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ELEMENTIS

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**A Global Specialty Chemicals Company**  
Elementis plc Interim Report

2007

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**Elementis** is a global specialty chemicals company comprising four businesses. Each business: Specialty Products (the largest of the four divisions), Chromium, Pigments and Surfactants, holds a leading market position in its chosen sector. Elementis employs 1,700 people at over 20 sites worldwide and is listed on the UK London Stock Exchange.

### Elementis Specialty Products

Elementis Specialty Products is a leading manufacturer of rheology control additives, especially organoclay additives that are used to enhance the performance of our customers' products. The main products include rheology control agents for solvent and water based coatings applications, as well applications in the construction, oil drilling and personal care markets. These primary products are supported by a complete line of dispersing agents, defoamers, interfacial tension modifiers and colorant dispersions enabling Elementis Specialty Products to provide its customers with comprehensive solutions to their rheology requirements. Elementis Specialty Products is a global business with manufacturing sites in the US, UK, the Netherlands and China.

### 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, Liquid Chrome Sulphate 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.

### 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 Surfactants

Elementis Surfactants is a leading producer of surface active ingredients that are used in a broad range of applications including oilfield chemicals, pulp and paper and household products. Elementis Surfactants has its production facility in Delden, the Netherlands.

## Highlights

- Underlying sales up 5 per cent (adjusted for currency and exited plant capacity).
  - Good demand in most key markets.
- Operating profit up 26 per cent.
  - Speciality Products operating margin increased to 21 per cent (15 per cent in 2006).
  - Includes one-time energy rebate of £1.4 million in Chromium.
- Earnings per share 4.2 pence, up 31 per cent (22 per cent excluding energy rebate).
- Net debt reduced by £14.9 million since the end of 2006, to £85.7 million.
- Dividend increased to 1.3 pence (up 8 per cent).

## Financial summary

	2007	2006
Sales*	<b>£197.7m</b>	£210.9m
Operating profit*	<b>£22.8m</b>	£18.1m
Profit before tax*	<b>£19.6m</b>	£14.4m
Diluted earnings per share*	<b>4.2p</b>	3.2p
Dividend per share to shareholders	<b>1.3p</b>	1.2p

\* Including the results of the Pigments business, classified as discontinued.

## Contents

01 Highlights	10 Consolidated balance sheet
02 Chairman's statement	11 Consolidated cash flow statement
04 Business review	12 Notes to the interim financial statements
08 Consolidated income statement	18 Independent review report
09 Consolidated statement of recognised income and expense	19 Shareholder services
	20 Shareholder information

## Chairman's statement



I am pleased to report that Elementis has continued to make good progress by further improving operating performance and reducing debt through positive operating cash flow. In addition, the Group made an important strategic step in May this year when it announced that it had agreed to sell its global Pigments business to Rockwood Holdings for US\$140 million. This was the result of an unsolicited offer from Rockwood that the Board considered to be an appropriate value for the business, which has made good progress following the successful completion of its China manufacturing base. The transaction is subject to regulatory approvals, including a filing under the Hart-Scott-Rodino Act in the United States, and is expected to close before the end of 2007. Proceeds from the sale will initially be used to reduce net borrowings, but the Board is reviewing other potential uses and will provide an update before completion.

### Results

Operating profit increased by 26 per cent in the first half of 2007 to £22.8 million. Almost all of the increase was from the Specialty Products business where operating margins improved to 21 per cent in the current period versus 15 per cent in the first half of 2006. This is particularly pleasing as it demonstrates the inherent quality of this business, which is being restored through the efforts of David Dutro and his management team. Consistent with our strategy of reducing earnings volatility in the Chromium business, operating profit for the first half of 2007 was

£7.5 million compared to £6.0 million in the same period last year, with the current period benefiting from a one time energy rebate in the United States of £1.4 million. Operating profit for Pigments was in line with the previous year, while Surfactants started more slowly than expected but improved towards the end of the first half.

Revenue for the first half of 2007 was £197.7 million which, after adjusting for currency movements and the effect of closing part of the Chromium manufacturing facility in 2006, represents an increase of 5 per cent compared to the previous year. On the same basis, Specialty Products and Chromium showed good growth on increased volumes, while Pigments' sales were slightly lower than last year due to the recent slowdown in the US housing market. Surfactants' sales were similar to last year.

Diluted earnings per share was 4.2 pence for the first half of 2007, an increase of 31 per cent over the previous year, and the Group's net debt level has fallen by £14.9 million since the end of 2006 demonstrating the ability that our businesses have to convert operating profit into cash.

### Dividend

The Board is declaring an interim dividend of 1.3 pence per share compared with 1.2 pence at this time last year. The Board intends to progress dividend payments as earnings performance permits.

### The Board

At the Company's Annual General Meeting in April this year Edward Bramson announced his decision to step down from the Board. As I commented in my statement in April, we thank Edward for his excellent contribution to the Board and wish him success in his future endeavours.

### Environmental, health and safety

Our performance in this area has continued to be of a high standard, with only one employee incident recorded in the current period under review which required three days or more away from work. However the Group is not complacent in this important area of our business and will continue to strive for the highest standards.

### Current trading and outlook

Overall market dynamics have been positive for the Group in the first half of 2007 and we expect this trend to continue into the second half of the year. Our main priorities for the second half will be a continued focus on driving profitable growth in Specialty Products, stable progress in Chromium and the successful closing of the Pigments sale transaction.

