ELEMENTIS

A Global Specialty Chemicals Company

Elementis plc Annual Report

2006

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

Elementis Specialties

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

Elementis Pigments

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

Elementis Chromium

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

Highlights

From continuing operations

- Underlying sales up 6 per cent.
- Operating profit before exceptional items up 97 per cent.
  - Improved operating profit in all business segments.
- Profit before tax and exceptional items up 159 per cent.
  - Restructuring of overheads reduced costs by over £13 million.
- Retirement benefit obligations reduced by £24.7 million (40 per cent).
- Proposed final dividend up 9 per cent.

Financial summary

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

*from continuing operations and before exceptional items

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Chairman's statement
Robert Beeston

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

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

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

Results

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

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

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

Dividend

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

The Board

I joined the Board as Chairman in September 2006 at which time Edward Bramson stepped down as Executive Chairman, but remains on the Board as non-executive director. Edward was the architect of the recent restructuring and I would like to thank him on behalf of the whole Board for his excellent contribution to shareholder value and the future prospects of the Group. In January 2007 David Dutro joined the Board as Group Chief Executive having previously been Chief Operating Officer, Elementis Worldwide and before that President of Elementis Pigments. David brings a wealth of experience in our businesses and our industry, and has played a leading role in developing and implementing the recent reorganisation and improvement in performance. I am confident that Elementis will continue to benefit from his leadership going forward.

Environmental, health and safety

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

People

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

Outlook

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

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

Robert Beeston
Chairman
27 February 2007

Business review

David Dutro
Group Chief Executive

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

Principal activities

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

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

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

Objectives

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

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

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

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

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

Strategic developments

Background

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

Elementis Specialties

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

The division's products are purchased on the basis of performance rather than specification and are typically a small percentage of the cost of the end product. The business has a limited number of key competitors and its end-use markets are consumables. The strategic priorities of this division are:

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

Specialty Products

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

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

Surfactants

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

Business review continued

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

David Dutro
Group Chief Executive

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

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

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

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

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

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

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

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

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

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

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

Elementis Chromium

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

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

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

Competition

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

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

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

Supply chain

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

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

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

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

Computer systems

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

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

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

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

Business review continued

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

Brian Taylorson
Finance Director

Regulatory issues, health, safety and environment

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

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

Financial performance

Revenue

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

Introduction

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

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

Group results

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

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

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

Elementis Specialties

Specialty Products

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

Operating profit

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

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

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

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

Surfactants

Revenue in Surfactants was £46.1 million in 2006, marginally higher than the previous year. Good volume growth was seen in the oilfield sector but this was offset by the planned optimisation initiative. As part of this initiative, low margin business has been reduced and margin enhancement programmes were introduced during the second half of the year which should continue to benefit the business into 2007.

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

Elementis Pigments

Revenue in Pigments increased by 4 per cent in 2006 to £94.2 million and by 6 per cent excluding sales to the US driers market which was exited during the year. Higher volumes in Coatings, Chemical and Construction applications were the main driver of the increase and prices were raised on a number of key products in response to higher energy and raw material prices, although pricing measured across the whole business was relatively stable year on year. In Coatings, the North American customers were successfully transitioned to the new Chinese product following the start up of the plant in Tai Cang, and volumes increased with key customers due to strong consumer demand. Volumes also improved in Europe and Asia Pacific. Construction volumes were higher in North America and Asia Pacific due to good demand while volumes in Europe were impacted by a decision to exit from some low margin sales. The granular iron oxide product continued to make good progress. In Driers a decision was made during the year to exit the unprofitable North American business and this reduced revenue by around £1.5 million.

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

Elementis Chromium

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

Business review continued

Revenue

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

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

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

* Before exceptional items.

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

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

Central costs

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

Exceptional items

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

In the second half, Elementis amended its post retirement medical benefit scheme in its Specialties division where participants have become eligible for similar benefits from the government. As a result an exceptional gain of £2.0 million was recorded. In addition, a credit of £1.0 million is included as exceptional which relates to the release of restructuring provisions no longer required.

Interest

Continuing operations

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

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

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

Taxation

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

Operating profit before exceptional items

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

* Before exceptional items.

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

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

Earnings per share

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

Distribution to shareholders

In 2005 the Group ceased its policy of issuing and redeeming B shares to shareholders as a method of making a distribution. As a result, all of the redeemable B shares outstanding on 1 November 2006 were compulsorily redeemed for £2.1 million. During 2006 the Group paid a final dividend in respect of the year ended 31 December 2005 of 1.1 pence per share. An interim dividend of 1.2 pence per share was paid on 3 November 2006 and the Board is proposing a final dividend of 1.2 pence per share which will be paid on 8 May 2007.

Cash flow

The cash flow is summarised below:

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

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

Ebitda[1] increased by 36 per cent to £52.4 million (2005: £38.5 million) in the year due to the higher operating profit. The Group invested £13.0 million in additional working capital, partly due to a strategic build of inventory at Elementis Chromium and partly to support growth at Elementis Specialties. Capital expenditure amounted to 89 per cent of depreciation (2005: 93 per cent) and payments to pension schemes, net of service cost, decreased by £6.3 million following a £7.0 million contribution in 2005 in connection with the disposal of Specialty Rubber. As a result of the restructuring that was announced in 2005, there was a cash outflow on exceptional items of £10.8 million (2005: £12.7 million) in the year.

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

Balance sheet

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

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

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

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

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

Business review continued

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

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

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

Pensions and other post retirement benefits

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

Critical accounting policies

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

Critical accounting policies are those that require significant judgements or estimates and potentially result in materially different results under different assumptions or conditions. It is considered that the Group's critical accounting policies are limited to those described below. The development of the estimates and disclosures related to each of these matters has been discussed by the Audit Committee. Additional information on the accounting policies of the Group is set out in note 1 to the financial statements.

Provisions

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

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

Pension and other post retirement benefits

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

Goodwill and other intangible assets

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

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

Financial instruments and derivative instruments

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

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

Exceptional items

The Group presents certain items separately as ‘exceptional’. These items which in management’s judgement, need to be disclosed by virtue of their size and incidence in order for the user to obtain a proper understanding of the financial information. The determination of which items are separately disclosed as exceptional items requires a significant degree of judgement.

Taxation

The Group is required to estimate the income tax in each of the jurisdictions in which it operates. This requires an estimation of current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. These temporary differences result in deferred tax assets and liabilities which are included within the balance sheet. Deferred tax assets and liabilities are measured using substantially enacted tax rates expected to apply when the temporary differences reverse.

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

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

Property, plant and equipment

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

Key performance indicators

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

1. Operating profit/operating margin

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

2. Trade working capital to sales ratio

The trade working capital to sales ratio is defined as trade working capital divided by sales expressed as a percentage. Trade working capital comprises inventories, trade receivables and trade payables but specifically excludes prepayments, capital or interest related receivables or payables, business acquisition related payables or receivables and items classified as other receivables and other payables. The Group’s trade working capital to sales ratio at 31 December 2006 was 22.8 per cent (2005: 21.5 per cent).

3. Return on operating capital employed

The return on operating capital employed is defined as operating profit before exceptional items divided by operating capital employed expressed as a percentage. Operating capital employed comprises fixed assets, excluding goodwill, working capital and operating provisions. Operating provisions include self insurance and environmental provisions but exclude restructuring provisions and retirement benefit obligations. The Group’s return on operating capital employed was 18.7 per cent for the year ended 31 December 2006 (2005: 8.2 per cent).

Business review continued

4. Lost time accidents

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

5. Contribution margin

Contribution, which is defined as sales less all variable costs, divided by sales and expressed as a percentage is the definition of contribution margin. The Group's contribution margin in 2006 was 31 per cent (2005: 30 per cent).

6. Operating cash flow

The operating cash flow is defined as the net cash flow from operating activities less net capital expenditure but excluding income taxes paid or received, interest paid or received, pension contributions net of current service cost and exceptional items. In 2006 the operating cash flow was £26.4 million (2005: £23.1 million).

Principal risks and uncertainties

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

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

Strategic risks

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

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

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

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

Financial risk

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

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

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

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

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

Operational risks

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

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

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

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

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

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

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

Treasury policies and objectives
Treasury activities are governed by policies and procedures approved and monitored by the Board. The Group operates a central treasury function which manages and monitors external and internal funding requirements and treasury risks, including interest rate and currency management.

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

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

Interest rate risk
The Group's policy is to borrow at both fixed and floating interest rates and to use interest rate swaps to generate the required interest rate profile. The policy does not require that a specific proportion of the Group's borrowings are at fixed rates of interest. During 2006 all borrowings were at floating interest rates, with no borrowings at fixed rates (2005: £nil).

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

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

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

David Dutro
Group Chief Executive
27 February 2007

Brian Taylorson
Finance Director
27 February 2007

Health, safety and environment report

Commitment
Elementis is committed to preventing harm to people and the environment in a sustainable way. Good health, safety and environmental (HSE) performance allows the Group to focus on developing, manufacturing and selling its products without the cost in both human and financial terms of accidents and incidents.

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

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

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

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

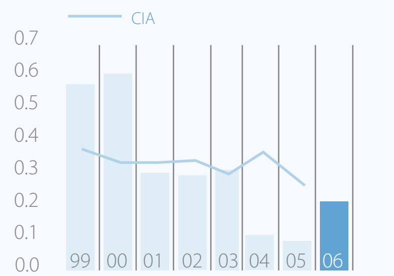
The Board and senior management of Elementis are committed to this policy and continually monitor performance to ensure its implementation.

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

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

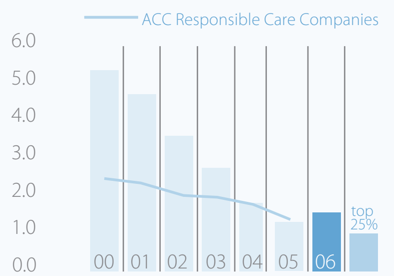
Lost time accidents (LTAs)
There were five LTAs[1] in 2006, corresponding to a rate of 0.16 per 100,000 hours worked. Although higher than last year this is still well below the CIA[2] member average of 0.23 in 2005.

LTA Rate
(>3 days per 100,000 hours)



Recordable incidents
A more detailed measure of safety performance is the number of recordable injuries and illnesses[3]. By maintaining a high standard of safety in 2006 we reduced the number of recordable injuries and illnesses by four (equivalent to 18%) giving an OHSA[4] recordable incident rate of 1.12 per 200,000 hours worked. This rate is marginally higher than the rate in 2005 because of the reduced number of employees. The ACC[5] member rate for US companies in 2005 was 1.23 per 200,000 hours as shown by the chart below.

Recordable incident rate
(per 200,000 hours)



1 LTAs are: injuries resulting in greater than three days lost (not including the day of injury).
2 Chemical Industry Association.
3 Workplace injuries and illnesses that require medical treatment beyond first aid, including LTAs.
4 The US government's Occupation Health & Safety Administration.
5 American Chemistry Council.

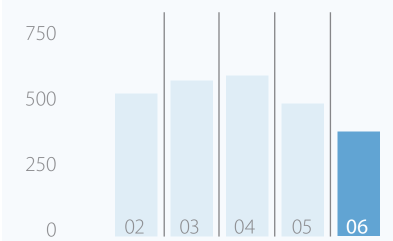
Commitment to the environment
The Group's environmental goals are zero environmental incidents and a continual improvement in environmental performance.

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

Emissions to air
Emissions to air are closely regulated within Elementis.

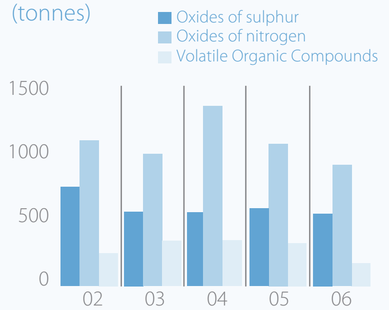
Emissions of carbon dioxide, a 'greenhouse gas' which facilitates global warming and leads to other consequences of climate change, were lower versus 2005 levels. This was partly due to the reduction in production at the UK chromium facility in Eaglescliffe. See chart below:

CO_2 emissions
(per thousand tonnes)



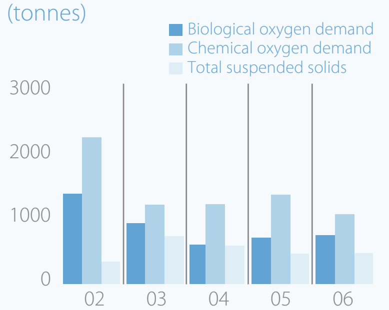
Emissions of the oxides of sulphur and nitrogen (SOx and NOx), which can cause acid rain also improved, as did emissions of Volatile Organic Compounds (VOCs), which can combine with NOx to form smog. See chart below:

SOx, NOx and VOC emissions (tonnes)



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

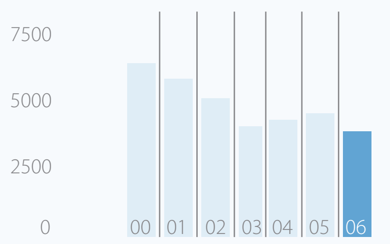
Water quality (tonnes)



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

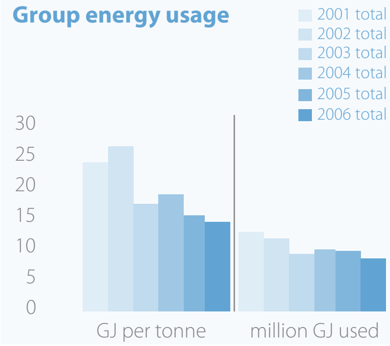
Water consumption
Elementis does not operate manufacturing facilities in areas of extreme water shortage, with the exception of the Specialties Hectorite mine in California. Nevertheless the Company recognises the global need to conserve water and monitors consumption. In 2006 there was a reduction in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

Water consumption (million litres)



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

Group energy usage



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

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

Board of directors

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1. Robert Beeston, age 65

Chairman

Robert Beeston joined the Board and was appointed Chairman of Elementis on 21 September 2006. He is non-executive chairman of Cookson Group plc and the senior independent director and chairman of the remuneration committee of D S Smith plc. From 1992 until 2002 he was chief executive officer of FKI plc. He spent 18 years with Dowty Group before joining John Brown Plastics Machinery (UK) Ltd as managing director. In 1985, he was appointed managing director of BTR Valve Group, a position he held for six years before joining FKI plc.

2. Brian Taylorson, age 51

Finance Director

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

3. David Dutro, age 51

Group Chief Executive

David Dutro joined the Board on 17 January 2007. He joined Elementis in November 1998 as President of Elementis Pigments then became President and Chief Operating Officer, Elementis Worldwide, in October 2005. Mr Dutro was vice president, general manager of Universal Foods' Dairy and Food Ingredient businesses (now Sensient Technologies Corp), and also spent time with ICI in their colours, polymer additives and surfactants businesses. Mr Dutro was born and educated in the US and holds a Bachelor of Science degree in marketing.

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

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

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

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

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

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

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

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

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

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

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

9. Matthew Peacock, age 45
Non-executive Director

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

Key to membership of committees:
A Audit Committee
N Nomination Committee
R Remuneration Committee

Directors' report

Report and financial statements
The directors submit their report and the audited financial statements for the year ended 31 December 2006.

