# Annual Report 1998

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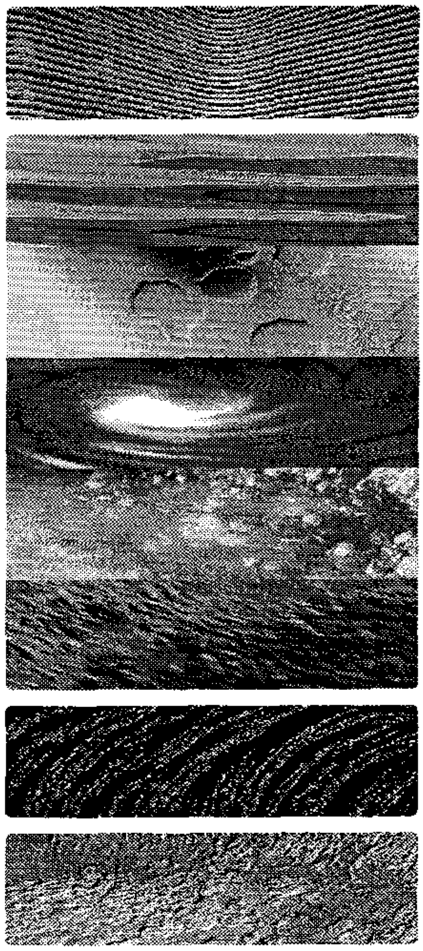




ELEMENTIS

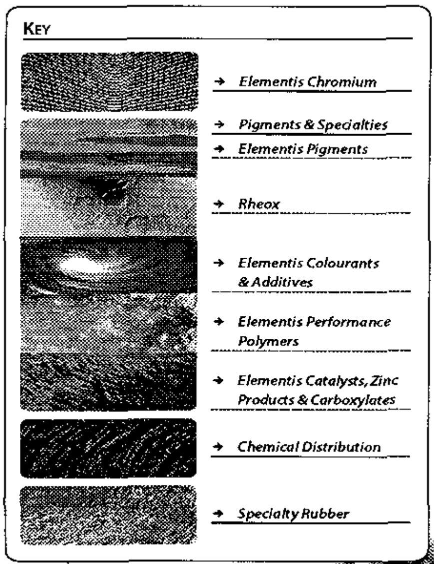
→ Elementis is an international specialty chemicals group with leading market positions in its chosen areas of expertise. The businesses of the Group address their markets through a combination of product leadership, technical expertise and customer understanding.

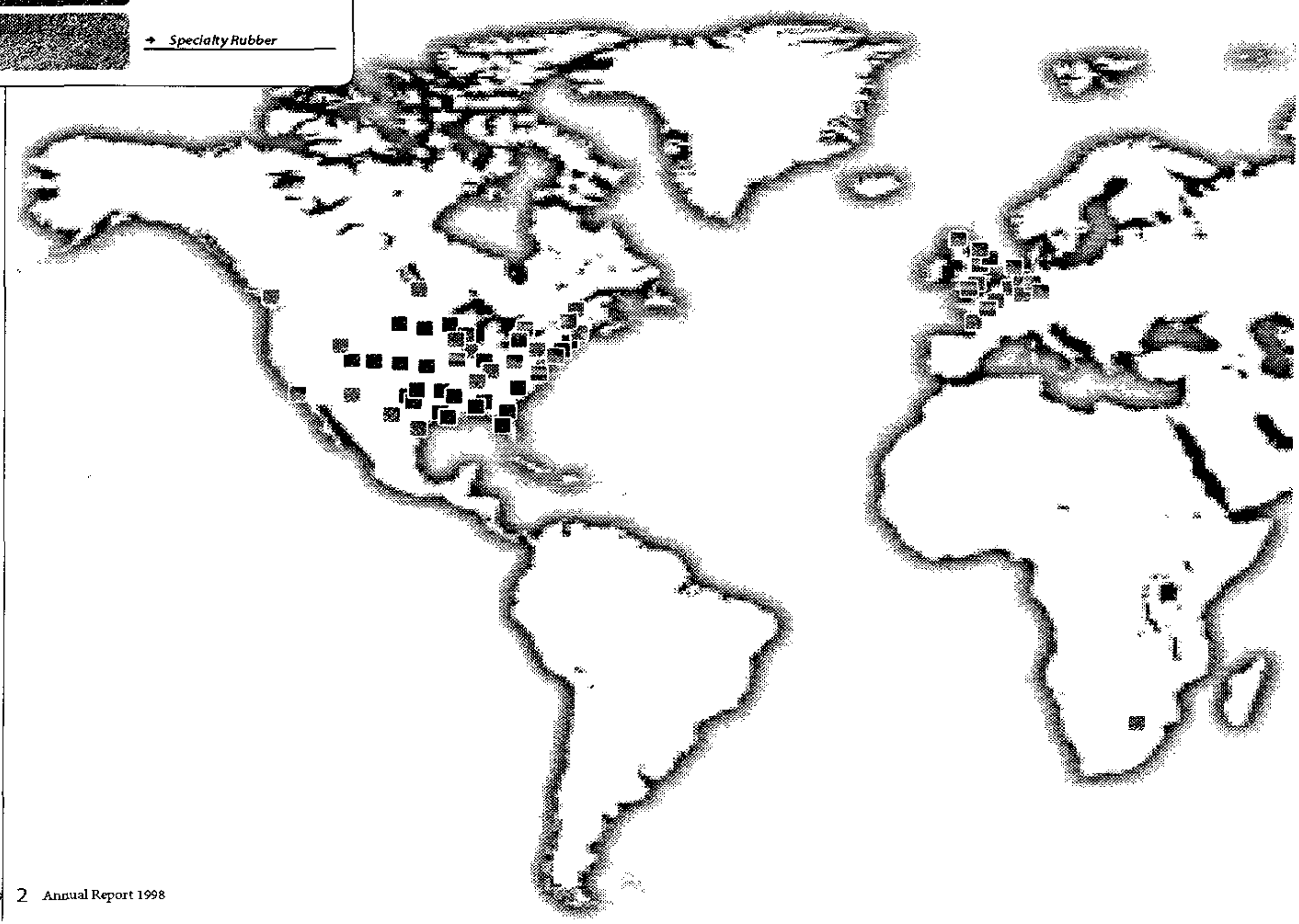
Elementis is committed to creating value for shareholders through organic growth and selective acquisitions that have the capacity to earn returns above the cost of capital, while preserving the integrity of its commitment to the health and safety of employees, their communities and the environment.