### Robert Beeston

Chairman

31 July 2007

## Business review

### for the six months ended 30 June 2007

#### Revenue

	Revenue 2006 £million	Effect of exchange rates £million	Partial closure of UK Chromium £million	Increase/ (decrease) 2007 £million	Revenue 2007 £million
Specialty Products	76.8	(5.4)	-	2.8	74.2
Surfactants	24.7	(1.0)	-	0.8	24.5
Chromium	61.9	(5.2)	(7.0)	7.5	57.2
Inter-segment	(3.2)	-	-	0.3	(2.9)
Continuing operations	160.2	(11.6)	(7.0)	11.4	153.0
Pigments	50.7	(3.7)	-	(2.3)	44.7
	210.9	(15.3)	(7.0)	9.1	197.7

#### Group results

Group revenue from continuing operations was £153.0 million in the first half of 2007 which, after adjusting for currency effects and the closure of part of the UK Chromium facility in March 2006, represents an increase of 8 per cent over the previous period. All three businesses showed an increase on this basis. Market trends were generally positive for the businesses with good demand in most regions except for the North American coatings and construction markets which were impacted by the slowdown in US housing. Volumes were higher in Chromium and Specialty Products but lower in Surfactants due to the product optimisation program in that business. Pricing was also increased in all three businesses when compared to the previous period. Revenue including discontinued operations was £197.7 million (2006: £210.9 million) which is 5 per cent higher than prior period after making the same adjustments.

Operating profit from continuing operations before exceptional items increased by 33 per cent to £20.1 million (2006: £15.1 million). Specialty Products was the main driver of the increase, while Chromium benefited from a one time energy rebate of £1.4 million. Excluding this, energy costs across the businesses were relatively flat versus the prior period due to more stable markets and the impact of hedging approximately 70 per cent of total energy costs. The results also include the benefit of £2.1 million (2006: £0.6 million) from the currency hedging programme where approximately 80 per cent of the main exposures have been fixed for 2007, with most of the benefit falling in Specialties and

Chromium. As a result of the hedging programme the net effect of currency movements on operating profit for the first half of 2007 was minimal when compared to the previous period. Operating profit including discontinued operations increased by 26 per cent in the first half of 2007 to £22.8 million (2006: £18.1 million).

Net borrowings have reduced by £24.0 million since 30 June 2006 and by £14.9 million in the period.

#### Elementis Specialty Products

Demand for rheological products in the first half of 2007, which represent around 70 per cent of total sales, was good in all major sectors with the exception of North American coatings which felt the impact of the slowdown in the US housing market. Sales volumes of coatings in Europe and Asia Pacific were strong, more than offsetting the softer US demand. Sales to construction, personal care and oilfield segments globally were ahead of 2006 levels. In addition, the new management team has been working on further improving the operating performance of the business and new product development. As a result operating margins have improved from 15 per cent in the first half of 2006 to around 21 per cent in the current period and new products, including a range of colourant stability additives, are currently being tested in the market.

Sales for the first half of 2007 were £74.2 million versus £76.8 million in the previous year, and currency movements reduced sales by £5.4 million. Excluding these currency effects sales increased by 4 per cent mainly due to

#### Operating profit for the six months ended 30 June

	Operating profit £million	Exceptional items £million	2007 Adjusted operating profit £million	Operating profit £million	Exceptional items £million	2006 Adjusted operating profit £million
Specialty Products	15.3	-	15.3	10.7	1.1	11.8
Surfactants	0.5	-	0.5	0.1	0.3	0.4
Chromium	7.5	-	7.5	6.4	(0.4)	6.0
Central costs	(3.2)	-	(3.2)	(3.1)	-	(3.1)
Continuing operations	20.1	-	20.1	14.1	1.0	15.1
Pigments	2.7	-	2.7	4.0	(1.0)	3.0
	22.8	-	22.8	18.1	-	18.1

improved volumes but also from improved selling prices. Sales volumes to the coatings sector increased by 7 per cent, despite slower demand in North America, and oilfield volumes increased by 8 per cent. In the oilfield sector, the current high levels of drilling activity are a positive influence, but also new drilling techniques for adverse conditions are providing opportunities for new applications of premium organoclays. In other sectors, construction sales volumes improved by 3 per cent with strong growth in Europe and Asia Pacific offsetting reduced demand in North America, which is a trend that was also evident in personal care as both sectors continued to benefit from the unique properties of hectorite clay. Sales also benefited from improved pricing as a result of across the board increases at the end of 2006. Relatively higher coatings sales in Europe and Asia Pacific in the first half of 2007 softened the impact of these increases as margins are slightly lower in these regions compared to North America.

Operating profit before exceptional items was £15.3 million in the first half of 2007 compared to £11.8 million in the same period last year, representing an increase of 30 per cent with no material currency effect year on year. Approximately half of this improvement came from the increased sales with the balance coming from structural cost improvements, especially in selling, general and administration.