Results
The Group profit for the year attributable to equity holders of the parent amounted to £31.6 million (2005: loss of £38.1 million).

Principal activities, business review and future development
The Chairman's statement and the Business review contain a fair review of the principal activities of the Group during 2006, as well as references to recent events, likely future developments and policies and procedures in respect of financial risk. The Group undertakes, on a continuing basis, research and development of new products and improvement of existing products.

Group turnover and profit is analysed by activity and by geography in the notes to the financial statements.

Donations and contributions
During the year the Group donated £1,447 for charitable purposes (2005: £2,070).

Redemption of redeemable B shares
In November 2006 the Company redeemed 212,453,000 Redeemable B shares of 1 pence each, being all the Redeemable B shares in issue at the beginning of 2006, at a redemption price of 1 pence per share.

Political donations
Elementis has no affiliation to any political party or group in any country and makes no political donations.

Directors
The present directors of the Company are Robert Beeston, Edward Bramson, Ian Brindle, David Dutro, Chris Girling, Kevin Matthews, Ken Minton, Matthew Peacock and Brian Taylorson. With the exception of Robert Beeston who was appointed on 21 September 2006 and David Dutro who was appointed on 17 January 2007 all the directors served on the Board throughout the financial year.

A statement of the directors' interests in the share capital of the Company is set out in the Directors' remuneration report.

At the 2007 Annual General Meeting, Robert Beeston, David Dutro and Ken Minton will retire in accordance with the Company's Articles of Association and then offer themselves for election by shareholders. Neither Robert Beeston nor Ken Minton have a service contract with any Group company. David Dutro has a service contract with the Company. It does not have a fixed term but provides for a notice period from the Company of 12 months.

Notice of resolutions for their election to the Board is set out in the Notice of Annual General Meeting.

Employee communications and involvement
It is Group policy to communicate with all employees on major matters to encourage them to take a wider interest in the affairs of their employing company and the Group and to make them aware of the financial and economic factors affecting the Company's performance. This is done in a variety of ways including informal consultations, bulletins and briefing sessions. There are well established procedures, including regular meetings with recognised unions, to ensure that the views of employees are taken into account in making decisions likely to affect their interests. Managers throughout the Group have a responsibility to keep their staff informed of developments and matters of interest. The Company operates a savings-related share option scheme allowing UK and US employees an opportunity to become shareholders.

Employment policies
The Group is committed to the principle of equal opportunity in employment, regardless of a person's race, creed, colour, nationality, gender, age, marital status, sexual orientation, religion or disability. Employment policies are fair, equitable and consistent with the skills and abilities of the employees and the needs of the Group's businesses.

These policies ensure that everyone is accorded equal opportunity for recruitment, training and promotion. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

Policy on payment of suppliers
The Company and the Group's policy concerning the payment to suppliers is to agree terms of payment at the start of business with each supplier and to adhere to these, subject to satisfactory performance by the suppliers. The Company and the Group do not follow any code or statement on payment practice. Trade creditors for the Group at 31 December 2006 represented 69 days of annual purchases. The Company has no trade creditors.

Substantial shareholders

As at 23 February 2007 the Company had been notified of the following interests in 3 per cent or more of its issued ordinary capital:

	Ordinary shares	Percentage of issued ordinary share capital
Schroders Investment Management	43,384,689	9.8
Silchester International Investors Ltd	27,412,136	6.2
Barclays plc	26,892,746	6.0
JP Morgan Chase & Co.	26,060,356	5.9
UBS AG	22,808,672	5.1
Aegon UK plc	18,184,566	4.1
Legal and General	15,879,735	3.6

Auditor

A resolution to re-appoint KPMG Audit Plc as auditors of the Company will be proposed at the forthcoming Annual General Meeting to be held on 26 April 2007.

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Going concern

The directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future and confirm that the Company and the Group are going concerns. For this reason they continue to adopt the going concern basis in preparing these financial statements.

Annual General Meeting

The tenth Annual General Meeting of the Company will be held on 26 April 2007. The Notice of Meeting is included in a separate document sent to shareholders.

By order of the Board

Kathryn Silverwood
Company Secretary
27 February 2007

Corporate governance

Compliance
Throughout the year to 31 December 2006, the Company complied with the provisions of section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council (the 'Combined Code') with the exception of those areas detailed in this report.

The Board
The activities of the Company are controlled by the Board which currently comprises a Chairman, a Chief Executive, a Finance Director and six non-executive directors.

On 21 September 2006, the Board appointed Robert Beeston as Chairman and major shareholders have been given the opportunity to meet him. On 17 January 2007, the Board appointed David Dutro as Chief Executive.

Edward Bramson acted as the Company's Chairman and Chief Executive until September 2006. Given the critical role that Mr Bramson performed during the strategic review and the reorganisation of the Group, and the balance of non-executive directors, the Board considers that no single individual dominated its decision making. The Board is therefore of the opinion that a joint Chief Executive and Chairman was appropriate for the Company at that time.

The Board operates within a framework of controls used to minimise risks, including a formal schedule of matters specifically reserved for its decision. The Board sets the strategic aims and objectives for the Company and regularly reviews its resources to ensure they are sufficient to meet the Company's needs. The Board regularly reviews management performance and sets values and standards to ensure that its obligations to its shareholders and others are understood and met.

During 2006, the Board held one of its meetings at Hightstown, the Group's principal office in the US. This provided the Board with a broader opportunity to meet senior members of the management.

The Board has in place a procedure for the appointment of new directors to the Board in compliance with paragraph A.4 of section 1 of the Combined Code and this procedure was applied in relation to the appointment of Robert Beeston as a Chairman of the Company with effect from 21 September 2006 and David Dutro with effect from 17 January 2007. Elementis used the services of Spencer Stuart, the executive search firm, for the appointment of the Chairman.

The directors have access to the advice and services of the Company Secretary whose removal may be effected only with the approval of the Board. All directors can obtain independent professional advice at the Company's expense in the furtherance of their duties, if required.

Board independence
The Board considers all the non-executive directors to be independent, notwithstanding the fact that both Edward Bramson and Matthew Peacock were, during the year, principals of Hanover, a shareholder in the Company. The Board considered a number of factors when determining that Edward Bramson and Matthew Peacock are independent. These include the non-strategic nature of Hanover's current investment in Elementis, acknowledging that Hanover significantly reduced its shareholding in the Company during the year to less than 1.5 per cent and the fact that Edward Bramson is no longer a principal of Hanover, no longer Chairman and has no executive responsibilities.

The Board is also aware that Messrs Bramson, Brindle, Minton and Peacock have recent or current board positions in common. The Board does not believe that this has affected their independence.

Robert Beeston complied with the Combined Code criteria for independence upon his appointment in September 2006.

Induction
On appointment to the Board and Board committees all directors receive an induction tailored to their individual requirements. The induction includes visits to manufacturing facilities and meetings with senior management to assist them in building an understanding of how the Group operates and the issues that it faces. New directors are advised of their legal and other duties and other obligations as directors of a listed company. Investors are given the opportunity to meet with new non-executive directors on their appointment.

Shareholders
Senior executives hold meetings with key institutional shareholders to discuss strategy, financial performance and investment activities. All directors normally attend the Company's AGM, providing shareholders with an opportunity to question them about issues relating to the Company. Board members receive copies of significant analysts' notes issued on the Company.

Attendance at Board and committee meetings during 2006:

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Total number of meetings in the year:	10	3	2	3
Current directors:				
Robert Beeston[1]	3	–	–	–
Brian Taylorson	10	–	–	–
Edward Bramson	8	–	0[2]	–
Ian Brindle	10	3	2	–
Chris Girling	10	3	2	3
Kevin Matthews	10	3	2	3
Ken Minton	10	–	2	3
Matthew Peacock	9	2	2	2

1 Attended all Board meetings during his period of appointment.

2 Did not attend the meeting where the appointment of his replacement as Chairman was discussed.

Audit Committee

The Audit Committee comprises four non-executive directors: Chris Girling, Kevin Matthews, Matthew Peacock and Ian Brindle, who is Chairman of the Audit Committee. The Committee's full terms of reference can be found on the Company's website www.elementis.com or are available from the Company Secretary.

Ian Brindle has 'recent and relevant financial experience' as recommended by the Combined Code. The Board bases its assessment on his career with PricewaterhouseCoopers and his current role at the Financial Reporting Review Panel.

The Audit Committee is responsible for:

- reviewing the Company's internal financial controls and risk management systems;
- assessing the independence, objectivity and effectiveness of the external auditor;
- making recommendations for the appointment, re-appointment and removal of the external auditor and approving their remuneration and terms of engagement;
- reviewing the interim and annual financial statements prior to their recommendation to the Board for approval; and
- reviewing arrangements by which staff of the Company may raise concerns about possible improprieties in matters of financial reporting or other matters.

The Audit Committee met three times during 2006 and reviewed the interim and annual financial statements. The Committee also received reports from internal audit. The effectiveness of both internal and external audit activities are reviewed annually. The Committee reviewed the Group Risk Management Programme at its meeting in February 2006 and as part of the full Board's review of Risk Management in Hightstown in September 2006.

A policy regarding the engagement of the external auditor to supply non-audit services has been implemented. The policy recognises the importance of maintaining the objectivity and independence of the external auditors by minimising their involvement in projects of a non-audit nature. It is, however, also acknowledged that due to their detailed understanding of the Company's business it may sometimes be necessary to involve the external auditors in non-audit related work.

Nomination Committee

The Nomination Committee comprises Edward Bramson (Chairman) and five non-executive directors: Ian Brindle, Chris Girling, Kevin Matthews, Ken Minton and Matthew Peacock.

The Committee's full terms of reference, which are available on the Company's website www.elementis.com or from the Company Secretary, include:

- review of the size and composition of the Board, together with the skills, knowledge and experience of its members and make recommendations for change as necessary;
- carry out an annual performance evaluation of the Board and its members; and
- succession planning for the Board.

Corporate governance continued

The Nomination Committee met twice in 2006 to discuss the appointment of the Chairman and the Group Chief Executive. The performance and composition of the Board and Board Committees was reviewed by the full Board in February 2006.

Remuneration Committee

Details about the Remuneration Committee are set out in the Directors' remuneration report.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the Group and Company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the Company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' report, Directors' remuneration report and Corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Internal control

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can therefore only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Board is of the view that an ongoing process for identifying, evaluating and managing significant risks faced by the Group was in place throughout 2006 and up to the date that the Annual Report was approved. This process is regularly reviewed by the Board and accords with the Financial Reporting Council's 'Turnbull' guidance on internal control.

A Risk Management Committee consisting of senior functional managers exists to enhance management's ability to review and monitor the effectiveness of this process on an annual basis. Its terms of reference include supporting corporate governance requirements, recommending business risk strategy and developing policies and procedures for risk management and internal controls. They also include the monitoring of the effectiveness of internal controls and the design of processes to test the effectiveness of control.

Companies are required to include internal controls on agendas for their regular management meetings and to report half yearly to the Risk Management Committee on actions taken to review the effectiveness of those controls. Companies are also required to have processes to identify risks, and so far as possible, take action to reduce those risks.

At the meeting held in January 2007, the Board carried out its annual review of the effectiveness of internal controls. This involved a presentation from the Chairman of the Risk Management Committee on action taken during the year to identify and reduce risks and to increase awareness of both risk management and the importance of having effective internal controls.

By order of the Board

Kathryn Silverwood
Company Secretary
27 February 2007

Directors' remuneration report

The Remuneration Committee ('the Committee')

Remuneration paid to executive directors is considered and determined by the Remuneration Committee on behalf of the Board. The Remuneration Committee comprises Ken Minton (Chairman), Chris Girling, Kevin Matthews and Matthew Peacock.

The Committee's full terms of reference can be found on the Company's website www.elementis.com or are available from the Company Secretary.

Details of the number of meetings and attendance at Board and Committee meetings during the year are set out in the table on page 21.

Advisers to the Committee

The Director of Group Human Resources is the internal advisor to the Committee and provides information and advice to facilitate discussion and decision making on remuneration matters. He also provides the Company and its subsidiaries with services which include the setting of employment policies, recruitment of senior managers and overall responsibility for all major issues involving human resources.

The Committee was assisted by PricewaterhouseCoopers LLP in relation to the implementation of the 2007 Performance Share Plan.

Remuneration policy

The policy of the Committee for the current and subsequent years is to set basic salaries at a level which is competitive with that of comparable businesses enabling the Company to attract and retain people with relevant ability, experience and skills. To ensure that executive directors align their interests to those of shareholders a substantial proportion of the overall remuneration package is linked to individual and corporate performance through participation in short-term and long-term incentive schemes.

Salaries, fees and benefits

Salaries for executive directors are determined by the Committee and are reviewed annually by it, taking into account individual performance over the previous 12 months, external benchmark salary data and pay and employment conditions elsewhere in the Group.

Benefits relate to the provision of a car, life assurance and medical cover.

Fees for non-executive directors are determined by the Board, having regard to fees paid to non-executive directors in other UK quoted companies, the time commitment and responsibilities of the role. No options are held by the non-executive directors. Individuals cannot vote on their own remuneration.

Service contracts

It is the Company's policy that salaried executive directors should have service contracts with the Company that contain a termination notice period not exceeding 12 months, as is the case with the service agreements of Brian Taylorson and David Dutro.

Termination payments in relation to departing executive directors are not agreed in advance and are determined in accordance with the directors' contractual rights. It is the Committee's policy to ensure that a director's duty to mitigate his loss is taken into account in the calculation of any termination payments.

The total amount that would be payable to Brian Taylorson for early termination by the Company of his service agreement is between 50 per cent and 100 per cent of the aggregate of (i) his basic annual salary, (ii) the sums that would have become payable to him or on his behalf, had 12 months' notice of termination been given, by way of pension contributions and any pension cash salary supplement, (iii) the cost of providing private medical insurance for him, his spouse and children aged under 21 for the 12 months following termination, and (iv) his monthly car allowance for a 12 month period.

The non-executive directors have engagement letters with the Company as follows:

Name	Date of appointment	Date of expiry
Robert Beeston	21 September 2006	20 September 2009
Edward Bramson	6 June 2005	5 June 2008
Ian Brindle	6 June 2005	5 June 2008
Christopher Girling	29 April 2005	28 April 2008
Kevin Matthews	16 February 2005	15 February 2008
Ken Minton	6 June 2005	5 June 2008
Matthew Peacock	6 June 2005	5 June 2008

Each letter provides that the director's appointment can be terminated by the Company on six months' notice on any grounds without claim for compensation.

Directors' remuneration report continued

Short-term incentive arrangements

The 2006 Annual Bonus Scheme for Brian Taylorson and David Dutro provided for a value of 100 per cent of basic salary based on the achievement of earnings per share ('EPS') targets contained in the operating plan together with personal objectives. There was an opportunity for over performance which added a further 59 per cent of basic salary. The Annual Bonus Scheme for 2007 provides for a value of 70 per cent of basic salary based on the achievement of EPS targets in the operating plan together with personal objectives. There is an opportunity for over performance which in 2007 is expected to add no more than 30 per cent of basic salary.