# Global Markets

➔ Elementis operates from over 85 different locations in twelve countries around the world and has leading, global market positions in a number of businesses.

Elementis Chromium is the world's largest producer of chromium chemicals. Elementis Pigments is the world's second largest manufacturer of synthetic iron oxide pigments and Elementis Specialties' Rheox business is a world leading producer of rheological additives.



# Key Events and Financial Highlights

**January 1998**

- *Elementis launched as a specialty chemicals group*
- *Acquisition of Rheox*

**February 1998**

- *Return of capital to shareholders*

**April 1998**

- *Pauls Malt sold*

**October 1998**

- *Interest in Akcros joint venture sold*
- *Lyndon Cole appointed Group Chief Executive*

**November 1998**

- *BOCM PAULS sold*

**February 1999**

- *New senior management team announced*

- *Financial Highlights for the year ended 31 December 1998*

- **Continuing operations sales £534.2 million** *(1997: £471.5 million)*
- **Operating profit on continuing operations £61.5 million** *(1997: £44.7 million)**
- **Profit before tax £49.6 million***
- **Earnings per share up 2 per cent to 9.0 pence** *(1997: 8.8 pence)**
- **Final dividend 3.0 pence per share; total dividends 5.0 pence** *(1997: 3.6 pence)*
- **£161.1 million of cash raised from balance of disposals programme**
- **£402.2 million of capital returned to shareholders**

* *before goodwill amortisation and exceptionals*

# Chairman's Statement

➔ Jonathan Fry, Chairman. In 1998, we completed the transformation of the Group into a clearly focused specialty chemicals group. The start of the year saw the successful launch of our new name, Elementis, and new corporate identity. At the end of January, we completed the acquisition of Rheox for £277.8 million and in February we returned £402.2 million of capital to shareholders.

During the year, we also sold our two remaining Food & Agriculture businesses and our 50 per cent interest in the Akcros joint venture. In the eighteen months since the restructuring programme was announced, the Group has divested its interests in seven non-core businesses, raising some £626 million in cash.

Our continuing businesses, like others in the chemicals sector, experienced more difficult trading conditions as the year progressed. This was mainly due to the economic problems in Asia, a slowing in demand from the US coatings industry, the downturn in the oil industry and customer destocking which particularly impacted our chromic oxide sales.

Operating profit on continuing operations, before goodwill amortisation and exceptionals, was £61.5 million, compared to £44.7 million in 1997. The contribution of Rheox, in the 11 months since acquisition, was £20.5 million. Profit before goodwill amortisation, exceptionals and tax, including the results of discontinued operations, was £49.6 million. Basic earnings per share before goodwill and exceptionals increased by 2 per cent year on year to 9.0 pence. Net borrowings at the year end were £48.0 million. The Board is recommending a final dividend of 3.0 pence per share making a total for the year of 5.0 pence (1997: 3.6 pence) which will be paid on 4 May 1999 to shareholders on the register on 19 March 1999. Net cash inflow from operating activities was £84.5 million.

Our new Group Chief Executive, Lyndon Cole, was appointed in October. Lyndon joined from GE Plastics, a division of General Electric Company (USA), where he was General Manager of the Global Structured Products business based in the US.

Lyndon's experience in international sales, marketing and global management, as well as his early background as a research chemist, is of great value to the Group during this next phase of our development. He replaced Bill Turcan who led the transformation of the Group into Elementis; I would like to thank Bill for his contribution during this important period of change. The senior management team has been significantly strengthened over the past twelve months; changes include the appointment of new heads for each of our four global businesses. I would also like to thank Hugh Mellor and Frances Heaton who will retire from the Board following the Annual General Meeting on 30 April 1999. We will be announcing the appointment of a new non-executive director in due course.

The Board of Elementis is committed to creating value for shareholders through organic growth and selective acquisitions that have the capacity to earn returns above the cost of capital. Today we have leading, global market positions in a number of our businesses and a reputation for quality products and customer service. We have considerable scope to enhance profitability through driving for operational excellence across our businesses. This includes stepping up our rate of product innovation, running our businesses on a global basis and strengthening market and technology links between businesses. Considerable focus is also being placed on supply chain management, improving working capital utilisation and cutting costs throughout the Group, the benefits of which we should increasingly see as 1999 progresses. Major investment programmes in pigments and chromium manufacturing facilities will be largely completed by the end of 1999 and 2000 respectively; these will deliver significant improvements in product quality and productivity.

The improvement in the safety performance of the Group is encouraging. The key measure, lost time accidents, improved by 27 per cent year on year, building upon the 27 per cent improvement achieved in 1997. The drive for operational excellence is being carried out while preserving the integrity of our commitment to the health and safety of employees, their communities and the environment.