#### Elementis Surfactants

In the first half of 2007 the Surfactants business has continued to focus on optimising its product mix by exiting low margin business and improving operating efficiencies. Progress has been made, although sales to the oilfield sector

started the year more slowly than anticipated due to initial delays in some drilling projects, but improved towards the end of the first half. Sales for the first half of 2007 were £24.5 million; similar to the same period last year, but 3 per cent higher after adjusting for currency movements. Volumes were 12 per cent lower than the previous period due to the sales optimisation process and the slower start to the oilfield sales, but this was more than offset by positive improvements in pricing as a result of price increases introduced at the end of 2006.

Operating profit before exceptional items was similar to the same period last year at £0.5 million, with higher selling prices compensating for increases in raw materials.

#### Elementis Chromium

As part of the Chromium business strategy, several steps have been taken to help reduce earnings volatility. These include more hedging of currency and energy costs, better optimisation of production capacity and a greater focus on sustainable sales. These steps have contributed to the operating profit before exceptional items in the first half of 2007 being at a similar level to the previous year before taking account of one time items. In addition, after a slower start, demand for Chromium products during the first half of 2007 has been positive overall. Changes in Chinese tax regulations affecting chrome metal and other basic materials, since the beginning of the year, have helped create additional demand for chrome oxide in North America and Europe. This momentum is likely to continue into the second half of the year resulting in the announcement of price increases with effect from July.

## Business review continued for the six months ended 30 June 2007

Sales for the first half of 2007 were £57.2 million versus £61.9 million in the same period last year. The closure of part of the Eaglescliffe, UK plant in March 2006 reduced sales by approximately £7.0 million and currency movements by a further £5.0 million. Excluding these two items sales increased by 16 per cent with increased volumes being the main contributor. Chromic acid sales volumes manufactured in the US increased by 46 per cent as product exited due to the closure of the UK plant was largely replaced with US product, but sales were also positively impacted by strong demand from Latin America and China. Sales volumes of chrome oxide increased by 31 per cent largely due to the tax changes in China. Chrome sulphate sales volumes for leather tanning increased by 5 per cent as a result of good demand from leather tanneries, while sales volumes of sodium dichromate were 12 per cent lower as production was optimised to produce higher margin products in response to the stronger demand. Pricing was flat overall due to the increased demand coming later in the first half of 2007, but this is being addressed in the second half of the year.

Operating profit before exceptional items in the first half of 2007 was £7.5 million compared to £6.0 million in the same period last year. Currency had no net effect versus last year, but the business benefited from a one time rebate of energy costs in the US as a result of an electricity industry reorganisation by the State of Texas, and amounted to £1.4 million. Otherwise energy costs were similar to the previous year and raw material inflation was offset by the increase in sales. The impact of the UK plant closure on the year on year comparison of operating profit was largely neutral, with lost sales volumes being offset by a reduction in fixed costs.

### Elementis Pigments

A challenging market environment for Pigments driven by the recent slowdown in the US housing market impacted sales to both the US coatings and construction markets, which together account for almost 50 per cent of total sales. Despite this downturn the business was able to achieve an operating profit similar to the previous year through disciplined cost management and innovative marketing, including the launch of a new Ready Mix product into the construction market. This product offering provides enhanced

processing capabilities to our customers, and established more than ten new accounts during the first half of 2007.

Sales in Pigments were 12 per cent lower in the first half of 2007 at £44.7 million when compared to the same period last year. Currency movements reduced reported sales by 7 per cent, while volumes were 6 per cent lower. Sales volumes in coatings and chemical applications were up 15 per cent in Asia Pacific which partly offset lower volumes in both North America and Europe. Price increases of between 3 and 5 per cent were implemented at selected accounts. In the construction sector volumes were lower in most regions. Sales of driers in Europe made good progress with volumes up 3 per cent over the previous year.

Operating profit before exceptional items was £2.7 million for the first half of 2007, which is £0.3 million lower than the previous year, as cost efficiencies partly offset the effects of the lower sales volumes.

### Net finance costs

Net finance costs on continuing operations were £0.4 million lower than for the six months ended 30 June 2006. Lower average borrowings, partly offset by higher interest rates, reduced net finance costs by £0.3 million and the balance was due to increased finance income on pension funds. Interest cover, the ratio of operating profit before exceptional items to interest on net borrowings, was 5.2 times (2006: 3.9 times).

### Taxation

The Group's tax charge on profit before exceptional items was 5.0 per cent (2006: 1.3 per cent). This is lower than the standard rate for UK Corporation tax primarily because the Group benefits from a tax deduction in the US in respect of goodwill amortisation.

### Earnings per share

Basic and diluted earnings per share increased by 31 per cent to 4.2 pence (2006: 3.2 pence) in the period. This includes 0.3 pence (2006: nil) in respect of an energy refund to the Chromium business. From continuing operations, basic earnings per share before exceptional items was 3.7 pence (2006: 2.7 pence) and the diluted equivalent figure was 3.7 pence (2006: 2.6 pence).

### Cash flow

The cash flow is summarised below:

	30 June 2007 Emillion	30 June 2006 Emillion
Ebitda <sup>1</sup>	<b>29.9</b>	25.4
Change in working capital	<b>(2.7)</b>	(16.5)
Pension	<b>(1.5)</b>	(1.6)
Interest and tax	<b>(4.8)</b>	(4.2)
Restructuring	<b>(1.0)</b>	(8.1)
Other	<b>1.6</b>	0.1
Capital expenditure	<b>(3.2)</b>	(5.0)
	<b>18.3</b>	(9.9)
Distribution to shareholders	<b>(5.3)</b>	(4.8)
Currency fluctuations	<b>1.9</b>	4.4
	<b>14.9</b>	(10.3)
Net borrowings at start of period	<b>(100.6)</b>	(99.4)
Net borrowings at end of period	<b>(85.7)</b>	(109.7)

<sup>1</sup> Earnings before interest, tax, exceptionals, depreciation and amortisation.

