.7)	(3.1)	90.6	87.1	-	87.1
Transactions with owners									
Purchase of shares by the ESOT	-	-	-	-	-	(2.2)	(2.2)	-	(2.2)
Issue of shares by the Company and the ESOT	0.2	1.1	-	-	-	2.6	3.9	-	3.9
Share based payments	-	-	-	-	2.6	-	2.6	-	2.6
Dividends paid	-	-	-	-	-	(21.9)	(21.9)	-	(21.9)
Total transactions with owners	0.2	1.1	-	-	2.6	(21.5)	(17.6)	-	(17.6)
Balance at 31 December 2011	43.4	12.7	(29.0)	(7.8)	162.6	267.3	449.2	1.6	450.8
Balance at 1 January 2012	43.4	12.7	(29.0)	(7.8)	162.6	267.3	449.2	1.6	450.8
Comprehensive income									
Profit for the year	-	-	-	-	-	107.1	107.1	-	107.1
Other comprehensive income									
Exchange differences	-	-	1.4	-	-	-	1.4	-	1.4
Fair value of cash flow hedges transferred to the income statement	-	-	-	0.8	-	-	0.8	-	0.8
Effective portion of changes in fair value of cashflow hedges	-	-	-	(0.5)	-	-	(0.5)	-	(0.5)
Actuarial loss on pension scheme	-	-	-	-	-	(67.3)	(67.3)	-	(67.3)
Tax credit on actuarial loss on pension scheme	-	-	-	-	-	5.1	5.1	-	5.1
Transfer	-	-	-	-	(0.8)	0.8	-	-	-
Total other comprehensive income	-	-	1.4	0.3	(0.8)	(61.4)	(60.5)	-	(60.5)
Total comprehensive income	-	-	1.4	0.3	(0.8)	45.7	46.6	-	46.6
Transactions with owners									
Issue of shares by the Company and the ESOT	0.3	2.0	-	-	-	0.5	2.8	-	2.8
Share based payments	-	-	-	-	3.6	-	3.6	-	3.6
Deferred tax on share based payments recognised within equity	-	-	-	-	-	10.6	10.6	-	10.6
Dividends paid	-	-	-	-	-	(32.2)	(32.2)	-	(32.2)
Total transactions with owners	0.3	2.0	-	-	3.6	(21.1)	(15.2)	-	(15.2)
Balance at 31 December 2012	43.7	14.7	(27.6)	(7.5)	165.4	291.9	480.6	1.6	482.2

Consolidated cash flow statement for the year ended 31 December 2012

	2012 \$million	2011 \$million
Operating activities:		
Profit for the year	107.1	124.1
Adjustments for:		
Finance income	(2.0)	(2.6)
Finance costs	4.7	5.1
Tax charge	34.1	37.9
Depreciation and amortisation	21.3	19.9
Decrease in provisions	(1.9)	(3.2)
Pension contributions net of current service cost	(27.9)	(22.0)
Share based payments	4.2	2.6
Exceptional items	-	(27.5)
Cash flow in respect of exceptional items	(3.7)	31.8
Operating cash flow before movement in working capital	135.9	166.1
Increase in inventories	(6.1)	(17.8)
(Increase)/decrease in trade and other receivables	(16.2)	12.8
Increase/(decrease) in trade and other payables	9.4	(4.2)
Cash generated by operations	123.0	156.9
Income taxes paid	(13.1)	(8.0)
Interest paid	(3.6)	(4.2)
Net cash flow from operating activities	106.3	144.7
Investing activities:		
Interest received	1.1	0.9
Disposal of property, plant and equipment	1.5	2.1
Purchase of property, plant and equipment	(38.3)	(22.5)
Purchase of business	(24.0)	-
Acquisition of intangible assets	(0.7)	(0.4)
Net cash flow from investing activities	(60.4)	(19.9)
Financing activities:		
Issue of shares by the Company and the ESOT	2.8	3.9
Dividends paid	(32.2)	(21.9)
Receipt of unclaimed dividends	0.3	-
Purchase of shares by the ESOT	-	(2.2)
Decrease in borrowings	(3.3)	(97.9)
Net cash used in financing activities	(32.4)	(118.1)
Net increase in cash and cash equivalents	13.5	6.7
Cash and cash equivalents at 1 January	48.2	40.8
Foreign exchange on cash and cash equivalents	1.4	0.7
Cash and cash equivalents at 31 December	63.1	48.2

Notes to the financial statements

1 Preparation of the preliminary announcement

The financial information in this statement does not constitute the Company's statutory accounts for the years ended 31 December 2012 or 2011 but is derived from those accounts. Statutory accounts for 2011 have been delivered to the Registrar of Companies, and those for 2012 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

This preliminary announcement was approved by the Board of Directors on 26 February 2013.