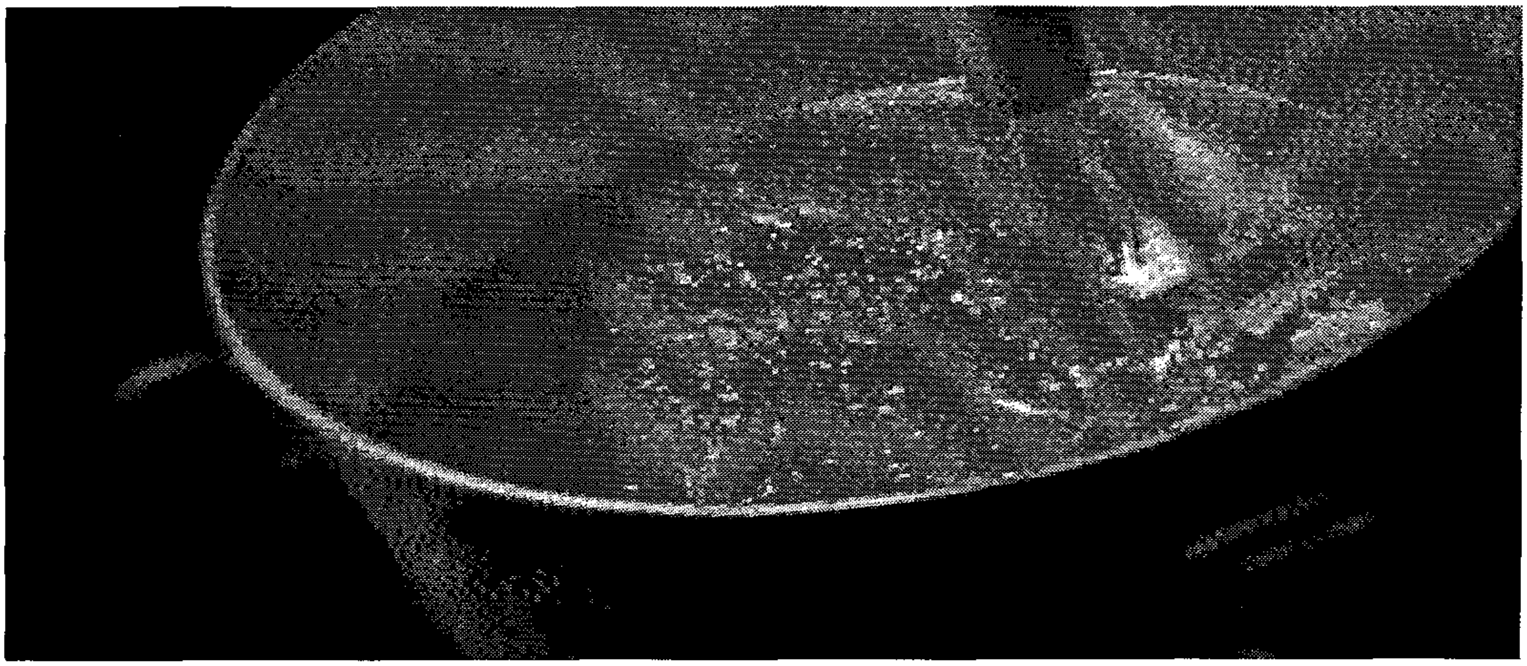
Without the continued commitment of the people within Elementis, these operational changes could not be planned nor achieved. I would like to thank everyone within the organisation for their resilience during the restructuring period and I am impressed with the sense of purpose and determination that is now apparent throughout the Group.

The difficult trading conditions experienced towards the end of 1998 have continued into the first two months of 1999. Looking ahead, we are under no illusions as to the competitive conditions we face, particularly given the uncertainty over the outlook for the global economy. Nevertheless, Elementis now has the sales, marketing and technical expertise to develop its leading market positions further, a strong balance sheet and a management team with the skills, experience and determination to build upon these strengths.

Jonathan Fry.

Jonathan Fry, Chairman

↓ *Colourant premix tank*

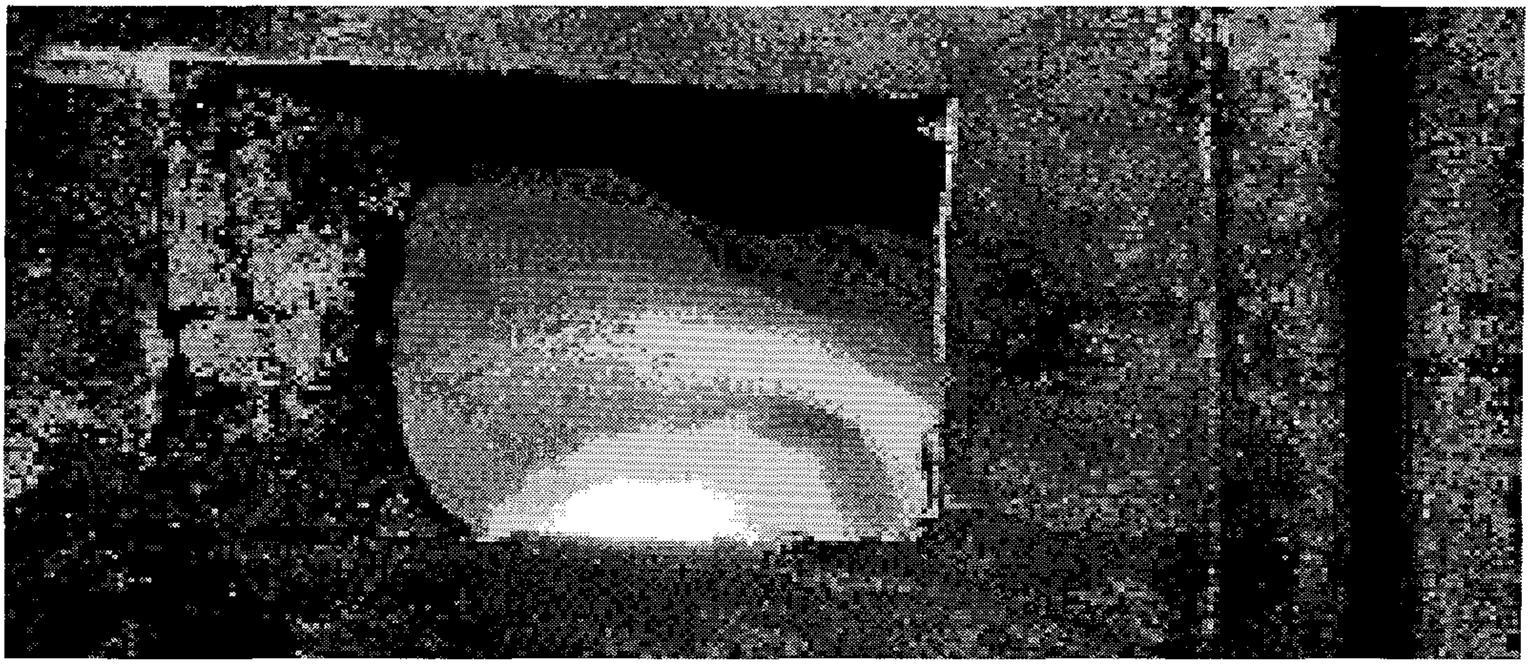


# Chief Executive's Report

→ Lyndon Cole, Group Chief Executive. 1998 was another year of fundamental change; a change to focus on specialty chemicals with the creation of a new Elementis identity and culture; a change to serving new customers in new markets, involving the acquisition of Rheox; and a change in global patterns of supply/demand with the impact of the Asian crisis.