In the first half of 2007 the Group reduced borrowings by £14.9 million (2006: increase of £10.3 million) and, at the period end, net borrowings were £24.0 million lower than at 30 June 2006. During the first half, Ebitda<sup>1</sup> increased by 18 per cent above the comparative period, which increased cash flow by £4.5 million. Working capital outflows, which typically increase in the first six months due to seasonal factors, were £13.8 million lower than 2006. This was partly due to a strategic build of inventory in the second half of 2006 and as a result inventory decreased by £1.1 million in the first six months of 2007 (2006: increase of £6.8 million). In addition, cash outflows to suppliers were £8.1 million better than previous year due to more efficient management of payments which increased creditors days by 3 days compared to June 2006. The other main positive variance compared to prior period was a £7.1 million reduction in restructuring spend as the programmes implemented in 2005 and 2006 are now virtually complete.

### Balance sheet

	30 June 2007 Emillion	30 June 2006 Emillion
Tangible fixed assets	<b>96.9</b>	130.4
Other net assets	<b>199.1</b>	166.7
	<b>296.0</b>	297.1
Equity	<b>210.3</b>	187.4
Net borrowings	<b>85.7</b>	109.7
	<b>296.0</b>	297.1
Gearing <sup>2</sup>	<b>29%</b>	37%

<sup>2</sup> The ratio of net borrowings to equity attributable to parent plus net borrowings.

Tangible fixed assets are £33.5 million lower than 30 June 2006 because the assets and liabilities of the Pigments division have been reclassified as 'held for sale'. Other net assets have increased as a consequence. Equity has increased by £22.9 million since 30 June 2006, primarily due to retained earnings of £26.1 million. Currency differences on translation of foreign operations reduced equity by £14.2 million, but this has been partly offset by actuarial gains on pension schemes of £8.9 million and other credits to equity of £2.1 million. Gearing was reduced to 29 per cent (2006: 37 per cent) at the end of June 2007.

The main sterling currency exchange rates in the period were:

	2007 30 June	2007 Average	2006 30 June	2006 Average
US Dollar	<b>2.01</b>	<b>1.97</b>	1.85	1.79
Euro	<b>1.49</b>	<b>1.48</b>	1.45	1.45

The majority of the Group's assets are denominated in US dollars and the weaker US dollar has reduced equity by £14.2 million in the last 12 months. Elementis uses dollar and euro borrowings to mitigate the currency translation exposure on its assets denominated in foreign currencies, subject to the provisions of IAS 39 in respect of hedge accounting. Profits of overseas operations are translated at average rates in each period and the average US dollar rate has weakened by 9 per cent against sterling in the first half of 2007. Forward contracts taken out in 2005 and 2006 have reduced the impact of the dollar weakness on the reported results in the period ended 30 June 2007.

**David Dutro**  
Chief Executive Officer  
31 July 2007

**Brian Taylorson**  
Finance Director

## Consolidated income statement for the six months ended 30 June 2007

Note	2007 Six months ended 30 June Emillion	2006 Six months ended 30 June Emillion	2006 Year ended 31 December Emillion	
<b>Continuing operation</b>				
Revenue	3	153.0	160.2	302.0
Cost of sales		(101.5)	(106.9)	(203.1)
Gross profit		51.5	53.3	98.9
Distribution costs		(20.5)	(24.3)	(43.5)
Administrative expenses		(10.9)	(13.9)	(21.9)
Operating profit before exceptional items		20.1	15.1	31.5
Exceptional items		-	(1.0)	2.0
Operating profit	3	20.1	14.1	33.5
Finance income	4	1.2	1.1	1.9
Finance costs	5	(4.1)	(4.4)	(8.6)
Profit before tax and exceptional items		17.2	11.8	24.8
Exceptional items		-	(1.0)	2.0
Profit before income tax	3	17.2	10.8	26.8
Tax	8	(0.9)	(0.1)	(0.9)
Profit from continuing operation		16.3	10.7	25.9
<b>Discontinued operation</b>				
Post tax profit from discontinued operation	7	2.3	3.5	5.8
Profit for the period		18.6	14.2	31.7
Attributable to:				
Equity holders of the parent		18.6	14.1	31.6
Minority interests		-	0.1	0.1
		18.6	14.2	31.7
<b>Earnings per share</b>				
From continuing and discontinued operations				
Basic (pence)	9	4.2	3.2	7.1
Diluted (pence)	9	4.2	3.2	7.0
From continuing operations				
Basic (pence)	9	3.7	2.7	5.9
Diluted (pence)	9	3.7	2.6	5.8