1987 and 1998 Executive Share Option Schemes

The 1987 Executive Share Option Scheme (the '1987 Scheme') and the 1998 Approved and Unapproved Executive Share Option Schemes (the '1998 Scheme') which replaced the 1987 Scheme, are discretionary option schemes under which senior management below Board level were granted options to purchase shares in the Company. The price at which options may be exercised is the average market price over the five working days preceding the grant and there is no discount. Options are capable of exercise after three years and within 10 years of the date of grant; those granted since 1995 are subject to earnings per share performance targets. No further options will be granted under the 1987 Scheme or its replacement, the 1998 Scheme. However, subject to the rules of the Schemes, certain awards under the 1987 and 1998 Schemes remain exercisable.

2003 Executive Share Option Scheme

The 2003 Scheme replaced the 1998 Scheme. The key points of the 2003 Scheme are as follows:

- Options are granted with an exercise price per share based on the Company's share price immediately before the date of grant.
- The value of options valued at the date of grant will not normally exceed 1.5 times basic salary in any financial year.
- Conditions attached to the exercise of options granted in 2003, 2004, 2005 and 2006 to executive directors and other senior managers were based partly on the Company's EPS growth relative to inflation and partly on the Company's total shareholder return ('TSR') relative to the comparator companies comprising national and international chemical companies.

The comparator companies for purposes of grants in 2006 were the following:

FTSE All Share Chemicals	Croda International Plc
	Imperial Chemical Industries PLC
	Porvair plc
	Yule Catto & Co plc
FTSE Eurotop 300 Chemicals	Akzo Nobel NV
	Ciba Specialty Chemicals
	DSM NV
	Degussa AG
S&P 500 Chemicals	Dow Chemical Company
	Rohm & Haas Company
Switzerland: Specialty Chemicals	Lonza Group AG
S&P 400 Specialty Chemicals	Ferro Corp
	HB Fuller Co
	Minerals Technologies Inc
	Arch Chemicals Inc
	Quaker Chemical Corp
France: Chemicals	Rhodia SA

The following targets applied to options granted to executive directors and other senior managers.

Proportion of option grant exercisable as multiplier of base salary	EPS/TSR split	Performance criteria to be met for options to be exercisable
0.0 to 0.7	50% EPS	Annual average EPS growth of 4% + RPI
	50% TSR	TSR at median
0.71 to 1.5	50% EPS	Annual average EPS growth of 4.1% + RPI to 10% + RPI (straight line vesting)
	50% TSR	Median to upper quartile (straight line vesting)

The EPS performance condition and TSR condition apply separately to options granted under the 2003 Scheme.

- The performance conditions will initially be tested after three years. If they are not satisfied, then they may be retested after four years, from the same fixed base point. To the extent they are not met after the end of the fourth financial year, the options will lapse. Options granted in 2006 and onwards will not be retested.
- The Committee believes that this combination of targets is the most appropriate way of measuring both the total returns to shareholders relative to similar businesses and the Company's underlying financial performance. The assessment of the performance targets was carried out by Hoare Govett Limited.

Grants of options were made under the 2003 Scheme in 2003, 2004, 2005 and 2006.

2007 Performance Share Plan

The Committee intends to introduce a new long-term incentive scheme during 2007 (the '2007 Plan') at an EGM to be held later in 2007, once it has had the opportunity to consult with shareholders on the proposed structure of the 2007 Plan.

The 2007 Plan would be based around three key features: (i) Total Shareholder Return (comprising dividends and increase in the share price) over three years must exceed the performance baseline (being the cost of equity over the same three year period), in order for any awards to vest; (ii) a Plan pool is then calculated as a set percentage of the growth in value of the Company over the performance baseline; and (iii) each participant would have a set entitlement over part of the Plan pool set at the outset.

The Committee believe that providing such a share-based long-term incentive arrangement for senior executives would best align the interests of those executives with shareholders.

Share ownership guidelines

Shareholding guidelines have been introduced for executive directors, who will be expected to retain in shares 50 per cent of the post-tax gains made from the exercise of options under the scheme or annual bonuses paid in the form of shares, until they have built up a shareholding equal to their basic salaries.

Savings-Related Share Option Scheme

Throughout the 1998 UK savings-related share option scheme (the 'SAYE Scheme') is a scheme under which all eligible UK employees, including executive directors, can enter into savings contracts with a building society or bank for a period of three or five years and use the proceeds from their savings accounts to acquire shares in the Company on the exercise of their options. The option price at which options may be exercised is the average market price over the five working days preceding the invitation date discounted by a maximum of 20 per cent.

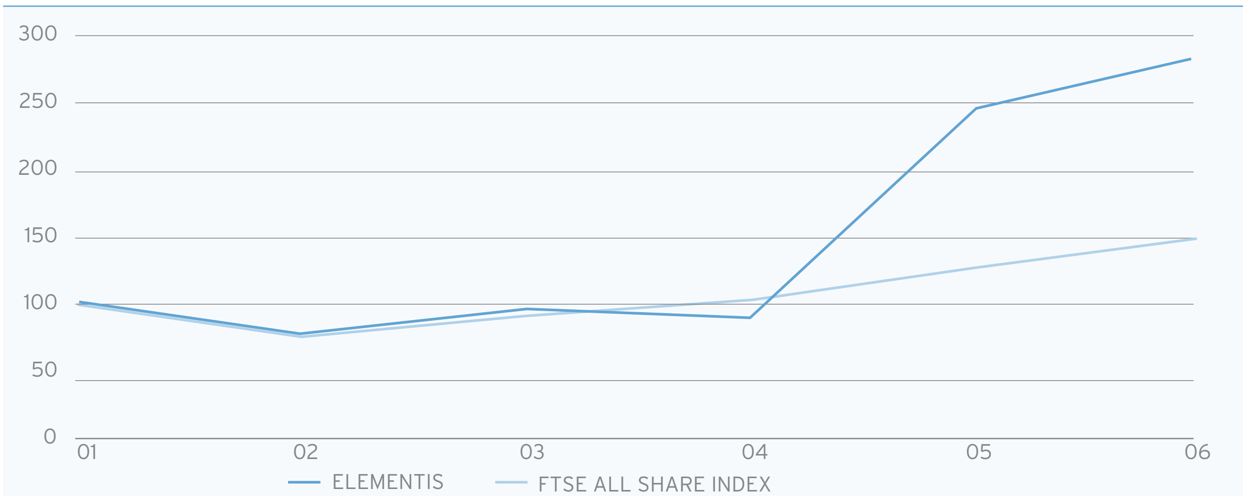
Options granted to executive directors under the SAYE Scheme are not subject to performance conditions. The SAYE Scheme is an Inland Revenue approved all-employee scheme, the terms of approval for which do not allow the imposition of performance conditions on the exercise of options.

Total shareholder return performance

The following graph illustrates the Company's total shareholder return for the five years ending 31 December 2006, relative to the FTSE All Share Index.

This graph looks at the value, to the end of 2006, of £100 invested in Elementis on 31 December 2001 compared with that of £100 invested in the FTSE All Share Index.

The Company is a member of the FTSE All Share Index and accordingly this is considered to be the most appropriate broad equity market index for the purpose of measuring the Company's relative performance.



Directors' remuneration report continued

Directors' remuneration table

	Salaries/fees £'000	Bonuses £'000	Benefits* £'000	Total emoluments excluding pensions 2006 £'000	Total emoluments excluding pensions 2005 £'000
Executive					
Brian Taylorson[(1), (2)]	275	436	28	**747**	360
Non-executive					
Robert Beeston[(3)]	33	–	–	**33**	–
Edward Bramson[(4)]	–	–	–	**–**	–
Ian Brindle†	40	–	–	**40**	23
Christopher Girling†	35	–	–	**35**	24
Kevin Matthews†	35	–	–	**35**	30
Ken Minton† §	45	–	–	**45**	26
Matthew Peacock†	35	–	–	**35**	20

* The benefit package includes the provision of a car allowance or company car, life assurance and medical cover.
† Each non-executive director receives a fee of £35,000 p.a. plus an additional £5,000 should he chair a Board committee.
§ Senior Independent Director receives an additional £5,000 p.a.

Notes:
1. Emoluments for Brian Taylorson exclude salary supplements paid as compensation for the limitation of pension rights to the Inland Revenue earnings cap. These are shown in the Directors' retirement benefits table.
2. The Company released Brian Taylorson to serve on the Board of Fiberweb plc from September 2006 and fees of £9,000 were paid to him during the year.
3. Robert Beeston was appointed as Chairman on 21 September 2006 for fee of £120,000 p.a.
4. Edward Bramson waived his right to any emoluments for 2005, 2006 and subsequent years.
5. David Dutro was appointed as Group Chief Executive on 17 January 2007 on a salary of $500,000 p.a.

Retirement benefits

Mr Taylorson, as a salaried executive director, participates in the Company's Inland Revenue approved funded occupational pension scheme.

The main benefits to salaried executive directors, who contribute a percentage of their salaries to the scheme each year, are:
- an accrual rate of 1/30 for each year of pensionable service;
- life assurance cover of four times pensionable salary; and
- pensions to spouse and dependant children payable on death.

Salaried executive directors are subject to the Inland Revenue earnings cap on the amount of salary which may be treated as pensionable.

The normal pensionable retirement age for Brian Taylorson is 60.

Directors' retirement benefits table

	Salary supplements 2006 £'000	Salary supplements 2005 £'000	Accrued benefits 31.12.06 £'000	Increase in accrued benefits 2006 £'000	Transfer value of increases in accrued benefits 2006 £'000	Total transfer value at 01.01.06 £'000	Total transfer value at 31.12.06 £'000	Increase in transfer value less directors' contributions 2006 £'000	Increase in accrued benefits (including inflation) 2006 £'000
Executive									
Edward Bramson*	–	–	–	–	–	–	–	–	–
Brian Taylorson	91	79	18	4	82	353	457	98	4

*Edward Bramson was Executive Chairman until 21 September 2006.

Notes:
All transfer values have been calculated on the basis of actuarial advice in accordance with the UK Institute of Faculty of Actuary's guidance note GN11. The transfer value of the increase in accrued benefits discloses the current value of the increase in accrued benefits that the director has earned in the year, whereas the increase in transfer value less directors' contributions discloses the absolute change in transfer value and includes the change in value of the accrued benefits resulting from market volatility affecting the transfer value at the start of the year as well as the additional value earned in the year.

Non-executive directors are not entitled to retirement benefits.

Directors' shareholdings

As at 31 December 2006 the interests of the directors in the issued shares of the Company (all of which are beneficial), and the number of shares over which they held subscription options, as shown in its register maintained under section 325 of the Companies Act 1985, were:

	Ordinary shares 31.12.06	Beneficial holdings 31.12.05*
Robert Beeston	–	–
Edward Bramson	–	–
Ian Brindle	31,172	19,000
Christopher Girling	5,000	–
Kevin Matthews	–	–
Ken Minton	–	–
Matthew Peacock	–	–
Brian Taylorson	381,096	100,000

*Or date of appointment if later.

Brian Taylorson retained 281,096 shares following the exercise of 1,258,696 options in 2006.

David Dutro was appointed on 17 January 2007. At that date he had no interest in the issued shares of the Company. As at 23 February 2007 there was no change in the directors' interests set out above.

At 31 December 2006 the Trustee of the Company's Employee Share Ownership Trust (ESOT) held 19,901 shares (2005: 270,729) shares and the executive director, Brian Taylorson as potential beneficiary under the ESOT, is deemed to have an interest in the shares held in the ESOT.

Directors' share options

	Option type	01.01.06	Granted during 2006	Exercised during 2006	Lapsed during 2006	31.12.06	Option price (p)	Earliest exercise date	Expiry date	Price on exercise (p)	Gain on exercise (£)
Brian Taylorson	A	75,501	–	–	–	75,501	21.9	01.06.2007	30.11.2007		
	B	121,212	–	121,212	–	–	24.8	29.04.2006	28.04.2013	86.0	74,291
	C	1,137,484	–	1,137,484	–	–	24.8	29.04.2006	28.04.2013	86.0	697,164
	C	642,857	–	–	–	642,857	35.0	23.04.2007	22.04.2014		
	C	468,293	–	–	–	468,293	51.3	30.03.2008	29.03.2015		
	C	–	482,456	–	–	482,456	85.5	04.04.2009	04.04.2016		

A Savings-related share option scheme.
B Executive Share Option Schemes 2003 Approved.
C Executive Share Option Schemes 2003 Unapproved.

Note 26 to the financial statements contains a detailed schedule of all options granted to directors and employees as at 31 December 2006. All of the share options were granted for nil consideration.

The market price of ordinary shares at 31 December 2006 was 83.3 pence and the range during 2006 was 74.0 pence to 90.8 pence.

None of the directors had an interest in any contract of significance in relation to the business of the Company or its subsidiaries at any time during the financial year.

There has been no change in the directors' shareholdings (all of which are beneficial) and their share options between 31 December 2006 and 23 February 2007.

Auditable section of the report on remuneration

The following sections and tables constitute the auditable part of this report as defined in schedule 7A of the Companies Act 1985: Sections relating to 'Short-term incentive arrangements', '1987 and 1998 Executive Share Option Schemes', '2003 Executive Share Option Scheme', 'Savings-Related Share Option Scheme', tables headed 'Directors' retirement benefits', 'Directors shareholdings' and 'Directors Share Options'.