| **Continuing operations** *Twelve months to 31 December* | 1998 | | 1997 | |
|---|---|---|---|---|
| | Sales £ million | Operating profit* £ million | Sales £ million | Operating profit* £ million |
| **Chromium** | **129.7** | **27.1** | 132.4 | 29.9 |
| **Pigments & Specialties** | | | | |
| **Existing** | **135.6** | **6.6** | 148.8 | 8.8 |
| **Rheox - 11 months** | **78.3** | **20.5** | | |
| **Chemical Distribution** | **139.2** | **2.6** | 134.4 | 1.2 |
| **Specialty Rubber** | **56.7** | **4.7** | 61.5 | 4.8 |
| **Intra-group** | **(5.3)** | **-** | (5.6) | - |
| | **534.2** | **61.5** | 471.5 | 44.7 |

**Before goodwill amortisation and exceptionals*

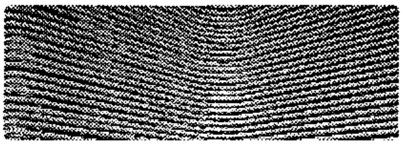


- *Elementis Chromium*
- *Pigments & Specialties*
- *Elementis Pigments*
- *Rheox*
- *Elementis Colourants & Additives*
- *Elementis Performance Polymers*
- *Elementis Catalysts, Zinc Products & Carboxylates*
- *Chemical Distribution*
- *Specialty Rubber*

To confront these changes, the structure and make-up of senior management has been radically altered. Chromium, Pigments, Specialties and Specialty Rubber are now more closely aligned with their customers and markets; each is now managed globally by a single business leader, three of whom have been externally recruited in the last 12 months.

The way ahead will be driven by four key processes across the portfolio:

- *operational excellence:* further improvements in productivity and the use of capital and working capital
- *customer focus:* delivery of first-class sales, technical and marketing services to our customer base
- *innovation:* creative, fast solutions to unmet customer needs
- *human resources:* change management, full appraisals, assessment of development needs and new incentive schemes.



### *Elementis Chromium*

*The world's largest producer of chromium chemicals, Elementis Chromium has integrated production sites in the UK and US with terminal facilities in Canada and Germany. Elementis Chromium is the only producer that manufactures the complete range of chromium chemicals.*

*Key markets and products*

- *Leather tanning - chrome sulphate*
- *Timber treatment - chromic acid*
- *Metal finishing - chromic acid*
- *Metal alloys - chromic oxide*
- *Inorganic pigments - chromic oxide*
- *Personal care - chromic hydrate*
- *Refractories - chromic oxide*

Operating profit for Elementis Chromium was £27.1 million compared to £29.9 million in 1997; sales decreased by 2 per cent to £129.7 million as a result of a difficult second half to the year. Adverse currency movements and lower chrome sulphate sales to Asia and Russia reduced operating profit by around £2.5 million, and £2.3 million respectively. Destocking in the aerospace/metal alloy industries reduced chromic oxide volumes by 16 per cent in the second half. Chromic acid sales remained strong throughout the whole of 1998 with a resulting global market share increase. Overall, gross margins were essentially flat. The December 1998 launch of the branded chromic acid "CA21" product, manufactured at the new £11 million 25,000 tonne plant in Eaglescliffe, UK is proving to be a major technical success with our customers; the new product is easy to handle, flows well and is dust free. Raw material productivity, variable cost productivity and working capital efficiency continue to improve as we increasingly focus on operational excellence.

Development of the $30 million kiln project at Corpus Christi, Texas is progressing well. The project will provide additional capacity, higher product quality, as well as reduced costs. This new kiln, the largest chromium chemicals kiln in the world, will be mechanically complete in 1999 in preparation for start-up in early 2000. A £9 million expansion of our pure salt plant at Eaglescliffe is also under way. This project is the final phase of the current environmental programme and will enable us to sell higher priced pure sodium sulphate, instead of crude salt.

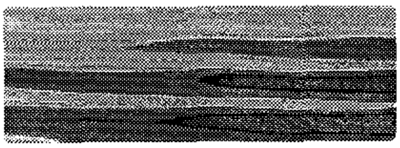
### *Pigments & Specialties*

- *Elementis Pigments*
- *Rheox*
- *Elementis Colourants & Additives*
- *Elementis Performance Polymers*
- *Elementis Catalysts, Zinc Products & Carboxylates*

Operating profit before goodwill amortisation and exceptionals was £27.1 million, compared with £8.8 million in 1997. Excluding Rheox, operating profit on a similar basis was £6.6 million on sales of £135.6 million, down 9 per cent.

The adverse effects on operating profit of currency movements and demand issues in Asia are estimated at £1.4 million and £2.2 million respectively, of which £0.8 million and £1.2 million are attributable to Rheox.

← *Chromic oxide kiln - looking up into the kiln from the firing end.*



→ ***Elementis Pigments***

*The second largest manufacturer in the world of synthetic iron oxide pigments, Elementis Pigments has manufacturing facilities in the UK, US and China.*

***Key markets and products***

- → *Coatings - Ultra Yellow, Copperas Red*
- → *Construction - Ferrispec, Chrome*
- → *Personal care*

Sales and operating profit were lower than 1997. Sales declined primarily due to weak Asian demand, approximately 70 per cent lower than 1997, and the loss of one major customer in the construction market. Excluding this one loss, sales of liquids and our new Ferrispec granular product to the construction market increased. Sales to the major coating customers showed modest growth in 1998, despite the uncertainty for industry rationalisation.