## Consolidated statement of recognised income and expense for the six months ended 30 June 2007

	2007 Six months ended 30 June Emillion	2006 Six months ended 30 June Emillion	2006 Year ended 31 December Emillion
Exchange differences on translation of foreign operations	(2.5)	(11.7)	(23.0)
Actuarial gain/(loss) on pension and other post retirement schemes	-	-	8.6
(Loss)/gain on cash flow hedges	(1.3)	0.6	1.9
Net (expense)/income recognised in equity	(3.8)	(11.1)	(12.5)
Profit for the period	18.6	14.2	31.7
<b>Total recognised income and expense for the period</b>	<b>14.8</b>	<b>3.1</b>	<b>19.2</b>
Attributable to:			
Equity holders of the parent	14.8	3.0	19.1
Minority interests	-	0.1	0.1
	14.8	3.1	19.2

## Consolidated balance sheet at 30 June 2007

Note	2007 30 June Emillion	2006 30 June Emillion	2006 31 December Emillion
<b>Non-current assets</b>			
Goodwill and other intangible assets	146.6	159.8	151.6
Property, plant and equipment	96.9	130.4	126.1
Interests in associates and other investments	0.6	3.2	1.7
Deferred tax assets	6.4	11.2	7.3
<b>Total non-current assets</b>	<b>250.5</b>	<b>304.6</b>	<b>286.7</b>
<b>Current assets</b>			
Inventories	47.2	70.8	67.7
Trade and other receivables	57.1	77.5	73.1
Cash and cash equivalents	17.4	19.1	14.5
Current assets	121.7	167.4	155.3
Non-current assets classified as held for sale	7 64.9	-	-
<b>Total current assets</b>	<b>186.6</b>	<b>167.4</b>	<b>155.3</b>
<b>Total assets</b>	<b>437.1</b>	<b>472.0</b>	<b>442.0</b>
<b>Current liabilities</b>			
Bank overdrafts and loans	(0.7)	(128.8)	(0.7)
Trade and other payables	(51.5)	(62.7)	(61.8)
Current tax liabilities	(2.4)	(6.7)	(3.3)
Provisions	(1.6)	(5.2)	(2.4)
Current liabilities	(56.2)	(203.4)	(68.2)
Liabilities associated with non-current assets classified as held for sale	7 (14.5)	-	-
<b>Total current liabilities</b>	<b>(70.7)</b>	<b>(203.4)</b>	<b>(68.2)</b>
<b>Non-current liabilities</b>			
Loans and borrowings	(102.4)	-	(114.4)
Retirement benefit obligations	(34.3)	(55.8)	(37.3)
Provisions	(16.3)	(21.3)	(19.0)
Government grants	(1.5)	(2.4)	(2.2)
<b>Total non-current liabilities</b>	<b>(154.5)</b>	<b>(79.5)</b>	<b>(172.9)</b>
<b>Total liabilities</b>	<b>(225.2)</b>	<b>(282.9)</b>	<b>(241.1)</b>
<b>Net assets</b>	<b>211.9</b>	<b>189.1</b>	<b>200.9</b>
<b>Equity</b>			
Share capital	22.2	22.0	22.1
Share premium	5.0	2.6	3.6
Other reserves	67.8	78.8	71.0
Retained earnings	115.3	84.0	102.6
<b>Equity attributable to equity holders of the parent</b>	<b>12 210.3</b>	<b>187.4</b>	<b>199.3</b>
Minority equity interests	1.6	1.7	1.6
<b>Total equity and reserves</b>	<b>211.9</b>	<b>189.1</b>	<b>200.9</b>

## Consolidated cash flow statement for the six months ended 30 June 2007

	2007 Six months ended 30 June Emillion	2006 Six months ended 30 June Emillion	2006 Year ended 31 December Emillion
<b>Operating activities:</b>			
Profit for the period	18.6	14.2	31.7
Adjustments for:			
Finance income	(1.2)	(1.1)	(0.2)
Finance costs	4.4	4.8	7.7
Tax	1.0	0.2	1.4
Depreciation and amortisation	7.1	7.3	14.8
Decrease in provisions	-	(0.5)	(2.2)
Pension contributions net of current service cost	(1.5)	(1.6)	(7.8)
Share based payments	0.5	0.4	0.9
Exceptional items charged less cash outflow	(1.0)	(8.1)	(13.8)
<b>Operating cash flows before movements in working capital</b>	<b>27.9</b>	<b>15.6</b>	<b>32.5</b>
Decrease/(increase) in inventories	1.1	(6.8)	(9.8)
Increase in trade and other receivables	(4.7)	(2.5)	(1.6)
Increase/(decrease) in trade and other payables	0.9	(7.2)	(1.6)
<b>Cash generated by operations</b>	<b>25.2</b>	<b>(0.9)</b>	<b>19.5</b>
Income taxes paid	(1.2)	(0.3)	(0.7)
Interest paid	(3.6)	(4.1)	(8.3)
<b>Net cash flow from operating activities</b>	<b>20.4</b>	<b>(5.3)</b>	<b>10.5</b>
<b>Investing activities:</b>			
Interest received	0.1	0.2	0.3
Purchase of property, plant and equipment	(3.2)	(5.0)	(13.2)
Proceeds from sale of property, plant and equipment	0.1	1.2	1.5
Acquisition of business	(0.6)	-	-
Disposal of businesses	0.5	-	1.4
<b>Net cash used in investing activities</b>	<b>(3.1)</b>	<b>(3.6)</b>	<b>(10.0)</b>
<b>Financing activities:</b>			
Issue of shares	1.6	0.9	2.0
Redemption of B shares	-	-	(2.1)
Purchase of own shares	(0.6)	(1.9)	(2.4)
Dividends paid	(5.3)	(4.8)	(10.1)
(Decrease)/increase in borrowings repayable after one year	(9.9)	25.4	17.9
<b>Net cash (used in)/from financing activities</b>	<b>(14.2)</b>	<b>19.6</b>	<b>5.3</b>
<b>Net increase in cash and cash equivalents</b>	<b>3.1</b>	<b>10.7</b>	<b>5.8</b>
Cash and cash equivalents at beginning of period	13.8	8.4	8.4
Foreign exchange on cash and cash equivalents	(0.2)	(0.5)	(0.4)
<b>Cash and cash equivalents at end of period</b>	<b>16.7</b>	<b>18.6</b>	<b>13.8</b>