2 Basis of preparation

Elementis plc (the "Company") is incorporated in the UK. The information within this document has been prepared under International Financial Reporting Standards as adopted by the EU (adopted IFRS).

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

The Group and Company financial statements have been prepared on the going concern basis, as the directors are satisfied that the Group and Company have adequate resources to continue to operate for the foreseeable future as going concerns. An explanation of the directors' assessment of using the going concern basis is given in the Directors' report in the Annual Report and Accounts 2012 which will be made available to shareholders on 21 March 2013.

Reporting currency

As a consequence of the majority of the Group's sales and earnings originating in US dollars or US dollar linked currencies, the Group has chosen the US dollar as its reporting currency. This aligns the Group's external reporting with the profile of the Group, as well as with internal management reporting.

3 Finance income

	2012 \$million	2011 \$million
Interest on bank deposits	0.8	0.7
Expected return on pension scheme assets	43.0	47.7
Interest on pension scheme liabilities	(41.8)	(45.8)
Pension and other post-retirement liabilities	1.2	1.9
	2.0	2.6

4 Finance costs

	2012 \$million	2011 \$million
Interest on bank loans	3.4	4.0
Unwind of discount on provisions	1.3	1.2
	4.7	5.2

5 Exceptional items

	2012 \$million	2011 \$million
Refund of EU Commission fine	-	34.5
Curtailment losses on pension schemes	-	(7.0)
	-	27.5
Deferred tax asset	-	1.8
	-	29.3

The Group has continued its separate presentation of certain items as exceptional. These are items which, in management's judgement, need to be disclosed separately by virtue of their size or incidence in order for the reader to obtain a proper understanding of the financial information.

There were no exceptional items in 2012.

In 2011 following a repeal of the earlier decision, the European Commission repaid a total of \$34.5 million to the Group in respect of fines imposed in 2009, plus associated interest. A charge of \$7.0 million was booked in respect of curtailment losses in respect of the Dutch pension scheme, along with an associated deferred tax credit of \$1.8 million.

6 Income tax expense

	2012 \$million	2011 \$million
Current tax:		
Overseas corporation tax	15.6	9.8
Adjustments in respect of prior years:		
United Kingdom	-	-
Overseas	(1.1)	0.5
Total current tax	14.5	10.3
Deferred tax:		
United Kingdom	3.7	2.1
Adjustments in respect of prior year	-	(1.8)
Overseas	15.1	27.7
Adjustments in respect of prior years	0.8	(0.4)
Total deferred tax	19.6	27.6
Income tax expense for the year	34.1	37.9
Comprising:		
Before exceptional items	34.1	39.7
Exceptional items*	-	(1.8)
	34.1	37.9

* see Note 5

The tax charge on profit represents an effective tax rate on profit before exceptional items for the year ended 31 December 2012 of 24.2 per cent (2011: 29.5 per cent). As a Group involved in overseas operations, the amount of profitability in each jurisdiction, transfer pricing legislation and local tax rate changes will affect future tax charges.

The total charge for the year can be reconciled to the accounting profit as follows:

	2012 \$million	2012 per cent	2011 \$million	2011 per cent
Profit before tax	141.2	-	162.0	-
Tax on ordinary activities at 24.5 per cent (2011: 26.5 per cent)*	34.6	24.5	42.9	26.5
Difference in overseas effective tax rates	14.3	10.1	10.4	6.4
Income not chargeable for tax purposes	(5.8)	(4.1)	(9.1)	(5.6)
Expenses not deductible for tax purposes	0.2	0.1	0.8	0.5
Tax losses and other deductions	(8.7)	(6.2)	(8.0)	(4.9)
Tax rate adjustments to deferred tax	1.8	1.3	1.7	1.0
Adjustments in respect of prior years	(0.3)	(0.1)	(0.8)	(0.5)
Share options tax credit	(2.0)	(1.4)	-	-
Tax charge and effective tax rate for the year	34.1	24.2	37.9	23.4

* tax rate reflects reduction in UK corporation tax rate from 26 per cent to 24 per cent with effect from April 2012

7 Earnings per share

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

	2012 \$million	2011 \$million
Earnings:		
Earnings for the purpose of basic earnings per share	107.1	124.1
Exceptional items net of tax	-	(29.3)
Adjusted earnings	107.1	94.8
	2012	2011
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	451.8	446.5
Effect of dilutive share options	8.6	9.9
Weighted average number of shares for the purposes of diluted earnings per share	460.4	456.4

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

	2012 cents	2011 cents
Earnings per share:		
Basic	23.7	27.8
Diluted	23.3	27.2
Basic before exceptional items	23.7	21.2
Diluted before exceptional items	23.3	20.8

8 Contingent liabilities

As is the case with other chemical companies, the Group occasionally receives notices of litigation relating to regulatory and legal matters. A provision is recognised when the Group believes it 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. Where it is deemed that an obligation is merely possible and that the probability of a material outflow is not remote, the Group would disclose a contingent liability.