**Innovative process and product technology led to the development of several important new products in 1998:**

→ *Ferrispec* - granular or free-flowing agglomerates with minimal dust and high ease of use in automatic colourant systems.

→ *Ultra Yellow* - low viscosity yellow pigment that allows higher pigment loading and improved process efficiencies.

→ *Copperas Red* - the lightest, brightest and cleanest iron oxide on the market that can be used as a partial replacement for expensive organic pigments.

→ *High-quality magnetites* - value-added products that offer improved dispersability into applications such as toners, magnetic inks and transfer ribbons.

The major restructuring and upgrading plans announced in 1997 are progressing well. The Deanshanger site, near Milton Keynes in the UK closes in 1999 and the new plant in Shenzhen, China is fully operational. Work is under way to upgrade our two principal US facilities and the new Colton, California finishing plant is now operational. As a result of the restructuring, we expect to achieve a significantly lower cost base that, combined with new capabilities and products, will deliver growth in revenue and operating profit from the year 2000 onwards.

→ ***Rheox***

*The world's leading producer of rheological and other formulation additives, Rheox has its principal manufacturing facilities in the US and UK.*

***Key markets and products***

- → *Coatings - solvent-based: Bentone 34, Bentone SD-1, Thixatrol ST*
- → *Coatings - water-based: Rheolate 255, Bentone EW, Benaqua 4000*
- → *Oil drilling chemicals: Bentone 38, Bentone 128*
- → *Personal care: Bentone Mastergels, Rheolate 5000, Thixcin R*
- → *Inks: Bentone 34, Bentone 120*

Operating profit for Rheox since it was acquired at the end of January 1998 was £20.5 million before goodwill amortisation of £11.2 million; this was 9 per cent below the comparable figure for 1997. Sales were £78.3 million, a shortfall compared to 1997 of 4 per cent, largely caused by Asia, where sales were down 25 per cent in the first half of 1998 and 35 per cent in the second half.

Sales to the oil drilling sector which achieved around 20 per cent growth in the first half, declined by a similar amount in the second. Gross margins were maintained across the business. Rheox continued to grow in its core US markets and also made market share progress in water-based coatings and in Europe.

**During the year the depth of technical and marketing innovation at Rheox was highlighted by the introduction of 19 new products including:**

→ ***Bentone "V"*** *grade master gels for rheological control of lotions and creams to meet the needs of the personal care industry for non-animal origin ingredients.*

→ ***Rheolate 425****, an alkyl phenol ethoxylate-free (APE) additive that delivers low cost, high efficiency house paint systems.*

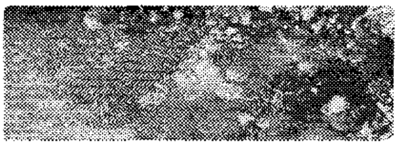
→ ***Bentone GS****, a refined hectorite based product providing improved processing for the construction market.*

Other innovations were primarily in aqueous coatings, specialty waxes and inks, as Rheox continued to develop its technology into new industries and applications.

→ ***Elementis Specialties - Colourants & Additives***

*Producer of colourants and additives for the paint, coating and ink industries, from manufacturing facilities in Europe and the US.*

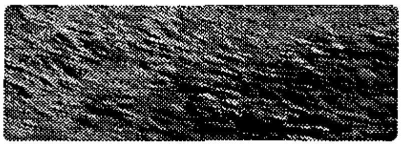
Key products are Tint Ayd pigment dispersions, Tint Ayd DPC colourants for powder coatings, Tint Ayd NV specifically for low to zero volatile organic compound (VOC) coatings. Sales increased significantly as a result of the Systeem Chemie acquisition in 1997, while sales to the US paint industry, Asia and Latin America were down significantly in the second half. As a result, operating profit was below the record level of 1997.



→ ***Elementis Specialties - Performance Polymers***

*The Group's small US operation manufactures adhesives, formulated products and specialty elastomers.*

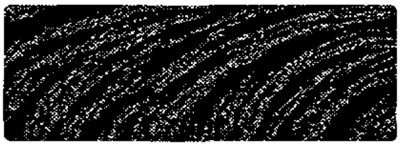
Operating profit was in line with 1997 on lower sales. Lower raw material, variable and fixed costs led to increased margins, particularly in liquid elastomers. Innovation into UV/EB curable coatings and adhesives provided solvent free, low utility cost systems to the customer.



→ ***Elementis Specialties - Catalysts, Zinc Products & Carboxylates***

*Manufacturer of catalysts, zinc products and carboxylates in the US and UK.*

Operating profit was in line with 1997 on lower sales. The US catalyst business grew on winning new business, but zinc volumes in the UK were down in the second half, as were carboxylates. The strength of sterling impacted the competitive position of the business.



→ ***Chemical Distribution***

*The major US chemical distribution business, has 26 depots with a strong coverage in the Midwest. The business also manufactures a small range of specialty surfactants and emulsifiers.*

Operating profit before exceptionals increased to £2.6 million, from £1.2 million in 1997 as a result of volume growth and margin improvement across the majority of the product range. Sales grew by 4 per cent to £139.2 million as a result of strong growth in caustic soda, bleach and surfactants.

→ ***Specialty Rubber***

*International manufacturer, fabricator and system designer of high quality rubber based anti-abrasion products.*

The chemical process used to produce Linatex rubber provides quality, consistency and durability of performance required in areas such as the mining and quarrying industries.

Sales at Linatex decreased 8 per cent year on year to £56.7 million as a result of weak demand in Asia and from the mining industry. Operating profit of £4.7 million before exceptionals was in line with 1997. A full strategic review of the business is under way, led by the new Managing Director, to exploit areas of high growth and competitive advantage.

**Discontinued operations**

Operating loss before exceptionals from discontinued operations, comprising BOCM PAULS, Pauls Malt and the Group's 50 per cent share in the Akcros joint venture, until their disposal date, was £3.6 million. This compares with an operating profit before exceptionals of £37.5 million for 1997 which also included the profits from the Timber & Building Supplies and Food & Agriculture businesses sold in the second half of 1997.