## Notes to the interim financial statements for the six months ended 30 June 2007

### 1 General information

Elementis plc ('the Company') and its subsidiaries (together, 'the Group') manufactures specialty chemicals. The Group has operations in the US, UK, the Netherlands and China. On 11 May 2007, the Group announced the sale of its global Pigments business subject to regulatory approvals. This business has been classified as a discontinued operation and comparatives have been restated in accordance with IFRS 5. The assets and liabilities of the Pigments business have been classified as 'held for sale' in the balance sheet at 30 June 2007. Balance sheet comparatives are not restated under IFRS 5. In addition, the Group has restated its segment reporting to provide greater clarity of the underlying performance of its business units and now discloses financial information separately for Specialty Products and Surfactants. The Company is a limited liability company incorporated and domiciled in the UK. The Company has its primary listing on the London Stock Exchange.

The financial information for the first six months of 2007 and 2006, which is unaudited but has been reviewed by the Company's auditor, does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985, and is presented on the basis of accounting policies set out in the financial statements of Elementis plc for the year ended 31 December 2006. This interim financial information was approved for issue on 31 July 2007.

The comparative figures for the year ended 31 December 2006 are not the Company's statutory accounts for that financial year. Those accounts, which were prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS), have been reported on by the Company's auditor and delivered to the Registrar of Companies. The auditor's report was unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.

### 2 Accounting estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of income, expense, assets and liabilities. The significant estimates and judgements made by management were consistent with those applied to the consolidated financial statements for the year ended 31 December 2006.

### 3 Segment reporting

For management purposes the Group is currently organised into four operating divisions - Specialty Products, Surfactants, Chromium, and Pigments (now classified as a discontinued operation). Principal activities are as follows:

Specialty Products	-	production of rheological and surface chemistry additives
Surfactants	-	production of surface active ingredients
Chromium	-	production of chromium chemicals

	Six months ended 30 June 2007			Six months ended 30 June 2006		
	Gross Emillion	Inter-segment Emillion	External Emillion	Gross Emillion	Inter-segment Emillion	External Emillion
<b>Revenue from continuing operations</b>						
Specialty Products	74.2	(0.1)	74.1	76.8	(0.2)	76.6
Surfactants	24.5	-	24.5	24.7	-	24.7
Chromium	57.2	(2.8)	54.4	61.9	(3.0)	58.9
	155.9	(2.9)	153.0	163.4	(3.2)	160.2

All revenues relate to the sale of goods.

### 3 Segment reporting continued

	Six months ended 30 June 2007			Six months ended 30 June 2006		
	Before exceptional items Emillion	Exceptional items Emillion	After exceptional items Emillion	Before exceptional items Emillion	Exceptional items Emillion	After exceptional items Emillion
<b>Result from continuing operations</b>						
Specialty Products	15.3	-	15.3	11.8	(1.1)	10.7
Surfactants	0.5	-	0.5	0.4	(0.3)	0.1
Chromium	7.5	-	7.5	6.0	0.4	6.4
Central costs	(3.2)	-	(3.2)	(3.1)	-	(3.1)
	20.1	-	20.1	15.1	(1.0)	14.1
Finance income	1.2	-	1.2	1.1	-	1.1
Finance costs	(4.1)	-	4.1	(4.4)	-	(4.4)
Profit before tax	17.2	-	17.2	11.8	(1.0)	10.8

	Year ended 31 December 2006			Year ended 31 December 2006		
	Revenue from continuing operations			Result from continuing operations		
	Gross Emillion	Inter-segment Emillion	External Emillion	Before exceptional items Emillion	Exceptional items Emillion	After exceptional items Emillion
	Specialty Products	144.8	(0.3)	144.5	25.0	0.9
Surfactants	46.1	-	46.1	0.6	(0.3)	0.3
Chromium	116.8	(5.4)	111.4	11.9	1.4	13.3
Central costs	-	-	-	(6.0)	-	(6.0)
	307.7	(5.7)	302.0	31.5	2.0	33.5
Finance income				1.8	-	1.8
Finance costs				(8.5)	-	(8.5)
Profit before tax				24.8	2.0	26.8

### 4 Finance income

	2007 Six months ended 30 June Emillion	2006 Six months ended 30 June Emillion	2006 Year ended 31 December Emillion
<b>Continuing operations</b>			
Interest on bank deposits	0.1	0.2	0.2
Pension and other post-retirement liabilities			
Expected return on pension scheme assets	11.4	13.2	26.2
Interest on pension scheme liabilities	(10.3)	(12.3)	(24.5)
	1.1	0.9	1.7
	1.2	1.1	1.9