As previously reported, Elementis LTP Inc. ("LTP") was named as a defendant in chromium-related litigation in the State of Missouri (the "Missouri Litigation"). The Missouri Litigation developed into the following types of cases: (1) a class action seeking medical monitoring damages for putative class members who live in a four county area; (2) approximately 15 cases involving over 180 individual plaintiffs alleging property and/or personal injury; and (3) a class action seeking property damages for an unspecified number of putative class members. Also as previously reported, (a) in December 2010, the Court entered its order of dismissal of the class action seeking damages for medical monitoring (described in clause (1) above), with no finding of liability or fault against LTP, (b) in December 2011, LTP secured summary judgement in its favour in an individual plaintiff case (described in clause (2) above), and (c) in January 2012, LTP secured summary judgement in its favour in the class action seeking property damages (described in clause (3) above).

The last of the individual plaintiff cases (described in clause (2) above) was dismissed in April 2012, with no finding of liability or fault against LTP. There have been no Missouri Litigation cases remaining outstanding against LTP since April 2012 and, accordingly, management has concluded that there is no longer, and has not been since that date, a contingent liability relating to the Missouri Litigation.

Annual Financial Report

In accordance with Disclosure and Transparency Rule 6.3.5, the following additional information is required to be made through a Regulatory Information Service ("RIS"): Principal risks and uncertainties; and Directors' responsibility statement. The information below, which is summarised and extracted from the 2012 Annual report and accounts that is to be published on 21 March 2013, is included solely for the purpose of complying with DTR 6.3.5(2) and the requirements it imposes on issuers on what material is to be communicated to the media in unedited full text through a RIS. A fuller description is set out in the 2012 Annual report and accounts.

Risk management leadership

The Board is ultimately responsible for the management of risk in the Group. It sets the tone for the Group's policies on risk, appetite for risk and levels of risk tolerance. However, the day to day management of risk is delegated to the executive directors and the management team who have specific responsibility for ensuring compliance with and implementing policies at corporate, divisional and business unit level. The Board retains an oversight role and has a schedule of matters specifically reserved to it for decision, with strict delegation of authority limits. The Board is supported by the Audit Committee, which is assisted by the internal and external auditors. The Audit Committee plays an important role monitoring our risk management and internal control system. In addition to these formal structures, the Board considers and reviews many different types of risks regularly in its annual programme of meetings.

Risk identification and review

Key identified risks, both financial and non-financial, are reviewed by the Board, which is supported by the work of the Audit Committee and the internal auditors, as well as by divisional management. A formal annual review of risks and controls is carried out by both the management team and the Board, and includes presentations from senior managers.

The management team, which comprises the executive directors, business presidents and functional business leaders, meets on a regular basis to review each division's and the Group's performance, strategy and risk management. Its work is supported by the internal audit programme which covers the monitoring of the effectiveness of internal controls and the design of processes to test the effectiveness of controls.

Principal risks and uncertainties

The following is a summary of the principal risks agreed by the Board: global economic conditions, competitive pressure in the marketplace and not meeting market expectations of Group earnings; growth opportunities and product innovation not materialising; disruption to raw materials and supply chain; major regulatory enforcement action/litigation and other claims from products and historical and ongoing operations; UK pension fund; regulation/technological advances; major event or catastrophe (eg IT failure or operations incident); and major disruption to global or regional banking systems, affecting liquidity and ability to access cash, make payments and fund operations. A full description of these risks and the mitigation actions taken by the Company will appear in the 2012 Annual report and accounts.

Related party transactions

The Company is a guarantor to the UK pension scheme under which it guarantees all current and future obligations of UK subsidiaries currently participating in the pension scheme to make payments to the scheme, up to a specified maximum amount. The maximum amount of the guarantee is that which is needed (at the time the guarantee is called on) to bring the scheme's funding level up to 105 per cent of its liabilities, calculated in accordance with section 179 of the Pensions Act 2004. This is also sometimes known as a Pension Protection Fund ("PPF") guarantee, as having such a guarantee in place reduces the annual PPF levy on the scheme.

Directors' responsibility statement

The following is an extract of the full statement prepared in connection with the Company's Annual Report and Accounts (comprising both consolidated and parent company accounts) for the year ended 31 December 2012. The full text of the Directors' responsibility statement will appear in the 2012 Annual report and accounts.

The Directors of the Company confirm that to the best of their knowledge:

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

ENDS