The Remuneration report has been approved by the Committee and signed on its behalf by:

Ken Minton
Remuneration Committee Chairman
27 February 2007

Independent auditor's report
to the members of Elementis plc

We have audited the Group and Company financial statements ('the financial statements') of Elementis plc for the year ended 31 December 2006 which comprise the Consolidated income statement, the Consolidated and Company balance sheets, the Consolidated cash flow statement, the Consolidated statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRS') as adopted by the EU, and for preparing the Company financial statements and the Directors' remuneration report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 22.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006;
- the Company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
27 February 2007

Consolidated income statement
for the year ended 31 December 2006

	Note	2006 Before exceptional items £million	2006 Exceptional items (note 5) £million	2006 After exceptional items £million	2005 Before exceptional items £million	2005 Exceptional items (note 5) £million	2005 After exceptional items £million
Continuing operations							
Revenue	2	**395.9**	**-**	**395.9**	399.4	–	399.4
Cost of sales		**(274.7)**	**-**	**(274.7)**	(280.8)	(41.0)	(321.8)
Gross profit		**121.2**	**-**	**121.2**	118.6	(41.0)	77.6
Distribution costs		**(52.6)**	**-**	**(52.6)**	(58.5)	(2.6)	(61.1)
Administrative expenses		**(31.0)**	**3.0**	**(28.0)**	(41.0)	(0.9)	(41.9)
Operating profit/(loss)	2	**37.6**	**3.0**	**40.6**	19.1	(44.5)	(25.4)
Profit on disposal of business		**-**	**-**	**-**	–	4.6	4.6
Investment income	3	**0.2**	**-**	**0.2**	0.3	–	0.3
Finance costs	4	**(7.7)**	**-**	**(7.7)**	(7.8)	–	(7.8)
Profit/(loss) before income tax	2	**30.1**	**3.0**	**33.1**	11.6	(39.9)	(28.3)
Tax	6	**(0.1)**	**(1.3)**	**(1.4)**	(0.3)	(3.1)	(3.4)
Profit/(loss) for the year from continuing operations		**30.0**	**1.7**	**31.7**	11.3	(43.0)	(31.7)
Discontinued operations							
Profit/(loss) from discontinued operations		**-**	**-**	**-**	1.1	(7.8)	(6.7)
Profit/(loss) for the year		**30.0**	**1.7**	**31.7**	12.4	(50.8)	(38.4)
Attributable to:							
Equity holders of the parent		**29.9**	**1.7**	**31.6**	12.2	(50.3)	(38.1)
Minority interests		**0.1**	**-**	**0.1**	0.2	(0.5)	(0.3)
		30.0	**1.7**	**31.7**	12.4	(50.8)	(38.4)
Earnings per share							
From continuing and discontinued operations:							
Basic (pence)	9			**7.1**			(8.8)
Diluted (pence)	9			**7.0**			(8.8)
From continuing operations:							
Basic (pence)	9			**7.1**			(7.2)
Diluted (pence)	9			**7.0**			(7.2)

Consolidated balance sheet
at 31 December 2006

	Note	2006 31 December £million	2005 31 December £million
Non-current assets			
Goodwill and other intangible assets	10	**151.6**	170.6
Property, plant and equipment	11	**126.1**	141.1
Interests in associates	12	**0.7**	0.7
Other investments	13	**1.0**	2.6
Deferred tax assets	18	**7.3**	11.1
Total non-current assets		**286.7**	326.1
Current assets			
Inventories	14	**67.7**	63.5
Trade and other receivables	15	**73.1**	75.6
Cash and cash equivalents	22	**14.5**	13.0
Total current assets		**155.3**	152.1
Total assets		**442.0**	478.2
Current liabilities			
Bank overdrafts and loans	21	**(0.7)**	(4.6)
Trade and other payables	16	**(61.8)**	(69.5)
Current tax liabilities		**(3.3)**	(5.6)
Provisions	17	**(2.4)**	(11.8)
Total current liabilities		**(68.2)**	(91.5)
Non-current liabilities			
Loans and borrowings	21	**(114.4)**	(107.8)
Retirement benefit obligations	25	**(37.3)**	(62.0)
Deferred tax liabilities	18	**-**	(0.3)
Provisions	17	**(19.0)**	(22.4)
Government grants		**(2.2)**	(2.3)
Total non-current liabilities		**(172.9)**	(194.8)
Total liabilities		**(241.1)**	(286.3)
Net assets		**200.9**	191.9
Equity			
Share capital	19	**22.1**	21.8
Share premium	20	**3.6**	1.9
Other reserves	20	**71.0**	89.5
Retained earnings	20	**102.6**	76.6
Total equity attributable to equity holders of the parent		**199.3**	189.8
Minority equity interests		**1.6**	2.1
Total equity		**200.9**	191.9

Robert Beeston/Brian Taylorson
Directors

The financial statements on pages 29 to 57 were approved by the Board on 27 February 2007.

Consolidated cash flow statement
for the year ended 31 December 2006

	Note	2006 £million	2005 £million
Operating activities:			
Profit/(loss) for the year		**31.7**	(38.4)
Adjustments for:			
Investment income		**(0.2)**	(0.3)
Finance costs		**7.7**	7.9
Tax charge		**1.4**	3.4
Depreciation and amortisation		**14.8**	18.2
Decrease in provisions		**(2.2)**	(1.3)
Pension contributions net of current service cost		**(7.8)**	(14.1)
Share based payments		**0.9**	0.8
Exceptional items		**(3.0)**	47.7
Cash flow in respect of exceptional items		**(10.8)**	(12.7)
Operating cash flow before movement in working capital		**32.5**	11.2
Increase in inventories		**(9.8)**	(1.0)
(Increase)/decrease in trade and other receivables		**(1.6)**	0.3
(Decrease)/increase in trade and other payables		**(1.6)**	2.6
Cash generated by operations		**19.5**	13.1
Income taxes (paid)/received		**(0.7)**	(2.6)
Interest paid		**(8.3)**	(7.2)
Net cash flow from operating activities		**10.5**	3.3
Investing activities:			
Interest received		**0.3**	0.4
Disposal of property, plant and equipment		**1.5**	–
Purchase of property, plant and equipment		**(13.2)**	(16.8)
Disposal of business	30	**1.4**	23.7
Net cash flow from investing activities		**(10.0)**	7.3
Financing activities:			
Issue of shares		**2.0**	0.9
Redemption of B shares		**(2.1)**	(9.7)
Dividends paid		**(10.1)**	–
Purchase of own shares		**(2.4)**	–
Decrease in borrowings repayable within one year		**–**	(3.0)
Increase/(decrease) in borrowings repayable after one year		**17.9**	(0.9)
Repayment of obligations under finance lease		**–**	(0.2)
Net cash from/(used in) financing activities		**5.3**	(12.9)
Net increase/(decrease) in cash and cash equivalents		**5.8**	(2.3)
Cash and cash equivalents at 1 January		**8.4**	10.3
Foreign exchange on cash and cash equivalents		**(0.4)**	0.4
Cash and cash equivalents at 31 December	22	**13.8**	8.4

Consolidated statement of recognised income and expense
for the year ended 31 December 2006

	2006 £million	2005 £million
Exchange differences on translation of foreign operations	**(23.0)**	18.3
Actuarial gain/(loss) on pension and other post-retirement schemes	**8.6**	(1.5)
Deferred tax associated with pension and other post-retirement schemes	**–**	(0.9)
Gains on cash flow hedges taken to equity	**1.9**	0.7
Net income/(expense) recognised in equity	**(12.5)**	16.6
Profit/(loss) for the year	**31.7**	(38.4)
Total recognised income and expense	**19.2**	(21.8)
Effect of change in accounting policy		
Effect of adoption of IAS 32 and 39 on 1 January 2005 on:		
Share capital	**–**	(2.2)
	19.2	(24.0)
Total recognised income and expense is attributable to:		
Equity holders of the parent	**19.1**	(23.7)
Minority interests	**0.1**	(0.3)
	19.2	(24.0)

Notes to the financial statements
for the year ended 31 December 2006

1 Accounting policies
Elementis plc is a company incorporated in the UK. The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS). The Company has elected to prepare its parent company financial statements in accordance with the UK GAAP. These are presented on pages 58 to 62.

Basis of preparation The 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 accounting policies set out below have been consistently applied across Group companies to all periods presented in these consolidated financial statements. Judgements made by the directors in application of these accounting policies that have a significant effect on the financial statements are set out in the Business review.

Basis of consolidation The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period. A subsidiary is an entity that is controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during a period are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In accordance with the transitional rules of IFRS 1, the Company has not restated business combinations that took place prior to the date of transition to IFRS of 1 January 2004. As a consequence the Scheme of Arrangement entered into in 1998 whereby the Company acquired Elementis Holdings Limited and applied the true and fair override to account for the transaction as a merger has not been restated under IFRS.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Associates Associates are those entities in which the Group has significant influence, but not control over the financial and operating policies. The consolidated financial statements include the Group's share of the post-acquisition total recognised gains and losses and the net assets of associates on an equity accounted basis. Where the Group's share of losses exceeds its investment in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred a legal or constructive obligation.

Foreign currency

(a) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at exchange rates ruling at the dates the fair value was determined.

(b) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at the average rates of exchange ruling for the relevant period. As allowed by IAS 21, exchange differences arising since 1 January 2004 from the translation of the net investment in foreign operations and of related hedges are taken to the translation reserve. They are recognised in the income statement upon disposal of the foreign operation. The Group hedges a portion of the translation exposure of its overseas net assets through US Dollar and Euro borrowings. From 1 January 2005, the Group has elected to apply net investment hedge accounting for these transactions where possible. Where hedging is applied, the effective portion of the gain or loss on an instrument used to hedge a net investment is recognised in equity. Any ineffective portion of the hedge is recognised in the income statement.

(c) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks. The Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Notes to the financial statements continued

1 Accounting policies continued

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

Fair value hedges

Where a derivative financial statement is designated as a hedge of the variability in a fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

Property, plant and equipment Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Freehold land is not depreciated. Leasehold property is depreciated over the period of the lease. Freehold buildings, plant and machinery, vehicles, fixtures, fittings, tools and equipment are depreciated over their estimated useful lives on a straight line basis. Depreciation methods, useful lives and residual values are assessed at the reporting date. No depreciation is charged on assets under construction until the asset is brought into use.

Estimates of useful lives of these assets are:

Buildings	10–50 years
Plant and machinery	2–20 years
Vehicles	2–10 years
Fixtures, fittings, tools and equipment	3–20 years

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within it will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Leased assets Leases which result in the Group receiving substantially all of the risks and rewards of ownership of an asset are treated as finance leases. An asset held under a finance lease is recorded in the balance sheet and depreciated over the shorter of its estimated useful life and the lease term. Future instalments net of finance charges are included within borrowings. Minimum lease payments are apportioned between the finance charge, which is allocated to each period to produce a constant periodic rate of interest on the remaining liability and charged to the income statement and reduction of the outstanding liability. Rental costs arising from operating leases are charged on a straight-line basis over the period of the lease.

Intangible assets

(a) Goodwill

All business combinations since the transition to IFRS on 1 January 2004 are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since the transition date, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. Goodwill is allocated to cash-generating units and tested annually for impairment.

(b) Research and development

Expenditure on research is recognised in the income statement as an expense as incurred. Expenditure on development where research findings are applied to a plan or design for the production of new or substantially improved products and processes is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. Expenditure capitalised is stated as the cost of materials, direct labour and an appropriate proportion of overheads less accumulated amortisation. Other development expenditure is recognised in the income statement as an expense as incurred.

(c) Other intangible assets

Other intangible assets are stated at cost or when arising following a business combination, estimated fair value, less accumulated amortisation.

1 Accounting policies continued

(d) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill is systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Patents and trademarks	10–20 years
Other intangible assets	1–5 years

Inventories Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price, less estimated costs of completion and selling expenses. Cost, which is based on a weighted average, includes expenditure incurred in acquiring stock and bringing it to its existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads attributable to manufacture, based on normal operating capacity.

Trade receivables Trade receivables are non interest bearing and are stated at their nominal amount which is the original invoiced amount less provision made for bad and doubtful receivables. Estimated irrecoverable amounts are based on the ageing of receivables and historical experience. Individual trade receivables are written off when management deem them to be no longer collectable.

Cash and cash equivalents Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Borrowings Borrowings are initially measured at cost (which is equal to the fair value at inception), and are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds, net of transaction costs and the settlement or redemption of borrowings is recognised over the terms of the borrowings using the effective interest rate method.

Trade payables Trade payables are non interest bearing borrowings and are stated at their nominal value.

Share capital Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity. When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option and any dividends are discretionary. Dividends thereon are recognised as distributions within equity. Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in the income statement.

Impairment The carrying amount of non-current assets other than deferred tax is compared to the asset's recoverable amount at each balance sheet date for any indication of impairment. For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely dependent on the cash inflows from other assets or groups of assets.

The recoverable amount is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Notes to the financial statements continued

1 Accounting policies continued

Revenue Revenue is based on the fair value of consideration received from the sale of goods and services. It excludes sales between Group undertakings, VAT and similar sales based taxes. Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the customer. Revenue from services is recognised in the income statement in proportion to the stage of completion at the balance sheet date.

Investment income and finance costs Investment income comprises interest income on funds invested and changes in the fair value of financial assets at fair value taken to the income statement. Interest income is recognised as it accrues, using the effective interest method. Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses and changes in the fair value of financial assets at fair value taken to the income statement. All borrowing costs are recognised in the income statement using the effective interest method.

Pension and other post-retirement benefits In respect of the Group's defined benefit schemes, the Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any plan assets is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. Pension and post-retirement liabilities are calculated by qualified actuaries using the projected unit credit method. The expected increase in the present value of scheme liabilities and the long term expected return on assets based on the fair value of the scheme assets at the start of the period, are included in the income statement under finance costs. Any difference between the expected return on assets and that achieved is recognised in the statement of recognised income and expense together with the difference from experience or assumption changes. The Group recognises all such actuarial gains and losses in the period in which they occur through the statement of recognised income and expense. The Group also operates a small number of defined contribution schemes and the contributions payable during the year are recognised as incurred.

Share based payments The fair value of equity settled share options granted to employees is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an employee expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Own shares held by ESOP trust Transactions of the Group-sponsored ESOP trust are included in the consolidated financial statements. In particular, the trust's purchases of shares in the Company are charged directly to equity.

Investments Investments comprising loans and receivables are stated at amortised cost.

Provisions A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.

Government grants Grants against capital expenditure from government and other bodies are shown as creditors in the balance sheet. Such grants are released to the profit and loss account over the same period for which the relevant assets are depreciated.

Income tax Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

1 Accounting policies continued

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Non-current assets held for sale and discontinued operations A non-current asset or a group of assets containing a non-current asset (a disposal group), is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and is highly probable within one year. On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Termination benefits Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

New standards and interpretations not yet adopted A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements. These became mandatory for the Group's 2007 financial statements:

Amendments to IAS 1 *Presentation of financial statements: capital disclosures*

IFRS 7 Financial instruments: Disclosures and the Amendment to IAS 1 Presentation of financial statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1 will require extensive additional disclosure with respect to Group's financial instruments and share capital.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. This is not expected to have any impact on the consolidated financial statements.

IFRIC 8 Scope of IFRS 2 share based payments addresses the accounting for share based payment transactions in which some or all of the goods or services received cannot be specifically identified. IFRIC 8 requires retrospective application and the Group has not yet determined the potential effect of the interpretation.

IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivatives should be separated from the underlying host contract should be made only when there are changes to the contract. This is not expected to have any impact on the consolidated financial statements.

IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. This will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from 1 January 2004. This is not expected to have any impact on the consolidated financial statements.

Notes to the financial statements continued

2 Segmental information

Business segments

For management and internal reporting purposes the Group is currently organised into three operating divisions – Specialties, Pigments and Chromium. Principal activities are as follows:

Specialties	–	production of rheological additives, compounded products, colourants and surfactants
Pigments	–	production of synthetic iron oxides and complementary products
Chromium	–	production of chromium chemicals

In 2005, the Group was involved in the manufacture of wet abrasion resistant rubber products and process equipment. That operation was sold on 31 October 2005 and classified as a discontinued operation.

	Gross £million	Inter-segment £million	2006 External £million	Gross £million	Inter-segment £million	2005 External £million
Revenue from continuing operations						
Specialties	**190.9**	**(0.3)**	**190.6**	185.4	(1.5)	183.9
Pigments	**94.2**	**(0.3)**	**93.9**	90.7	(0.2)	90.5
Chromium	**116.8**	**(5.4)**	**111.4**	129.4	(4.4)	125.0
	401.9	**(6.0)**	**395.9**	405.5	(6.1)	399.4

All revenues relate to the sale of goods.