Lyndon Cole, Group Chief Executive

# Financial Review

**Results for the year**

Sales from continuing operations totalled £534.2 million, including £78.3 million from the Rheox acquisition. Excluding Rheox, sales from continuing operations declined by 3 per cent year on year. Operating profit on continuing operations, before goodwill amortisation and exceptionals, was £61.5 million, compared to £44.7 million in 1997. The Rheox contribution for the 11 months since acquisition was £20.5 million, before goodwill amortisation of £11.2 million. Operating loss before exceptionals on discontinued operations was £3.6 million, including the Group's share of joint venture and associates profit/(loss).
Further details are given in the Chief Executive's Report.

**Exceptionals**

Net exceptional charges before taxation totalled £28.8 million, compared to £185.5 million in 1997. For 1998, exceptionals comprised:

- £4.6 million of restructuring provisions charged against operating profit; these relate to provisions made in prior years which have been reversed by way of restatement, in accordance with the new accounting standard FRS12;
- £5.0 million profit on the disposal of surplus properties, mainly in the UK;
- a combined loss of £26.9 million on the disposal of BOCM PAULS, Pauls Malt and the Akcros joint venture, of which £26.0 million relates to goodwill previously written off to reserves. The Akcros loss is £6.8 million greater than originally estimated, mainly due to an additional environmental provision.
- a cost of £2.3 million to cancel sterling interest rate swaps no longer required following the completion of the Group restructuring.

**Interest**

Net interest payable was £8.3 million, compared to £2.9 million in 1997.
This increase reflects higher borrowing following the acquisition of Rheox in January and the return of cash to shareholders the following month, partly offset by cash receipts from business disposals.

**Taxation**

The effective tax rate on profit on ordinary activities before goodwill amortisation and exceptionals was 14.5 per cent, compared with 20.3 per cent in 1997. This rate is substantially lower than the standard UK corporation tax rate for a number of reasons including tax relief on purchased US goodwill, the utilisation of surplus ACT and writing down allowances on impaired BOCM PAULS assets, partially offset by higher overseas tax rates and unrelieved overseas tax losses. The tax on exceptional items was £1.2 million, primarily relating to the disposal of the Akcros joint venture.
At 31 December 1998, surplus ACT available for offset against future profits in the UK was £24.7 million.

**Earnings per share**

Basic earnings per share before goodwill amortisation and exceptionals increased by 2 per cent year on year to 9.0 pence. Basic earnings per share, after goodwill and exceptionals, was 0.3 pence (1997: 15.5 pence loss). The weighted average number of shares in issue during the year was 472.9 million (1997: 715.3 million); the number of shares in issue at the year end was 431.5 million.

**Dividends**

The Board has proposed a final dividend of 3.0 pence per share, making a total dividend for the year of 5.0 pence per share. This represents an increase of 39 per cent over last year when no final dividend was paid and is covered 1.8 times by post tax earnings before goodwill amortisation and exceptionals.

**Cash flow and balance sheet**

Net cash inflow from operating activities was £84.5 million, compared to £154.1 million in 1997.
Cash inflow from continuing operations was £77.4 million, including 11 months results for Rheox, compared to £66.9 million in 1997. The inflow included a £4.6 million reduction in working capital (1997: £13.2 million).
Cash inflow from discontinued operations until their date of sale was £7.1 million, including a £14.1 million reduction in working capital.
Cash expenditure on fixed assets totalled £32.6 million (1997: £64.5 million). £25.1 million (1997: £23.7 million) was spent on continuing activities, of which just over half was at Elementis Chromium; this compares with net depreciation of £15.1 million. Significant projects in 1998 included completion of the new chromic acid plant, the Rheox capacity expansion and initial construction costs for the new chromium kiln in the US and the upgrading of pigments manufacturing facilities. Capital expenditure in 1999 will be substantially ahead of depreciation as a result of the major investment programmes in pigments and chromium manufacturing facilities; these will be completed by the end of 1999 and early 2000 respectively and will deliver significant improvements in product quality and productivity.

Cash outflow on acquisitions was £283.7 million, which almost all related to Rheox, and £161.1 million was raised from the disposal of businesses.

Net cash outflow before the use of liquid resources and financing was £98.1 million compared to an inflow of £465.8 million in 1997. In February, £402.2 million of capital was returned to shareholders. Net year end borrowings were £48.0 million compared to £450.6 million of net cash at the end of 1997. Shareholders' funds at the year end were £367.8 million (1997: £764.2 million).

**Restructuring provisions**

The financial statements have been prepared in accordance with all recently issued accounting standards. These include FRS12 which requires the Group to be less prudent in the timing of the recognition of restructuring provisions than was previously the case. Restructuring provisions are now charged to the profit and loss by references to constructive obligations; previously such provisions were charged when management decisions to restructure were taken. As a result of FRS12, (i) shareholders' funds at 1 January 1998 have been restated upwards by £6.7 million through the reversal of prior period restructuring provisions and related tax; (ii) £4.6 million of restructuring provisions and £0.4 million of related tax have been booked in 1998; (iii) and the balance of £2.5 million will now be charged in 1999, being the US component of the Elementis Pigments restructuring programme.

**Treasury**

Treasury activities are governed by policies and procedures approved and monitored by the Board. The Group operates a central treasury service centre, the principal function of which is to manage and monitor the Group's external and internal funding requirements and treasury risks, including interest rate and currency management. Group Treasury is subject to periodic internal audit.

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources. Certain derivative financial instruments, (principally interest rate swaps and forward foreign currency contracts) are entered into in order to manage efficiently interest rate and currency risks. The Group does not hold or issue derivative financial instruments for speculative trading purposes; treasury policy specifically prohibits such activity.

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's principal committed bank borrowing facility totalled £350.0 million of which £101.1 million was undrawn; this facility expires in December 2000. Net borrowings at the year end were £48.0 million.

Interest rate risk

The Group borrows at both fixed and floating interest rates and then uses interest rate swaps to generate the required interest rate profile. At the year end, 25 per cent of gross borrowings were at fixed rates, fixed for an average of 3.2 years after taking account of interest rate swaps. Interest cover (the number of times that the net interest charge is covered by operating profit before goodwill amortisation and exceptionals) was 7.0 times for 1998.