## Notes to the interim financial statements continued for the six months ended 30 June 2007

### 5 Finance costs

	2007 Six months ended 30 June Emillion	2006 Six months ended 30 June Emillion	2006 Year ended 31 December Emillion
<b>Continuing operations</b>			
Interest on bank loans	3.7	3.9	7.8
Interest on corporation tax payments	-	0.1	-
Unwind of discount on provisions	0.4	0.4	0.8
	<b>4.1</b>	<b>4.4</b>	<b>8.6</b>

### 6 Exceptional items

	2007 Six months ended 30 June Emillion	2006 Six months ended 30 June Emillion	2006 Year ended 31 December Emillion
<b>Continuing operations</b>			
Integration at Specialty Products and Surfactants	-	(1.7)	(1.7)
Curtailment gains on pension schemes	-	0.7	2.7
Release of prior year restructuring provision	-	-	1.0
	-	(1.0)	2.0
Tax charge on exceptional items	-	-	(0.9)
	-	(1.0)	1.1

### 7 Discontinued operation

On 11 May 2007, the Group entered into a sale agreement to dispose of its Pigments division. This transaction, which is expected to complete within six months, has been classified as a disposal group held for sale and therefore been presented separately in the balance sheet. The proceeds of disposal are expected to exceed the book value of the related net assets and accordingly no impairment losses have been recognised on the classification of this operation as held for sale. The results of this business are reported within discontinued operations as follows:

	2007 Unaudited Six months ended 30 June Emillion	2006 Unaudited Six months ended 30 June Emillion	2006 Unaudited Year ended 31 December Emillion
<b>Income statement:</b>			
Revenue	44.7	50.7	93.9
Cost of sales	(34.3)	(39.0)	(71.6)
Gross profit	10.4	11.7	22.3
Distribution costs	(4.5)	(4.7)	(9.1)
Administrative expenses	(3.2)	(3.0)	(6.1)
Operating profit before exceptional items	2.7	3.0	6.1
Exceptional items	-	1.0	1.0
Finance costs	(0.3)	(0.4)	(0.8)
Profit before tax	2.4	3.6	6.3
Tax	(0.1)	(0.1)	(0.5)
Post tax profit for the period from discontinued operation	2.3	3.5	5.8

### Earnings per share from discontinued operations

Basic (pence)	0.5	0.8	1.2
Diluted (pence)	0.5	0.8	1.2

The major classes of assets and liabilities of the Pigments division classified as held for sale are as follows:

	2007 Unaudited 30 June Emillion
Goodwill and other intangible assets	2.4
Property, plant and equipment	24.4
Investments	0.5
Inventories	18.5
Trade and other receivables	19.1
Total assets classified as held for sale	64.9
Trade and other payables	(10.8)
Provisions	(3.7)
Total liabilities associated with assets classified as held for sale	(14.5)

### 8 Tax

The tax charge on profit before exceptional items from continuing operations of £0.9 million (2006: £0.1 million) is based on an estimated effective tax rate on profit before exceptional items for the year to 31 December 2006 of 5.0 per cent (2006: 1.3 per cent). The rate is lower than the standard UK corporation tax rate primarily due to the amortisation of goodwill in the US for tax purposes. The tax charge on profit from the discontinued operation was £0.1 million (2006: £0.1 million).

### 9 Earnings per share

	2007 Six months ended 30 June Emillion	2006 Six months ended 30 June Emillion	2006 Year ended 31 December Emillion
Earnings for the purposes of basic earnings per share	18.6	14.1	31.6
Exceptional items net of tax	-	-	(1.7)
Adjusted earnings	18.6	14.1	29.9
	Number(m)	Number(m)	Number(m)
Weighted average number of shares for the purposes of basic earnings per share	442.9	435.5	439.4
Effect of dilutive share options	3.3	11.0	7.4
Weighted average number of shares for the purposes of diluted earnings per share	446.2	446.5	446.8

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:

	2007 Six months ended 30 June Emillion	2006 Six months ended 30 June Emillion	2006 Year ended 31 December Emillion
Profit for the period attributable to equity holders of the parent	18.6	14.1	31.6
Profit for the period from discontinued operations	(2.3)	(3.5)	(5.8)
Profit from continuing operations	16.3	0.6	25.8
Exceptional items from continuing operations before minority interests	-	1.0	(1.1)
Adjusted earnings from continuing operations	16.3	11.6	24.7

## Notes to the interim financial statements continued for the six months ended 30 June 2007

### 9 Earnings per share continued

	2007 Six months ended 30 June pence	2006 Six months ended 30 June pence	2006 Year ended 31 December pence
<b>Earnings per share:</b>			
<b>From continuing and discontinuing operations</b>			
Basic	4.2	3.2	7.1
Diluted	4.2	3.2	7.0
Basic before exceptional items	4.2	3.2	6.8
Diluted before exceptional items	4.2	3.2	6.7
<b>From continuing operations:</b>			
Basic	3.7	2.4	5.9
Diluted	3.7	2.4	5.8
Basic before exceptional items	3.7	2.7	5.6
Diluted before exceptional items	3.7	2.6	5.5

### 10 Dividends

The following dividends were declared and paid by the Group:

	2007 Six months ended 30 June £million	2006 Six months ended 30 June £million	2006 Year ended 31 December £million
Dividends paid on ordinary shares	5.3	4.8	10.1

An interim dividend of 1.3 pence per share (2006: 1.2 pence) has been approved and will be paid on 5 October 2007 to shareholders on the register at 7 September 2007.