	Before exceptional items £million	Exceptional items £million	2006 After exceptional items £million	Before exceptional items £million	Exceptional items £million	2005 After exceptional items £million
Result from continuing operations						
Specialties	**25.6**	**0.6**	**26.2**	17.6	(2.9)	14.7
Pigments	**6.1**	**1.0**	**7.1**	1.2	(7.1)	(5.9)
Chromium	**11.9**	**1.4**	**13.3**	7.8	(29.5)	(21.7)
Central costs	**(6.0)**	**–**	**(6.0)**	(7.5)	(5.0)	(12.5)
	37.6	**3.0**	**40.6**	19.1	(44.5)	(25.4)
Profit on disposal of business	**–**	**–**	**–**	–	4.6	4.6
Investment income	**0.2**	**–**	**0.2**	0.3	–	0.3
Finance costs	**(7.7)**	**–**	**(7.7)**	(7.8)	–	(7.8)
Profit/(loss) before income tax	**30.1**	**3.0**	**33.1**	11.6	(39.9)	(28.3)

	Capital expenditure £million	2006 Depreciation and amortisation £million	Capital expenditure £million	2005 Depreciation and amortisation £million
Other information				
Specialties	**4.0**	**6.8**	5.4	6.6
Pigments	**3.2**	**3.1**	4.5	2.8
Chromium	**5.5**	**4.4**	5.2	6.8
Central	**0.5**	**0.5**	–	0.6
Total from continuing operations	**13.2**	**14.8**	15.1	16.8

2 Segmental information continued

	2006 Total assets £million	2006 Total liabilities £million	2006 Investments in associates £million	2005 Total assets £million	2005 Total liabilities £million	2005 Investments in associates £million
Balance sheet						
Specialties	**268.7**	**(29.9)**	**–**	297.8	(46.4)	–
Pigments	**61.7**	**(27.6)**	**0.6**	73.4	(35.5)	0.6
Chromium	**97.2**	**(26.9)**	**0.1**	92.1	(36.9)	0.1
Central	**14.4**	**(156.7)**	**–**	14.9	(167.5)	–
Total from continuing operations	**442.0**	**(241.1)**	**0.7**	478.2	(286.3)	0.7

	2006 £million	2005 £million
Central assets and liabilities comprise:		
Deferred tax assets	**7.3**	11.1
Trade and other receivables	**6.0**	2.2
Cash and cash equivalents	**1.1**	1.6
Central assets	**14.4**	14.9
Retirement benefit obligations	**(25.2)**	(31.2)
Overdrafts, loans and borrowings	**(108.8)**	(101.6)
Provisions	**(11.1)**	(23.5)
Other	**(11.6)**	(11.2)
Central liabilities	**(156.7)**	(167.5)

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods.

	Continuing operations 2006 £million	Continuing operations 2005 £million	Discontinued operations 2006 £million	Discontinued operations 2005 £million	Total 2006 £million	Total 2005 £million
Sales revenue by geographical market						
North America	**158.9**	157.2	**–**	7.3	**158.9**	164.5
Europe	**161.9**	166.8	**–**	16.2	**161.9**	183.0
Rest of the World	**75.1**	75.4	**–**	17.0	**75.1**	92.4
	395.9	399.4	**–**	40.5	**395.9**	439.9

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment and intangible assets analysed by the geographic area in which the assets are located. Additions to property, plant, equipment and intangible assets include £nil (2005: £1.7 million) in respect of discontinued operations.

	2006 £million	2005 £million
Carrying amount of segment assets		
Geographical analysis		
North America	**268.1**	277.5
Europe	**143.4**	157.5
Rest of the World	**23.2**	32.1
Total segment assets	**434.7**	467.1
Tax assets	**7.3**	11.1
Total reported assets	**442.0**	478.2

Notes to the financial statements continued

2 Segmental information continued

	2006 £million	2005 £million
Additions to property, plant, equipment and intangible assets		
Geographical analysis		
North America	8.5	7.3
Europe	4.0	5.9
Rest of the World	0.7	3.6
	13.2	16.8

3 Investment income

	Continuing operations 2006 £million	Continuing operations 2005 £million	Discontinued operations 2006 £million	Discontinued operations 2005 £million	Total 2006 £million	Total 2005 £million
Interest on bank deposits	0.2	0.3	–	–	0.2	0.3

4 Finance costs

	Continuing operations 2006 £million	Continuing operations 2005 £million	Discontinued operations 2006 £million	Discontinued operations 2005 £million	Total 2006 £million	Total 2005 £million
Interest on bank loans	8.3	6.5	–	0.1	8.3	6.6
Interest on other loans	–	0.1	–	–	–	0.1
Total borrowing costs	8.3	6.6	–	0.1	8.3	6.7
Interest on corporation tax payments	–	0.1	–	–	–	0.1
Unwind of discount on provisions	1.0	0.7	–	–	1.0	0.7
Expected return on pension scheme assets	(26.2)	(24.8)	–	–	(26.2)	(24.8)
Interest on pension scheme liabilities	24.6	25.2	–	–	24.6	25.2
Pension and other post retirement liabilities	(1.6)	0.4	–	–	(1.6)	0.4
	7.7	7.8	–	0.1	7.7	7.9

5 Exceptional items

	2006 £million	2005 £million
Continuing operations:		
Pigments East St Louis rationalisation	–	(7.1)
Chromium restructure	–	(31.4)
Integration of Specialties and Pigments	(1.7)	(3.3)
Integration of Servo business	–	(6.5)
Disposal of business	–	4.6
Insurance recovery	–	1.1
Settlement of legal claims	–	(2.4)
Head office restructure	–	(3.4)
Curtailment gains on pension schemes	3.7	8.5
Release of prior year restructuring provisions	1.0	–
	3.0	(39.9)
Discontinued operations:		
Disposal of business	–	(7.8)
	3.0	(47.7)
Tax charge on exceptional items	(1.3)	(3.1)
	1.7	(50.8)

Following the implementation of adopted IFRS, the Group has decided to continue 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. Exceptional items in the year, which were all administrative expenses, comprise a charge of £1.7 million to restructure further the general and administrative activities at Elementis Specialties and Pigments which resulted in a head count reduction of 34 employees. Changes to the Group's US defined benefit pension scheme and to its post retirement medical benefit scheme resulted in past service gains of £3.7 million in the year. In addition, exceptional items includes a credit of £1.0 million which relates to the release of restructuring provisions no longer required.

6 Income tax expense

	Continuing operations 2006 £million	Continuing operations 2005 £million	Discontinued operations 2006 £million	Discontinued operations 2005 £million	Total 2006 £million	Total 2005 £million
Current tax:						
UK corporation tax at 30 per cent	**–**	(0.3)	**–**	–	**–**	(0.3)
Overseas corporation tax	**1.3**	0.5	**–**	0.1	**1.3**	0.6
Adjustments in respect of prior years						
United Kingdom	**(0.1)**	–	**–**	–	**(0.1)**	–
Overseas	**(2.3)**	0.3	**–**	(0.3)	**(2.3)**	–
Total current tax	**(1.1)**	0.5		(0.2)	**(1.1)**	0.3
Deferred tax:						
United Kingdom	**–**	(4.0)	**–**	–	**–**	(4.0)
Overseas	**1.5**	2.4	**–**	–	**1.5**	2.4
Adjustments in respect of prior years	**1.0**	2.1	**–**	0.2	**1.0**	2.3
ACT written off	**–**	2.4	**–**	–	**–**	2.4
Total deferred tax	**2.5**	2.9	**–**	0.2	**2.5**	3.1
Income tax expense for the year	**1.4**	3.4	**–**	–	**1.4**	3.4

The tax charge on profit before exceptional items was £0.1 million (2005: £0.3 million) and represents an effective tax rate on profit before exceptional items for the year to 31 December 2006 of nil (2005: 2.6 per cent). The rate is lower than the standard UK corporation tax due to the amortisation of goodwill in the US for tax purposes. Tax on exceptional items was a charge of £1.3 million (2005: £3.1 million) and this related to deferred taxation on gains of £3.7 million in respect of pension and post retirement benefit schemes. 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:

	2006 £million	2006 per cent	2005 £million	2005 per cent
Profit/(loss) before tax:				
Continuing operations	**33.1**		(28.3)	
Discontinued operations	**–**		(6.7)	
	33.1		(35.0)	
Tax on ordinary activities at 30 per cent (2005: 30 per cent)	**9.9**	**(30.0)**	(10.5)	(30.0)
Difference in overseas effective tax rates	**(0.3)**	**(1.0)**	(0.3)	–
Expenses not deductible for tax purposes	**0.2**	**0.6**	0.3	–
Tax losses and other deductions not recognised	**(3.7)**	**(11.2)**	15.4	44.0
Tax benefit from US goodwill deduction	**(3.9)**	**(11.8)**	(3.9)	(11.2)
Adjustment in respect of prior years	**(0.8)**	**(2.4)**	–	–
ACT written off	**–**	**–**	2.4	6.9
Tax charge and effective tax rate for the year	**1.4**	**4.2**	3.4	9.7

Deferred tax of £nil (2005: £0.9 million) has been recognised in equity in the year in respect of actuarial gains and losses.

Notes to the financial statements continued

7 Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	Continuing operations 2006 £million	Continuing operations 2005 £million	Discontinued operations 2006 £million	Discontinued operations 2005 £million	Total 2006 £million	Total 2005 £million
Net foreign exchange losses/(gains)	**(2.6)**	(0.3)	**–**	–	**(2.6)**	(0.3)
Research and development costs	**4.4**	6.1	**–**	0.1	**4.4**	6.2
Government grants	**(0.1)**	(0.1)	**–**	–	**(0.1)**	(0.1)
Depreciation of property, plant and equipment	**14.6**	16.6	**–**	1.4	**14.6**	18.0
Amortisation of intangible assets	**0.2**	0.2	**–**	–	**0.2**	0.2
Total depreciation and amortisation expense	**14.8**	16.8	**–**	1.4	**14.8**	18.2
Cost of inventories recognised as expense	**209.6**	204.0	**–**	16.3	**209.6**	220.3
Fees payable to the Company's auditor and its associates:						
Audit of the Company's subsidiaries	**0.4**	0.3	**–**	0.1	**0.4**	0.4
Other services relating to taxation	**0.1**	0.1	**–**	–	**0.1**	0.1
Audit of the Company's financial statements	**–**	–	**–**	–	**–**	–

8 Employees

	Continuing operations 2006 £million	Continuing operations 2005 £million	Discontinued operations 2006 £million	Discontinued operations 2005 £million	Total 2006 £million	Total 2005 £million
Employee costs:						
Wages and salaries	**56.8**	65.9	**–**	9.4	**56.8**	75.3
Social security costs	**5.1**	6.4	**–**	0.7	**5.1**	7.1
Pension costs	**4.2**	4.7	**–**	1.4	**4.2**	6.1
	66.1	77.0	**–**	11.5	**66.1**	88.5

	Number	Number	**Number**	Number	**Number**	**Number**
Average number of employees:						
Specialties	**709**	839	**–**	–	**709**	839
Pigments	**589**	645	**–**	–	**589**	645
Chromium	**349**	430	**–**	–	**349**	430
Specialty Rubber	**–**	–	**–**	494	**–**	494
Central	**17**	32	**–**	–	**17**	32
Total	**1,664**	1,946	**–**	494	**1,664**	2,440

9 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:

	2006 £million	2005 £million
Earnings:		
Earnings for the purpose of basic earnings per share	**31.6**	(38.1)
Exceptional items net of tax	**(1.7)**	50.3
Adjusted earnings	**29.9**	12.2

	2006	2005
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	**439.4**	434.2
Effect of dilutive share options	**7.4**	7.4
Weighted average number of shares for the purposes of diluted earnings per share	**446.8**	441.6

9 Earnings per share continued

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:

	2006 £million	2005 £million
Profit/(loss) for the year attributable to equity holders of the parent	**31.6**	(38.1)
Profit for the year from discontinued operations	**-**	6.7
Profit/(loss) from continuing operations	**31.6**	(31.4)
Exceptional items from continuing operations after minority interest	**(1.7)**	42.5
Adjusted earnings from continuing operations	**29.9**	11.1

	2006 pence	2005 pence
Earnings per share:		
From continuing and discontinued operations:		
Basic	**7.1**	(8.8)
Diluted	**7.0**	(8.8)
Basic before exceptional items	**6.8**	2.8
Diluted before exceptional items	**6.7**	2.8
From continuing operations:		
Basic	**7.1**	(7.2)
Diluted	**7.0**	(7.2)
Basic before exceptional items	**6.8**	2.6
Diluted before exceptional items	**6.7**	2.6

10 Goodwill and other intangible assets

	Goodwill £million	Other intangible assets £million	Total £million
Cost:			
At 1 January 2005	155.1	0.7	155.8
Currency translation differences	15.0	0.1	15.1
At 1 January 2006	170.1	0.8	170.9
Currency translation differences	(18.7)	(0.1)	(18.8)
At 31 December 2006	151.4	0.7	152.1
Amortisation:			
At 1 January 2005	–	0.1	0.1
Charge for the year	–	0.2	0.2
At 1 January 2006	–	0.3	0.3
Charge for the year	–	0.2	0.2
At 31 December 2006	–	0.5	0.5
Carrying amount:			
At 31 December 2006	**151.4**	**0.2**	**151.6**
At 31 December 2005	170.1	0.5	170.6

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying value of goodwill has been allocated as follows:

	2006 £million	2005 £million
Elementis Specialties	**148.9**	167.6
Elementis Pigments	**2.5**	2.5
	151.4	170.1

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The discount rate used in 2006 was 8.2 per cent (2005: 8.8 per cent). The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

Notes to the financial statements continued

10 Goodwill and other intangible assets continued

The Group prepares cash flow forecasts derived from the most recent three year plans approved by management for the next three years and extrapolates cash flows for the following 17 years based on an estimated growth rate of 2.5 per cent. The rate does not exceed the average long term growth rate for the relevant markets.

Other intangible assets comprise a favourable supply contract which arose on acquisition of Sasol Servo B.V. on 30 June 2004 and a patent. The assets are amortised over their estimated finite useful lives, which does not exceed four years.