Currency risk

Businesses use forward foreign currency contracts to hedge transaction exposures where deemed appropriate in consultation with Group Treasury. The Group also seeks to mitigate the effect of translation exposure to its asset base through currency borrowing. The policy is for between 60 and 80 per cent of investments in non sterling operations to be hedged into sterling. At the end of 1998, approximately 68.5 per cent of non sterling assets were covered by currency borrowings.

The principal currency in which the Group conducts its business is the US dollar. In 1998, the average exchange rate was $1.66, compared with $1.64 in 1997. The US dollar exchange rate at 31 December 1998 was $1.66, compared with $1.65 at 31 December 1997.

Counterparty credit risk

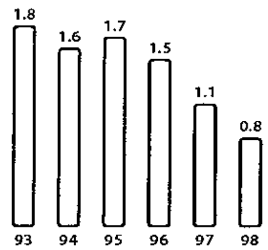
The Group controls counterparty credit risk by entering into cash deposits and financial instruments with authorised counterparties. Credit risk is managed by limiting the aggregate amount and duration of exposure to any one counterparty depending upon their credit rating and by regular review of these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

**Year 2000**

The Group's year 2000 computer technology compliance programme is progressing well. The remaining tasks, including testing of new systems and preparation of detailed year end contingency plans, are expected to be completed by the summer. The work is the responsibility of each business and is carried out under the guidance of the central IT resource. Businesses submit regular progress reports to a central steering committee and internal audit review year 2000 compliance as part of their ongoing audit work. The programme is also reviewed by the Board on a quarterly basis. The latest estimate of the total cost of resolving year 2000 issues is £1 million. This is significantly lower than the £3 million estimate published in the 1997 Annual Report due to the subsequent disposal of BOCM PAULS and the Group's interest in the Akcros joint venture.

# Health, Safety and the Environment

→ **Policy statement.** Elementis is committed to managing all its activities, throughout the world, so as to provide a high level of protection to the environment and to the health and safety of its employees, customers and neighbours. Elementis complies with legal requirements and codes of practice in the countries where it operates as a minimum and supports the principles of the global chemical industry's responsible care programme.




*Lost time accident frequency**

**3 day LTA/100,000 hours worked frequency for chemical companies only. Specialty Rubber LTA 1998 frequency = 0.8*

**Policy statement**

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Elementis complies with legal requirements and codes of practice in the countries where it operates as a minimum and supports the principles of the global chemical industry's responsible care programme.
Relevant information about the activities which affect health, safety and the environment are made available to employees, customers, the public, regulatory bodies and other interested parties in an understandable form.
Appropriate policies and systems to manage health, safety and the environment are in operation in all businesses; they are formally reviewed on a regular basis.
Achievement of goals and continuous improvement in health, safety and environmental standards are key measures of performance within Elementis. Employees receive training to ensure their understanding of, and competence in, all relevant health, safety and environmental matters and to gain their commitment to the effective implementation of this policy.

**What are our objectives?**

→ To maintain formal health, safety and environmental management systems capable of external verification

→ To minimise the impact of Group activities on neighbours and the environment through continuous improvement and employment of best practices

→ To promote responsible use and after-use disposal of products through product stewardship programmes with customers

→ To continue to emphasise health and safety in the workplace through focusing on human behaviour and risk awareness

→ To increase health, safety and environment awareness and commitment amongst employees

**How do we provide leadership of health, safety and the environment?**

At Board level, responsibility for HSE issues lies with the Group Commercial Director and the HSE performance of the Group is regularly reviewed. At individual business level, HSE is the direct responsibility of the heads of businesses and forms part of their regular personal appraisal process and business review process.
To increase the HSE skill base across the Group, two business heads based in the UK and US were appointed in 1998 to act as consultants to the other businesses; they are able to reinforce and leverage the existing level of HSE expertise.
As a practical means of sharing best practice, an HSE intranet will be launched in 1999. The intranet will be accessible by the HSE representatives in each business and is intended to provide immediate help and advice to the people at the forefront of HSE issues.
Elementis recognises that to be open and transparent on HSE issues is important to its stakeholders. At all locations, employees, customers and neighbours are regularly consulted and given feedback on HSE performance.

**How are we doing?**

The overall safety performance of Elementis, measured in lost time accidents, improved by 27 per cent on 1997. At the Elementis Chromium US plant at Corpus Christi, Texas, over two million man hours have been worked without a lost time accident.
A second UK manufacturing site has been awarded the independently verified environmental management standard ISO 14000. The Catalysts, Zinc Products and Carboxylates business in Co Durham achieved the award in 1997 and was joined in 1998 by the Elementis Chromium site on Teeside. The Rheox site in Livingstone, Scotland has also won a five star British Safety Council award.
A fully integrated set of management HSE performance standards were developed during 1998 and established as the minimum operating criteria for businesses. The operating guidelines, and associated key performance indicators (KPI's), have been developed to reflect current best practice across the diverse span of technologies utilised by Elementis.
In 1999, the internal audit programme is being extended to incorporate all HSE related activities. This includes evaluation of procedures ensuring staff are adequately trained and that KPI's are measured.

← *Analytical Laboratory - using the Atomic Absorption Spectrophotometer*

# The Board

from left to right: Jonathan Fry, Lyndon Cole, George Fairweather, Michael Parker

**Jonathan Fry**
*Non-Executive Chairman, age 61*
Jonathan Fry became Chairman of Elementis in September 1997. He is Chairman of Burmah Castrol plc and Christian Salvesen plc, Deputy Chairman of Northern Foods plc and Chairman of the Asia Pacific Advisory Committee of the Royal Institute of International Affairs. Jonathan Fry is Chairman of the Nominations and Remuneration Committees and a member of the Audit Committee.

**Lyndon Cole**
*Group Chief Executive, age 46*
Lyndon Cole joined Elementis as Group Chief Executive on 1 October 1998. He was previously General Manager of the Global Structured Products business at GE Plastics, a division of General Electric Company (USA), based in the US. During his seven years with GE Plastics, he also held a number of other general management and sales positions in the US and Europe. Prior to joining GE Plastics, he worked for the Dow Chemical Company for twelve years in the UK and Switzerland. A former research chemist with ICI, he was born and educated in Wales and holds a PhD in Chemistry from Reading University.