### 11 Movements in net borrowings

	2007 Six months ended 30 June £million	2006 Six months ended 30 June £million	2006 Year ended 31 December £million
Change in net borrowings resulting from cash flows			
Increase in cash and cash equivalents	3.1	10.7	5.8
Decrease/(increase) in borrowings	9.9	(25.4)	(17.9)
	13.0	(14.7)	(12.1)
Redeemable B shares	-	-	2.1
Currency translation differences	1.9	4.4	8.8
Decrease/(increase) in net borrowings	14.9	(10.3)	(1.2)
Net borrowings at beginning of period	(100.6)	(99.4)	(99.4)
Net borrowings at end of period	(85.7)	(109.7)	(100.6)

### 12 Changes in equity

	2007 Six months ended 30 June £million	2006 Six months ended 30 June £million	2006 Year ended 31 December £million
Total recognised income and expense for the period	14.8	3.0	19.1
Purchase of own shares	(0.6)	(1.9)	(2.4)
Issue of shares	1.6	0.9	2.0
Share based payments	0.5	0.4	0.9
Dividends paid	(5.3)	(4.8)	(10.1)
Net increase/(decrease) in equity attributable to the parent	11.0	(2.4)	9.5
At beginning of period	199.3	189.8	189.8
At end of period	210.3	187.4	199.3

## Independent review report to Elementis plc

### Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2007 which comprise the consolidated income statement, balance sheet, cash flow statement, statement of recognised income and expense and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

### Directors' responsibilities

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

This interim financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2006.

### Review work performed

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

### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

### KPMG Audit Plc

Chartered Accountants  
London  
31 July 2007

## Shareholder services

### Internet

The Group operates a website which can be found at [www.elementis.com](http://www.elementis.com). This site is frequently updated to provide shareholders with information about the Group and each of its operating divisions. In particular the Group's press releases and announcements can be found on the site together with copies of the Group's accounts.

### Registrars

Enquiries concerning shares or shareholdings such as the loss of a share certificate, consolidation of share certificates, amalgamation of holdings or dividend payments should be made to the Company's registrars:

#### Lloyds TSB Registrars

The Causeway  
Worthing  
West Sussex BN99 6DA, UK

Telephone: +44 (0)870 600 3966 or +44 (0)121 415 7043  
Facsimile: +44 (0)870 600 3981 or +44 (0)121 415 7057  
Website: [www.shareview.co.uk](http://www.shareview.co.uk)

In any correspondence with the registrars, please refer to Elementis plc and state clearly the registered name and address of the shareholder. Please notify the registrars promptly of any change of address.

### Payment of dividends

It is in the interests of shareholders and the Company for dividends to be paid directly into bank or building society accounts. Any shareholder who wishes to receive dividends in this way should contact the Company's registrars to obtain a dividend mandate form.

### Registrars' text phone

For shareholders with hearing difficulties:  
Callers inside the UK telephone: 0870 600 3950  
Callers outside the UK telephone: +44 (0)121 415 7028

### Web-based enquiry service

#### [www.shareview.co.uk](http://www.shareview.co.uk)

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

### Low-cost share dealing service

This service, arranged by the Company's stockbrokers Hoare Govett Limited, offers a low cost method of buying and selling Elementis shares. For full details of the service and dealing forms, contact Hoare Govett Limited on +44 (0)20 7678 8300.

### Previously issued redeemable B shares

In 2000 the Company started a programme of issuing redeemable B shares instead of making dividend payments. In February 2006 the Board decided to recommend the resumption of dividend payments and in November 2006 the Company redeemed all of the redeemable B shares in issue. The Board has no current plans to issue more redeemable B shares and information for the calculation of capital gains tax can be found on the Company's website.

## Shareholder information

### Company Secretary

Wai Wong

### Registered number

3299608

### Registered office

10 Albemarle Street  
London  
W1S 4BL  
UK

### Auditors

KPMG Audit Plc

### Stockbroker

Hoare Govett Limited

Telephone: +44 (0)20 7408 9300

Facsimile: +44 (0)20 7493 2194

Email: [elementis.info@elementis-eu.com](mailto:elementis.info@elementis-eu.com)

Website: [www.elementis.com](http://www.elementis.com)

### Financial Calendar 2007

5 September	Ex-dividend date for interim dividend payable on ordinary shares
7 September	Record date for interim dividend payable on ordinary shares
5 October	Payment of interim dividend on ordinary shares
26 February 2008*	Preliminary announcement of results for the year ending 31 December 2007

\* Provisional date

### CAUTIONARY STATEMENT:

This Interim Report contains information which readers might consider to be forward looking statements relating to or in respect of the financial condition, results, operations and businesses of Elementis plc. Any such statements involve risk and uncertainty because they relate to future events and circumstances. There are many factors that could cause actual results or developments to differ materially from those expressed or implied by any such forward looking statements. Nothing in this Interim Report should be construed as a profit forecast.