11 Property, plant and equipment

	Land and buildings £million	Plant and machinery £million	Fixtures, fittings and equipment £million	Under construction £million	Total £million
Cost:					
At 1 January 2005	81.7	293.0	17.1	32.4	424.2
Additions	3.6	10.9	1.5	1.0	17.0
Exchange differences	4.9	12.2	2.7	0.6	20.4
Disposal of subsidiaries	(5.3)	(14.2)	(7.2)	(0.3)	(27.0)
Disposals	–	(0.9)	(0.6)	–	(1.5)
Reclassifications	(0.3)	12.6	13.6	(25.9)	–
At 1 January 2006	84.6	313.6	27.1	7.8	433.1
Additions	0.1	1.5	0.6	11.0	13.2
Exchange differences	(6.9)	(24.0)	3.7	(1.0)	(28.2)
Disposal of subsidiaries	(0.5)	(0.5)	(0.1)	(0.1)	(1.2)
Disposals	(1.4)	(1.6)	(1.5)	(0.2)	(4.7)
Reclassifications	4.0	3.2	0.7	(7.9)	–
At 31 December 2006	**79.9**	**292.2**	**30.5**	**9.6**	**412.2**
Accumulated depreciation:					
At 1 January 2005	43.8	192.7	13.6	1.1	251.2
Charge for the year	2.6	12.7	2.7	–	18.0
Exchange differences	1.9	6.7	1.2	–	9.8
Eliminated on disposal of subsidiaries	(3.3)	(7.7)	(3.2)	–	(14.2)
Eliminated on disposals	–	(0.9)	(0.5)	–	(1.4)
Provision for impairment	4.7	23.9	–	–	28.6
Reclassifications	0.1	0.1	0.9	(1.1)	–
At 1 January 2006	49.8	227.5	14.7	–	292.0
Charge for the year	2.0	10.0	2.6	–	14.6
Exchange differences	(2.6)	(19.3)	4.5	–	(17.4)
Eliminated on disposals	(0.6)	(1.3)	(1.2)	–	(3.1)
At 31 December 2006	**48.6**	**216.9**	**20.6**	**–**	**286.1**
Net book value:					
At 31 December 2006	**31.3**	**75.3**	**9.9**	**9.6**	**126.1**
At 31 December 2005	34.8	86.1	12.4	7.8	141.1

Group capital expenditure contracted but not provided for in these financial statements amounted to £0.1 million (2005: £0.2 million).

Land and buildings at cost comprised the following:

	2006 £million	2005 £million
Freehold property	**77.2**	81.8
Short leasehold properties	**2.7**	2.8
	79.9	84.6

12 Interests in associates

	2006 £million	2005 £million
Cost of investments in associates	**0.7**	0.6
Share of post acquisition profit	**–**	0.1
	0.7	0.7

13 Other investments

	2006 £million	2005 £million
Loans and receivables	**1.0**	2.6

Other investments comprise non-voting, redeemable preferred stock in Harcros Chemicals Inc. of £0.5 million (2005: £1.5 million) and a three year promissory note repayable in 2007 of £0.5 million (2005: £1.1 million).

14 Inventories

	2006 £million	2005 £million
Raw materials and consumables	**18.4**	14.9
Work in progress	**7.0**	8.3
Finished goods and goods purchased for resale	**42.3**	40.3
	67.7	63.5

Inventories are disclosed net of provisions for obsolescence of £1.8 million (2005: £2.0 million).

15 Trade and other receivables

	2006 £million	2005 £million
Trade receivables	**61.4**	66.2
Other receivables	**6.4**	4.2
Derivatives	**3.0**	0.7
Prepayments and accrued income	**2.3**	4.5
	73.1	75.6

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. Trade and other receivables are disclosed net of provisions for bad and doubtful debts of £0.3 million (2005: £0.9 million).

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management, based on prior experience and their assessment of the current economic environment. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

16 Trade and other payables

	2006 £million	2005 £million
Trade payables	**29.5**	35.0
Other taxes and social security	**0.8**	0.5
Other payables	**7.1**	13.1
Accruals and deferred income	**24.4**	20.9
	61.8	69.5

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

Notes to the financial statements continued

17 Provisions

	Environmental £million	Restructuring £million	Self insurance £million	Total £million
At 1 January 2006	18.0	12.6	3.6	34.2
Charge to income statement	1.3	1.7	–	3.0
Unutilised	–	(0.5)	–	(0.5)
Utilised during the year	(2.2)	(10.8)	(0.3)	(13.3)
Currency translation differences	(1.3)	(0.4)	(0.3)	(2.0)
At 31 December 2006	**15.8**	**2.6**	**3.0**	**21.4**
Due within one year	**–**	**2.4**	**–**	**2.4**
Due after one year	**15.8**	**0.2**	**3.0**	**19.0**
	15.8	**2.6**	**3.0**	**21.4**

Environmental provisions relate to manufacturing and distribution sites including certain sites no longer owned by the Group. These provisions have been derived using a discounted cash flow methodology and reflect the extent to which it is probable that expenditure will be incurred over the next 20 years. Restructuring provisions at 31 December 2006 are the amounts remaining in respect of the restructuring announced in 2005 and relate to an onerous lease and the integration of Elementis Specialties Delden.

Self insurance provisions at 31 December 2006 represent the aggregate of outstanding claims plus a projection of losses incurred but not reported. The restructuring provisions are expected to be utilised during 2007 and self insurance provisions are expected to be utilised within five years.

18 Deferred tax

	Retirement benefit plans £million	Accelerated tax depreciation £million	Temporary timing differences £million	Total £million
At 1 January 2005	16.9	(10.5)	7.6	14.0
Charge to the income statement	(5.7)	4.7	(2.1)	(3.1)
Charge to equity	(0.9)	–	–	(0.9)
Currency translation differences	0.8	–	–	0.8
At 1 January 2006	11.1	(5.8)	5.5	10.8
(Credit)/charge to the income statement	(3.3)	–	0.8	(2.5)
Currency translation differeneces	(1.0)	–	–	(1.0)
At 31 December 2006	**6.8**	**(5.8)**	**6.3**	**7.3**
Deferred tax assets	**6.8**	**(5.8)**	**6.3**	**7.3**
Deferred tax liabilities	**–**	**–**	**–**	**–**
	6.8	**(5.8)**	**6.3**	**7.3**

At 31 December 2006 the full amount of ACT previously written off, available for offset against future UK profits, was £26.3 million (2005: £26.3 million). Deferred tax assets of £30.4 million (2005: £31.6 million) in respect of carried forward tax losses have not been recognised at the balance sheet date, as it is not expected that taxable profits will arise in the foreseeable future in the companies with the losses.

Deferred tax assets have been recognised to the extent that it is considered more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted. Where this is not the case, deferred tax assets have not been recognised.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future. There are no significant temporary differences arising in connection with interests in subsidiaries and associates.

19 Share capital

	2006 £million	2005 £million
At 1 January	21.8	23.8
Transferred to borrowings	–	(2.2)
	21.8	21.6
Issue of shares	0.3	0.2
At 31 December	**22.1**	21.8

Details of share capital are set out in note 39.

20 Share premium, other reserves and retained earnings

	Share premium £million	Other reserves £million	Retained earnings £million	Total £million
Balance at 1 January 2006	1.9	89.5	76.6	168.0
Issue of shares	1.7	–	–	1.7
Share based payments	–	0.9	–	0.9
Retained profit for the year	–	–	31.6	31.6
Dividends paid	–	–	(10.1)	(10.1)
Purchase of own shares	–	–	(2.4)	(2.4)
Redemption of B shares	–	2.1	(2.1)	–
Actuarial gain on pension scheme	–	–	8.6	8.6
Exchange differences	–	(23.0)	–	(23.0)
Increase in fair value of derivatives	–	1.9	–	1.9
Transfer	–	(0.4)	0.4	–
Balance at 31 December 2006	**3.6**	**71.0**	**102.6**	**177.2**

Other reserves comprise:

	Capital redemption reserve £million	Translation reserve £million	Hedging reserve £million	Share options reserve £million	Total £million
At 1 January 2006	81.2	6.6	0.7	1.0	89.5
Share based payments	–	–	–	0.9	0.9
Redemption of B shares	2.1	–	–	–	2.1
Exchange differences	–	(23.0)	–	–	(23.0)
Increase in fair value of derivatives	–	–	1.9	–	1.9
Transfer	–	–	–	(0.4)	(0.4)
Balance at 31 December 2006	**83.3**	**(16.4)**	**2.6**	**1.5**	**71.0**

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary. The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

21 Borrowings

	2006 £million	2005 £million
Bank overdrafts	0.7	4.6
Bank loans	114.4	105.7
Redeemable B shares	–	2.1
	115.1	112.4
The borrowings are repayable as follows:		
On demand or within one year	0.7	4.6
In the second year	–	99.5
In the fourth year	5.6	–
In the fifth year	108.8	–
After five years	–	8.3
	115.1	112.4

Notes to the financial statements continued

21 Borrowings continued

The weighted average interest rates paid were as follows:

	2006 per cent
Bank overdrafts	5.6
Bank loans	6.3
Redeemable B shares	4.3

Bank borrowings are unsecured. The redeemable B shares were redeemed on 1 November 2006.

The Group had undrawn committed facilities at 31 December 2006 of £49.0 million (2005: £68.6 million) which expire within five years. All borrowings at 31 December 2006 and 31 December 2005 were at floating rates. The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Sterling	US Dollar	Euro	Other	Total
2006					
Bank overdrafts	–	–	–	0.7	0.7
Bank loans	44.3	40.8	23.7	5.6	114.4
	44.3	40.8	23.7	6.3	115.1

	Sterling	US Dollar	Euro	Other	Total
2005					
Bank overdrafts	–	–	3.4	1.2	4.6
Bank loans	–	79.0	20.5	6.2	105.7
Redeemable B shares	2.1	–	–	–	2.1
	2.1	79.0	23.9	7.4	112.4

The majority of floating rate borrowings are for periods of up to six months and bear interest at the relevant interbank rates plus a margin.

Fair value of loans

It is the directors' opinion that due to the floating nature of the Group's borrowings and the proven cash generation of the Group, there is no significant difference between book and fair value of the Group's bank and other borrowings.

22 Cash and cash equivalents

Cash and cash equivalents for the purpose of the consolidated cash flow statement comprise the following:

	2006 £million	2005 £million
Cash and cash equivalents	14.5	13.0
Bank overdrafts	(0.7)	(4.6)
	13.8	8.4

23 Derivatives and other financial instruments

(a) Currency risk

A number of transactions are conducted by companies in the Group in currencies other than their functional currency which give rise to monetary assets and liabilities denominated in other currencies. None of these currency amounts are considered material enough to disclose separately. The value of monetary assets and liabilities of the Group not held in functional currencies by its subsidaries and not hedged at 31 December 2006 were as follows:

	US Dollar £million	Euro £million	Other £million	Total £million
2006				
Functional currency:				
Sterling	0.3	2.6	0.1	3.0
Euro	0.8	–	0.4	1.2
Other	0.5	–	–	0.5
	1.6	2.6	0.5	4.7

23 Derivatives and other financial instruments continued

	US Dollar £million	Euro £million	Other £million	Total £million
2005				
Functional currency:				
Sterling	1.3	1.3	0.1	2.7
US Dollar	–	0.9	0.2	1.1
Other	0.6	–	–	0.6
	1.9	2.2	0.3	4.4

Policies in respect of financial instruments are contained within the treasury section of the Business review.

(b) Cash flow hedges

The Group classifies its forward hedge foreign exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The net fair value of forward foreign exchange contracts outstanding at 31 December 2006 was a gain of £2.6 million (2005: £0.7 million) and is recognised in trade and other receivables. Hedged forecast transactions are expected to occur within 14 months of the reporting date.

(c) Net investment hedges

The Group's US Dollar borrowings are designated as a hedge of the translation exposure of net assets of subsidaries whose functional currency is the Dollar and the Group's Euro borrowings are designated as a hedge of the translation exposure of net assets of subsidaries whose functional currency is the Euro. At 31 December 2006, US Dollar borrowings of £40.8 million were designated as a hedge against Dollar net assets and £23.7 million of Euro borrowings were designated as a hedge against Euro net assets. The borrowings are undertaken by a subsidary of the Company whose functional currency is Sterling. At 31 December 2006, a net loss £4.3 million (2005: gain of £3.3 million) was recognised in equity, relating to net investment hedges.

Fair values have been determined by either reference to the market value at the balance sheet date or discounted cash flow analysis.

(d) Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on its earnings. Over the longer term, permanent changes in foreign exchange and interest rates would have an impact on earnings. At 31 December 2006, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before tax by approximately £1.2 million (2005: £1.2 million). It is estimated that a general increase of one percentage point in the value of the Euro and the US Dollar against Sterling would have decreased the Group's profit before tax by approximately £0.8 million for the year ended 31 December 2006 (2005: £0.9 million).

24 Operating leases

	2006 £million	2005 £million
Minimum lease payments under operating leases recognised as an expense in the year	**1.9**	2.8

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2006 £million	2005 £million
Within one year	**0.5**	1.8
In the second to fifth years inclusive	**4.3**	4.2
After five years	**0.2**	6.7
	5.0	12.7

Operating lease payments represent rentals payable by the Group for certain of its properties. Leases have varying terms, and renewal rights.

Notes to the financial statements continued

25 Retirement benefit obligations

The Group has a number of contributory and non-contributory post retirement benefit plans providing retirement benefits for the majority of employees and executive directors. The main schemes in the UK, US and the Netherlands are of the defined benefit type, the benefit being based on number of years of service and either the employee's final remuneration or the employee's average remuneration during a period of years before retirement. The assets of these schemes are held in separate trustee administered funds or are unfunded but with provisions maintained on the Group balance sheet. In addition the Group operates an unfunded post-retirement medical benefit (PRMB) scheme in the US. The entitlement to these benefits is usually based on the employee remaining in service until retirement age and completion of a minimum service period. Due to curtailment gains of £3.7 million (2005: £9.5 million) there was a net credit in respect of post-retirement health care and pensions in the year of £2.1 million (2005: £3.1 million), of which £1.7 million (2005: £4.1 million) related to overseas schemes.

A full actuarial valuation was carried out on 30 September 2005 for the UK scheme and at 31 December 2005 for the US and Netherlands schemes. These actuarial valuations have been updated to 31 December 2006 for inclusion within this Annual Report.

The principal assumptions used by the actuaries were as follows:

	UK per cent	US per cent	Netherlands per cent
2006			
Rate of increase in salaries	**4.00**	**3.70**	**1.50**
Rate of increase in pensions in payment	**2.90**	**–**	**0.25**
Discount rate	**5.30**	**5.75**	**4.75**
Inflation	**3.00**	**3.50**	**1.50**
2005			
Rate of increase in salaries	3.70	3.70	1.50
Rate of increase in pensions in payment	2.60	–	0.25
Discount rate	5.00	5.75	4.25
Inflation	2.70	3.50	1.50
2004			
Rate of increase in salaries	4.25	3.70	1.50
Rate of increase in pensions in payment	2.75	–	0.25
Discount rate	5.50	5.75	4.75
Inflation	2.75	3.50	1.50

The main assumptions for the PRMB scheme are a discount rate of 5.75 per cent (2005: 5.75 per cent) per annum and a health care cost trend of 10.00 per cent (2005: 10.00 per cent) and 11.00 per cent (2005: 11.0 per cent) per annum for claims pre age 65 and post age 65 respectively reducing to 4.5 per cent per annum by 2012 (2005: 4.5 per cent). Actuarial valuations of retirement benefit plans in other jurisdictions have not been updated for IAS 19 purposes because of the costs involved and the considerably smaller scheme sizes and numbers of employees involved.

25 Retirement benefit obligations *continued*

The expected rates of return and assets of the defined benefit retirement benefit plans were:

	Equities per cent	Gilts per cent	Bonds per cent	Cash and insured annuities per cent	Total
2006					
Long term rate of return					
UK	**7.50**	**4.30**	**5.30**	**4.30**	**–**
US	**8.50**	**–**	**6.00**	**–**	**–**
Europe	**8.50**	**–**	**4.25**	**–**	**–**
	£million	£million	£million	£million	£million
Value					
UK	**200.8**	**112.4**	**58.1**	**7.9**	**379.2**
US	**35.8**	**–**	**13.7**	**–**	**49.5**
Europe	**–**	**–**	**18.8**	**–**	**18.8**
Total	**236.6**	**112.4**	**90.6**	**7.9**	**447.5**

	Equities per cent	Gilts per cent	Bonds per cent	Cash and insured annuities per cent	Total
2005					
Long term rate of return					
UK	7.50	4.10	4.30	4.00	–
US	8.50	–	6.00	–	–
Europe	–	–	4.25	–	–
	£million	£million	£million	£million	£million
Value					
UK	201.9	122.7	35.1	10.6	370.3
US	37.1	–	13.4	–	50.5
Europe	–	–	20.1	–	20.1
Total	239.0	122.7	68.6	10.6	440.9

The net pension liability was as follows:

	UK pension schemes £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2006					
Total market value of assets	**379.2**	**49.5**	**–**	**18.8**	**447.5**
Present value of scheme liabilities	**(397.0)**	**(59.4)**	**(7.6)**	**(20.1)**	**(484.1)**
Net liability recognised in the balance sheet	**(17.8)**	**(9.9)**	**(7.6)**	**(1.3)**	**(36.6)**

	UK pension schemes £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2005					
Total market value of assets	370.3	50.5	–	20.1	440.9
Present value of scheme liabilities	(403.4)	(67.1)	(11.8)	(20.1)	(502.4)
Net liability recognised in the balance sheet	(33.1)	(16.6)	(11.8)	–	(61.5)

The net pension liability in respect of pension schemes in other jurisdictions at 31 December 2006 was £0.7 million (2005: £0.5 million).

Notes to the financial statements continued

25 Retirement benefit obligations continued

The following amounts have been recognised in the performance statements:

	UK pension schemes £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2006					
Consolidated income statement					
Current service cost	**(1.7)**	**(0.8)**	**(0.1)**	**(0.6)**	**(3.2)**
Curtailment gains	**–**	**1.7**	**2.0**	**–**	**3.7**
Expected return on pension scheme assets	**21.8**	**3.5**	**–**	**0.9**	**26.2**
Interest on pension scheme liabilities	**(19.7)**	**(3.4)**	**(0.6)**	**(0.9)**	**(24.6)**
Net finance income/(charge)	**2.1**	**0.1**	**(0.6)**	**–**	**1.6**
Net income statement	**0.4**	**1.0**	**1.3**	**(0.6)**	**2.1**
Statement of recognised income and expense					
Actual return less expected return on pension scheme assets	**4.7**	**1.7**	**–**	**(2.3)**	**4.1**
Experience gains and losses arising on scheme liabilities	**4.1**	**0.7**	**1.2**	**0.2**	**6.2**
Changes in assumptions underlying the present value of scheme liabilities	**1.2**	**(3.3)**	**(0.2)**	**0.6**	**(1.7)**
Actuarial gain/(loss) recognised	**10.0**	**(0.9)**	**1.0**	**(1.5)**	**8.6**

In addition to the current service cost above, £1.0 million (2005: £0.1 million) was charged to the income statement in respect of defined contribution schemes. Curtailment gains of £3.7 million arose in 2006 (2005: £9.5 million) as a result of changes to US pension and PRMB schemes. Due to their nature and size curtailment gains of £3.7 million (2005: £9.0 million) have been classified as exceptional items in the income statement.

	UK pension schemes £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2005					
Consolidated income statement					
Current service cost	(2.7)	(2.1)	(0.1)	(1.1)	(6.0)
Curtailment gains	1.2	–	2.3	6.0	9.5
Expected return on pension scheme assets	20.5	3.4	–	0.9	24.8
Interest on pension scheme liabilities	(20.0)	(3.4)	(0.6)	(1.2)	(25.2)
Net finance income/(charge)	0.5	–	(0.6)	(0.3)	(0.4)
Net income statement	(1.0)	(2.1)	1.6	4.6	3.1
Statement of recognised income and expense					
Actual return less expected return on pension scheme assets	30.2	–	–	(0.3)	29.9
Experience gains and losses arising on scheme liabilities	(2.8)	–	(0.2)	(0.6)	(3.6)
Changes in assumptions underlying the present value of scheme liabilities	(26.1)	–	–	(1.7)	(27.8)
Actuarial gain/(loss) recognised	1.3	–	(0.2)	(2.6)	(1.5)

25 Retirement benefit obligations continued

Changes in the present value of the defined benefit obligation are as follows:

	UK pension schemes £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2006					
Opening defined benefit obligation	**(403.4)**	**(67.1)**	**(11.8)**	**(20.1)**	**(502.4)**
Service cost	**(1.7)**	**(0.8)**	**(0.1)**	**(0.6)**	**(3.2)**
Interest cost	**(19.7)**	**(3.4)**	**(0.6)**	**(0.9)**	**(24.6)**
Contributions by employees	**(0.2)**	**–**	**–**	**–**	**(0.2)**
Actuarial gain/(loss)	**5.3**	**(2.6)**	**1.0**	**0.8**	**4.5**
Benefits paid	**22.7**	**4.6**	**0.6**	**0.5**	**28.4**
Curtailments and settlements	**–**	**1.7**	**2.0**	**–**	**3.7**
Exchange differences	**–**	**8.2**	**1.3**	**0.2**	**9.7**
Closing defined benefit obligation	**(397.0)**	**(59.4)**	**(7.6)**	**(20.1)**	**(484.1)**

	UK pension schemes £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2005					
Opening defined benefit obligation	(375.3)	(58.2)	(12.5)	(23.1)	(469.1)
Service cost	(2.7)	(2.1)	(0.1)	(1.1)	(6.0)
Interest cost	(20.0)	(3.4)	(0.6)	(1.2)	(25.2)
Contributions by employees	(0.4)	–	–	–	(0.4)
Actuarial loss	(27.4)	–	(0.2)	(2.2)	(29.8)
Benefits paid	20.3	3.5	0.6	0.5	24.9
Curtailments and settlements	2.1	–	2.3	6.0	10.4
Exchange differences	–	(6.9)	(1.3)	1.0	(7.2)
Closing defined benefit obligation	(403.4)	(67.1)	(11.8)	(20.1)	(502.4)

Notes to the financial statements continued

25 Retirement benefit obligations continued

Changes in the fair value of plan assets are as follows:

	UK pension schemes £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2006					
Opening fair value of plan assets	**370.3**	**50.5**	**–**	**20.1**	**440.9**
Expected return	**21.8**	**3.5**	**–**	**0.9**	**26.2**
Actuarial gain/(loss)	**4.7**	**1.7**	**–**	**(2.3)**	**4.1**
Contributions by employer	**4.9**	**4.9**	**0.6**	**0.9**	**11.3**
Contributions by employees	**0.2**	**–**	**–**	**–**	**0.2**
Benefits paid	**(22.7)**	**(4.6)**	**0.6**	**(0.5)**	**(28.4)**
Exchange differences	**–**	**(6.5)**	**–**	**(0.3)**	**(6.8)**
Closing fair value of plan assets	**379.2**	**49.5**	**–**	**18.8**	**447.5**

	UK pension schemes £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2005					
Opening fair value of plan assets	326.4	43.5	–	19.1	389.0
Expected return	20.5	3.4	–	0.9	24.8
Actuarial gain/(loss)	28.7	–	–	(0.3)	28.4
Contributions by employer	14.6	2.0	0.6	1.6	18.8
Contributions by employees	0.4	–	–	–	0.4
Benefits paid	(20.3)	(3.5)	(0.6)	(0.5)	(24.9)
Exchange differences	–	5.1	–	(0.7)	4.4
Closing fair value of plan assets	370.3	50.5	–	20.1	440.9

	UK pension schemes £million	US pension schemes £million	US PRMB scheme £million	Netherlands pension scheme £million	Total £million
2006					
Movement in deficit during the year					
Deficit in schemes at 1 January	**(33.1)**	**(16.6)**	**(11.8)**	**–**	**(61.5)**
Current service cost	**(1.7)**	**(0.8)**	**(0.1)**	**(0.6)**	**(3.2)**
Contributions	**4.9**	**4.9**	**0.6**	**0.9**	**11.3**
Net interest income/(expense)	**2.1**	**0.1**	**(0.6)**	**–**	**1.6**
Actuarial gain/(loss)	**10.0**	**(0.9)**	**1.0**	**(1.5)**	**8.6**
Curtailments and settlements	**–**	**1.7**	**2.0**	**–**	**3.7**
Currency translation differences	**–**	**1.7**	**1.3**	**(0.1)**	**2.9**
Deficit in schemes at 31 December	**(17.8)**	**(9.9)**	**(7.6)**	**(1.3)**	**(36.6)**

Employer contributions in 2006 were £4.9 million (2005: £14.6 million) to UK schemes, £6.2 million (2005: £2.6 million) to US schemes and £0.9 million (2005: £1.9 million) in respect of other schemes. Contributions in 2007 at current exchange rates are expected to be £11.4 million.

25 Retirement benefit obligations continued

Year ended 31 December 2006

	UK	US	Netherlands	Total
Difference between expected and actual return on scheme assets				
Amount (£million)	4.7	1.7	(2.3)	4.1
Percentage of scheme assets	1.2%	3.4%	12.2%	0.9%
Experience gains and losses on scheme liabilities				
Amount (£million)	4.1	1.9	0.2	6.2
Percentage of scheme assets	1.1%	3.8%	1.0%	1.4%
Total amount recognised in statement of recognised income and expense				
Amount (£million)	10.0	0.1	(1.5)	8.6
Percentage of scheme assets	2.6%	–	(8.0)%	1.9%

Year ended 31 December 2005

	UK	US	Netherlands	Total
Difference between expected and actual return on scheme assets				
Amount (£million)	30.2	–	(0.3)	29.9
Percentage of scheme assets	8.2%	–	(1.0)%	6.8%
Experience gains and losses on scheme liabilities				
Amount (£million)	(2.8)	(0.2)	0.6	(3.6)
Percentage of scheme assets	(0.7)%	–	1.0%	(0.5)%
Total amount recognised in statement of recognised income and expense				
Amount (£million)	1.3	(0.2)	(2.6)	1.5
Percentage of scheme assets	0.3%	–	(12.9)%	(0.3)%

Year ended 31 December 2004

	UK	US	Netherlands	Total
Difference between expected and actual return on scheme assets				
Amount (£million)	3.0	2.0	(0.2)	4.8
Percentage of scheme assets	1.0%	4.3%	–	1.2%
Experience gains and losses on scheme liabilities				
Amount (£million)	(0.7)	(1.3)	0.2	(1.8)
Percentage of scheme assets	–	(1.8)%	0.7%	0.5%
Total amount recognised in statement of recognised income and expense				
Amount (£million)	(3.0)	(1.5)	(0.2)	(4.7)
Percentage of scheme assets	1.0%	2.1%	1.1%	1.2%

26 Share based payments

The Company has several share option schemes for certain directors and employees of the Group.

The 1987 and 1998 Executive Share Option Schemes are discretionary schemes under which senior management below Board level are granted options to purchase shares in the Company. The option price is the average market price over the five working days preceding the grant and there is no discount. Options are capable of exercise after three years and within 10 years of the date of the grant; those granted since 1995 are subject to earnings per share performance targets.

The 2003 Executive Share Option Scheme is a discretionary scheme under which executive directors and senior management below Board level are granted options to purchase shares in the Company. The option price is the market price of a share on the dealing day immediately preceding the day on which the option is granted with no discount applied. Options are capable of exercise after three years, subject to earnings per share and total shareholder return performance targets being met, and within 10 years of the date of the grant.

The UK Savings-Related Share Option Scheme 1998 is a scheme under which UK employees can enter into savings contracts with a building society or a bank for a period of three or five years and use the proceeds from their savings accounts to purchase shares in the Company on the exercise of their options. The option price is the average market price over the five working days preceding the invitation date discounted by a maximum of 20 per cent.

Notes to the financial statements continued

26 Share based payments continued

The US Savings-Related Share Option Scheme is a scheme under which US employees can enter into savings contracts with a bank for a period of two years and use the proceeds from their savings accounts to purchase shares in the Company on the exercise of their options. The option price is the market price on the date of the grant, discounted by 15 per cent.

Options were valued using the binomial option pricing model. The fair value per option granted and the assumptions used in the calculations are as follows:

	2006	2005
Fair value per option	32.9	19.7
Weighted average share price at grant	54.9	51.5
Weighted average exercise price	53.7	50.5
Expected volatility (per cent)	43.0	52.0
Risk free rate (per cent)	5.1	4.7
Expected dividend yield (per cent)	2.6	4.5

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous five years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The Group recognised total expenses of £0.9 million (2005: £0.8 million) related to equity-settled share based payment transactions during the year.

At 31 December 2006 the following options to subscribe for ordinary shares were outstanding:

Year of grant	Exercise price (p)	Exercisable From	Exercisable To	At 1 January 2006 (000's)	Granted (000's)	Exercised (000's)	Expired (000's)	At 31 December 2006 (000's)
UK Savings-Related Share Option Scheme								
2001	78.3	1/05/06	31/10/06	50	–	(33)	(17)	–
2001	45.2	1/12/06	31/05/07	61	–	(30)	(12)	19
2002	21.9	1/06/07	30/11/07	878	–	(274)	(91)	513
2003	20.5	1/06/06	30/11/06	516	–	(490)	(26)	–
2003	20.5	1/06/08	30/11/08	200	–	(21)	(36)	143
2004	23.2	1/06/07	30/11/07	566	–	(115)	(109)	342
2004	23.2	1/06/09	30/11/09	366	–	(46)	(103)	217
2005	44.1	1/06/08	30/11/08	421	–	(53)	(174)	194
2005	44.1	1/06/10	30/11/10	104	–	(3)	(40)	61
2006	67.0	1/06/09	30/11/09	–	290	–	(17)	273
2006	67.0	1/06/11	30/11/11	–	31	–	–	31
				3,162	321	(1,065)	(625)	1,793
US Savings-Related Share Option Scheme								
2004	25.0	19/03/06	18/06/06	445	–	(292)	(153)	–
2005	46.5	21/03/07	20/06/07	513	–	(17)	(53)	443
2006	70.8	27/03/08	26/06/08	–	274	–	(21)	253
				958	274	(309)	(227)	696
Executive share option plans								
1996	132.8	5/11/99	5/11/06	70	–	–	(70)	–
1998	137.0	6/04/01	6/04/08	54	–	–	–	54
1998	86.0	15/09/01	15/09/08	78	–	–	–	78
1999	92.8	1/04/02	1/04/09	101	–	–	–	101
2000	69.5	31/03/03	31/03/10	1,471	–	(558)	–	913
2001	97.9	7/03/04	7/03/11	1,210	–	–	–	1,210
2001	56.5	10/09/04	10/09/11	1,267	–	(513)	–	754
2002	29.0	10/04/05	10/04/12	1,804	–	(416)	–	1,388
2003	24.8	29/04/06	29/04/13	6,417	–	(3,098)	(35)	3,284
2004	35.0	23/04/07	23/04/14	4,278	–	(32)	(1,035)	3,211
2005	51.2	30/03/08	30/03/15	5,003	–	(48)	(761)	4,194
2005	64.5	2/11/08	2/11/15	1,200	–	–	–	1,200
2006	85.5	4/04/09	4/04/16	–	2,459	–	–	2,459
				22,953	2,459	(4,665)	(1,901)	18,846

The weighted average share price at the date of exercise of share options exercised during the year was 83 pence (2005: 57 pence).

27 Related party transactions

Transactions carried out with related parties and year-end balances arising from those transactions are set out below:

	2006 £million	2005 £million
Sales of goods to associate	**1.0**	1.6
Receivable from associate	**0.2**	0.4

Goods are sold on the basis of an arm's length open market transaction.

28 Movement in net borrowings

	2006 £million	2005 £million
Change in net borrowings resulting from cash flows:		
Increase/(decrease) in cash and cash equivalents	**5.8**	(2.3)
(Increase)/decrease in borrowings repayable after one year	**(17.9)**	4.1
	(12.1)	1.8
Redeemable B shares	**2.1**	(2.2)
Currency translation differences	**8.8**	(8.8)
Increase in net borrowings	**(1.2)**	(9.2)
Net borrowings at beginning of year	**(99.4)**	(90.2)
Net borrowings at end of year	**(100.6)**	(99.4)

29 Dividends

The Group is proposing a dividend of 1.2 pence per share for the year ended 31 December 2006 (2005: 1.1 pence). The total amount payable based on the number of ordinary shares of 5 pence in issue at 31 December 2006 is £5.3 million (2005: £4.8 million).

30 Disposal of business

During the year the Group disposed of its 51 per cent interest in Linatex Chile Limitada for proceeds of £0.6 million. There was no gain or loss on the disposal. In addition, the Group received £0.8 million on the redemption of preference shares held in a business that was sold in 2001.

31 Key management compensation

	2006 £million	2005 £million
Salaries and short term employee benefits	**1.2**	0.7
Other long term benefits	**0.3**	0.1
Share based payments	**0.2**	0.1
	1.7	0.9

The key management compensation given above includes directors.

Elementis plc
Balance sheet at 31 December 2006

32 Parent company statutory accounts
The Group is required to present a separate balance sheet for the holding company, Elementis plc, which continues to adopt UK generally accepted accounting principles. Its accounting policies are set out in note 33 and its balance sheet is set out below.

	Note	2006 £million	2005 £million
Fixed assets			
Investments	35	**590.1**	590.1
Current assets			
Debtors – due from subsidiary undertakings		**0.4**	0.2
Creditors: amounts falling due within one year			
Creditors	36	**–**	(0.5)
Borrowings	37	**(2.5)**	(6.5)
		(2.5)	(7.0)
Net current assets/(liabilities)		**(2.1)**	(6.8)
Total assets less current liabilities		**588.0**	583.3
Creditors: amounts falling due after more than one year			
Amounts due to subsidiary undertakings		**(216.2)**	(202.8)
Net assets		**371.8**	380.5
Capital and reserves			
Called up share capital	39	**22.1**	21.8
Share premium account	40	**3.6**	1.9
Capital redemption reserve	40	**83.3**	81.2
Other reserves	40	**81.5**	81.5
Share option reserve	40	**0.8**	0.5
Profit and loss account	40	**180.5**	193.6
Equity shareholders' funds		**371.8**	380.5

Robert Beeston/Brian Taylorson
Directors

The financial statements of Elementis plc on pages 58 to 62 were approved by the Board on 27 February 2007.

Notes to the financial statements of Elementis plc
for the year ended 31 December 2006

33 Accounting policies
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

Basis of preparation
The Company financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its profit and loss account.

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that its cash flows are included in the consolidated financial statements. As the Company's voting rights are controlled within the Group headed by Elementis plc, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties).

Foreign currencies
Transactions in foreign currencies are recorded at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

Investments
Investments in Group undertakings are included in the balance sheet at cost, or lower, directors' valuation.

Dividends on shares presented within shareholders' funds
Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Pensions and other post-retirement benefits
The Company participates in the Elementis Group defined benefit pension scheme. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis as required by FRS 17 and therefore, has treated the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable for the year.

Taxation
Deferred taxation is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes that have originated but not reversed at the balance sheet date, except as otherwise required by FRS 19. Advance corporation tax recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors as appropriate.

Share based payments
The fair value of share options granted to employees is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Classification of financial instruments issued by the Company
Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:
(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that the definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Notes to the financial statements of Elementis plc continued

33 Accounting policies continued

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

34 Profit for the financial year attributable to shareholders

As permitted by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. A loss of £1.3 million (2005: £2.3 million) is dealt with in the financial statements of the Company.

35 Investments

	Unlisted shares at cost £million	Unlisted loans £million	Total £million
Cost at 1 January 2006 and 31 December 2006	0.1	759.0	759.1
Provision for impairment			
At 1 January 2006 and 31 December 2006	–	(169.0)	(169.0)
Net book value 31 December 2006	**0.1**	**590.0**	**590.1**
Net book value 31 December 2005	0.1	590.0	590.1

The investment in unlisted loans is with Elementis Holdings Limited, an indirect wholly owned subsidiary. The provision for impairment was made following a directors' valuation of the subsidiary undertaking using a discounted cash flow methodology. The investment in unlisted shares is in Elementis Group BV, a wholly owned subsidiary.

The principal subsidiaires of Elementis plc are as follows:

		Country of incorporation and operation
Subsidiary undertakings		
Elementis Chromium LLP	Chromium chemicals	United Kingdom
Elementis UK Limited trading as:		United Kingdom
Elementis Pigments	Synthetic iron oxide pigments, chromic oxide pigments, carboxylates	
Elementis Specialties	Rheological additives, colourants, waxes, other specialty additives	
Elementis Chromium LP	Chromium chemicals	United States of America
Elementis Pigments Inc	Synthetic iron oxide pigments, chromic oxide pigments	United States of America
Elementis Specialties Inc	Rheological additives, colourants, waxes, other specialty additives	United States of America
Elementis Specialities Netherlands BV	Surfactants and coatings additives	The Netherlands
Elementis (Tai Cang) Colours and Chemicals Company Limited	Synthetic iron oxide pigments	China
Shenzen Elementis Colours and Chemicals Company Limited	Synthetic iron oxide pigments	China

Notes:

1 None of the undertakings are held directly by the Company.

2 Equity capital is in ordinary shares, wholly owned and voting rights equate to equity ownership.

3 All undertakings listed above have accounting periods ending 31 December.

4 Undertakings operating in the United Kingdom are incorporated in Great Britain and registered in England and Wales. In the case of corporate undertakings other than in the United Kingdom their country of operation is also their country of incorporation.

5 All undertakings listed above have been included in the consolidated financial statements of the Group for the year.

36 Creditors: amount falling due within one year

	2006 £million	2005 £million
Amounts owed to subsidiary undertakings	–	0.5

37 Borrowings

	2006 £million	2005 £million
Borrowings repayable within one year		
Unsecured bank borrowings	2.5	4.4
Redeemable B shares	–	2.1
	2.5	6.5

Redeemable B shares

	2006 Number ('000)	2006 £million	2005 Number ('000)	2005 £million
Authorised:				
Redeemable B shares of 1 pence each	–	–	12,500,000	125.0
Called up, allotted and fully paid:				
B shares of 1 pence each				
At 1 January	212,453	2.1	226,705	2.2
Issue of shares	–	–	955,434	9.6
Redemption of shares	(212,453)	(2.1)	(969,686)	(9.7)
At 31 December	–	–	212,453	2.1

On 1 November 2006, all of the redeemable B shares in issue were redeemed by the Company for cash at their nominal value of 1 pence and cancelled.

Holders of redeemable B shares were entitled, in priority of ordinary shares, to a non-cumulative preferential dividend per share at a rate of 75 per cent of six month Sterling LIBOR payable six monthly in arrears. In the event of a winding up of the Company, repayment was limited to the nominal value of the shares. Holders were not entitled to vote at any general meeting except if a resolution to wind up the Company was to be considered.

38 Retirement benefit obligations

The Company is a member of a multi-employer pension scheme providing benefits based on final pensionable pay. Because the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the scheme has been accounted for as if the scheme was a defined contribution scheme. The net deficit in the scheme at 31 December 2006 was £17.8 million (2005: £33.1 million).

The latest full actuarial valuation was carried out at 30 September 2005 and was updated for FRS 17 purposes to 31 December 2006 by a qualified actuary. The contribution for the year was £0.2 million (2005: £0.2 million).

39 Called up share capital

	2006 Number ('000)	2006 £million	2005 Number ('000)	2005 £million
Authorised:				
Ordinary shares of 5 pence each	640,000	32.0	640,000	32.0
Called up allotted and fully paid:				
Ordinary shares of 5 pence each				
At 1 January	436,810	21.8	432,035	2.6
Issue of shares	4,880	0.3	4,775	0.2
At 31 December	441,690	22.1	436,810	21.8

During the year a total of 4,880,908 ordinary shares with an aggregate nominal value of £244,045 were alloted and issued for cash to various employees at subscription prices between 20.5 pence and 78.3 pence on the exercise of options under the Group's share option schemes. The total subscription monies received by the Company for these shares was £1,773,834.

Notes to the financial statements of Elementis plc continued

40 Reserves

	Share premium account £million	Capital redemption reserve £million	Other reserves £million	Share option reserve £million	Profit and loss account £million
At 1 January 2006	1.9	81.2	81.5	0.5	193.6
Retained loss for the year	–	–	–	–	(1.3)
Issue of shares	1.7	–	–	–	–
Share based payments	–	–	–	0.7	–
Dividend paid	–	–	–	–	(10.1)
Transfer	–	–	–	(0.4)	0.4
Redemption of B shares	–	2.1	–	–	(2.1)
At 31 December 2006	**3.6**	**83.3**	**81.5**	**0.8**	**180.5**

41 Reconciliation of movements in shareholders' funds

	2006 £million	2005 £million
Loss for the financial year	**(1.3)**	(2.3)
Dividend paid	**(10.1)**	–
Share based payments	**0.7**	0.5
Transfer of B shares to borrowings	**–**	(2.2)
Issue of B shares	**–**	(9.6)
Ordinary shares issued	**2.0**	0.9
Net decrease in shareholders' funds	**(8.7)**	(12.7)
Opening shareholders' funds	**380.5**	393.2
Closing shareholders' funds	**371.8**	380.5

Five year record

	2006 £million	2005 £million	2004 £million	2003 £million	2002 £million
Turnover					
Specialties	190.6	183.9	159.5	130.3	134.5
Pigments	93.9	90.5	78.7	79.0	90.5
Chromium	111.4	125.0	105.1	116.2	102.1
Continuing operations	395.9	399.4	343.3	325.5	327.1
Discontinued operations	–	40.5	45.9	42.7	37.8
Group turnover	395.9	439.9	389.2	368.2	364.9
Operating profit/(loss)					
Specialties	25.6	17.6	17.5	18.3	21.4
Pigments	6.1	1.2	1.8	3.9	1.8
Chromium	11.9	7.8	0.4	11.3	8.2
Central costs	(6.0)	(7.5)	(9.3)	(9.9)	(9.8)
Continuing operations before exceptional items	37.6	19.1	10.4	23.6	12.6
Exceptional items	3.0	(47.7)	(2.6)	(0.4)	(40.4)
Discontinued operations	–	1.2	1.1	0.9	(1.1)
Profit/(loss) before interest	40.6	(27.4)	8.9	24.1	(19.9)
Net interest payable	(7.5)	(7.6)	(5.6)	(6.2)	(0.8)
Profit/(loss) before tax	33.1	(35.0)	3.3	17.9	(20.7)
Tax	(1.4)	(3.4)	0.1	(1.1)	3.5
Minority interests	(0.1)	0.3	–	(0.1)	(0.1)
Profit/(loss) attributable to equity holders of the parent	31.6	(38.1)	3.4	16.7	17.3

	2006 £million	2005 £million	2004 £million	2003 £million	2002 £million
Basic					
Earnings/(loss) per ordinary share (pence)	7.1	(8.8)	0.8	3.9	(4.0)
Earnings per ordinary share before exceptional items (pence)	6.8	2.8	1.3	4.0	4.5
Diluted					
Earnings/(loss) per ordinary share (pence)	7.0	(8.8)	0.8	3.8	(4.0)
Earnings per ordinary share before exceptional items (pence)	6.7	2.8	1.3	4.0	4.5
Dividends per ordinary share (pence)	2.3	–	–	–	–
Interest cover (times)*	4.6	3.3	3.1	12.9	10.8
Equity attributable to equity holders of the parent	198.6	189.8	221.3	252.3	275.3
Net (borrowings)/cash	(100.6)	(99.4)	(90.2)	(46.9)	(37.5)
Weighted average number of ordinary shares in issue during the year (million)	439.4	434.2	431.9	431.6	431.6

*Ratio of operating profit before exceptional items to interest on net borrowings.

The comparatives for 2002 and 2003 have been restated for the impact of IFRS 3: Business combinations which prohibits the amortisation of goodwill. All other adjustments for IFRS are not material to an understanding of the five year record.

Information for shareholders

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: 0870 600 3966; +44 121 415 7043
Facsimile: +44 (0) 1903 854031
Website: www.lloydstsb-registrars.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.

Registrars' text phone
For shareholders with hearing difficulties:
Callers inside the UK telephone: 0870 600 3950
Callers outside the UK telephone: +44 121 415 7028

Web-based enquiry service www.shareview.co.uk
Shareholders using this service to obtain details of their shareholdings are required to enter their name, postcode and shareholder reference number which can be found on correspondence from the Registrars and also on share certificates.

Registered office
10 Albemarle Street, London, W1S 4BL

Auditor
KPMG Audit Plc

Stockbrokers
Hoare Govett Limited

Company registration number
3299608

Financial calendar 2007

27 February	Preliminary announcement of results for the year ended 31 December 2006
4 April	Ex-dividend date for ordinary shares
10 April	Record date for dividend payable on ordinary shares
26 April	Annual General Meeting
8 May	Payment of final dividend on ordinary shares
1 August*	Interim results
2 November	Interim dividend on ordinary shares

* provisional date

Annual General Meeting
The Annual General Meeting of Elementis plc will be held on 26 April 2007 at 11.00am at The Lincoln Centre, 8 Lincoln's Inn Fields, London WC2A 3ED. The Notice of Meeting is included in a separate document. Details of the ordinary and special business of the Annual General Meeting are contained within the Notice.

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Printed on Mega Matt paper and board. Mega Matt has a content of 50% totally chlorine free pulp from sustainable forests and 50% recycled fibre. No film or film processing chemicals were used and 95% of the cleaning solvent was recycled. CO_2 emissions only 2.8 tonnes per million sheets printed. The electricity was generated from renewable sources and vegetable based inks were used throughout. The printer meets Environmental Agency Standards. All waste and recycling processes are managed by contractors who are ISO 14001 registered. On average over 84% of any waste associated with this product will be recycled. The front cover is laminated with purelam, a biodegradable film lamination made from wood fibres obtained from a sustainable resource.