**George Fairweather**
*Group Finance Director, age 41*
George Fairweather was appointed Group Finance Director in February 1997, having previously held that position with Dawson International PLC. Prior to joining Dawson, he worked for Dixons Group plc in various senior financial roles both in the UK and US. He holds a B.Com from the University of Edinburgh and is a member of The Institute of Chartered Accountants of Scotland.

**Michael Parker**
*Group Commercial Director, age 55*
Mike Parker joined Elementis in February 1997 as Executive Director responsible for Chemicals and has recently been appointed Group Commercial Director, a role that includes responsibility for health, safety, and the environment. His career had previously been with ICI/Zeneca, where he had been Chief Executive of ICI Colours (1990-1994) and Managing Director of ICI South Africa (1987-1990). Immediately prior to his appointment with Elementis, he had been Business Director of Zeneca Specialties.

***Michael Hartnall***
*Non-Executive Director, age 56*
*Michael Hartnall has been Finance Director of Rexam PLC since 1987, having previously held a number of senior positions in industry including that of Managing Director of Mayhew Foods. He was appointed a non-executive director of Elementis in 1993 and was a member of the Hampel Committee on Corporate Governance.*

***Robert Easton***
*Non-Executive Director, age 50*
*Robert Easton was Chief Executive of Delta plc until November 1996. He was appointed a non-executive director of Elementis in 1991.*

***Hugh Mellor***
*Non-Executive Director, age 63*
*Hugh Mellor is Chairman of Meghraj Bank Limited. He was appointed a non-executive director of Elementis in 1991 and is Chairman of the Audit Committee.*

***Frances Heaton***
*Non-Executive Director, age 54*
*Frances Heaton was appointed a non-executive director in June 1994. She is a director of Lazard Brothers and previously worked in HM Treasury and as Director General of the Takeover Panel. She is also Deputy Chairman of WS Atkins plc and a non-executive director of the Bank of England and BUPA.*

# Senior Management

↑ *from left to right: Heads of global businesses - Bruce Norman, David Dutro, Charles Tuchel, Martin Pugh*

**Bruce Norman**
*Managing Director, Elementis Chromium, age 51*
Bruce Norman joined the Group in 1989 and was appointed Managing Director of Elementis Chromium in the UK in 1992. He was appointed Managing Director, Elementis Chromium on a global basis in February 1999. He was previously with Exxon Chemicals, where he held a number of positions in Olefins, Elastomers and Speciality Chemicals.

**David Dutro**
*President, Elementis Pigments, age 43*
David Dutro joined the Group in November 1998 as President of Elementis Pigments. He was previously Vice President General Manager of Universal Foods' Dairy and Food Ingredients business, prior to which he was with ICI.

**Charles Tuchel**
*Managing Director, Elementis Specialties, age 43*
Charles Tuchel joined Elementis as Chief Executive Officer of Rheox in May 1998 and was appointed Chief Executive Officer of Elementis Specialties on a global basis in February 1999. Prior to joining Elementis, he was President and Chief Executive Officer of the flavours division of Universal Foods Corporation, based in the US, and before that with ICI.

**Martin Pugh**
*Managing Director, Specialty Rubber, age 46*
Martin Pugh joined Elementis as Managing Director of Linatex in February 1999. He was previously with the Dow Chemical Company, where he held a number of positions in Europe and the Middle East, most recently as Global Business Director of Specialty Polyethylenes.

**Philip Brown**
*Company Secretary, age 50*
Philip Brown joined the Group from Ranks Hovis McDougall in 1992.
He is Secretary of Elementis plc and Secretary of the Board and its Committees.

**Neil Carr**
*Group Director of Human Resources, age 35*
Neil Carr joined Elementis in 1998 from SmithKline Beecham, where he was Human Resource Director, Worldwide Supply Operations.

# Report of the Directors

**Report and financial statements**
The directors submit their report and the audited financial statements for the year ended 31 December 1998. For the purposes of this report the expression "Company" means Elementis plc and the expression "Group" means the Company and its subsidiaries.

**Results and dividend**
The Group profit for the year attributable to shareholders amounted to £1.2 million. An interim dividend of 2.0 pence per share was paid on 10 November 1998 on the then issued ordinary shares and the directors recommend a final dividend of 3.0 pence per share making a total dividend of 5.0 pence for the year. Subject to approval by the members, the final dividend will be paid on 4 May 1999 to ordinary shareholders on the register on 19 March 1999.

**Principal activities, business review and future development**
The Chairman's Statement on pages 4 and 5 and the Chief Executive's Report on pages 6 to 9 contain a review of and a description of the principal activities of the Group during 1998, references to recent events and likely future developments. Companies throughout the Group undertake, on a continuing basis, research and development of new products and improvement of existing products.
Group turnover and profit is analysed by activity and geographically in note 2 on pages 32 and 33.

**Principal acquisitions and disposals**
During the year the acquisition of Rheox was completed for a consideration of £277.8 million.
The disposals of Pauls Malt, BOCM PAULS and the Group's 50 per cent interest in the Akcros joint venture were completed for a total consideration of £160.0 million, net of expenses.

**Donations and contributions**
During the year the Group donated £91,475 for charitable purposes in the United Kingdom.

**Scheme of arrangement**
The Company participated in a scheme of arrangement whereby its shares were issued to the shareholders of Elementis Holdings Limited (formerly Harrisons & Crosfield plc) which then became a subsidiary of the Company with effect from 23 February 1998.

Shareholders of Elementis Holdings Limited exchanged their shares for shares in the Company with effect from 23 February 1998 in the proportion of three ordinary shares in Elementis plc and 280 pence in cash or loan notes for every five ordinary shares in Elementis Holdings Limited.
The shares in the Company were listed on the London Stock Exchange and trading in those shares started on 24 February 1998.
The Company acts as the ultimate holding company for all the subsidiaries in the Group.

**Directors**
The present directors of the Company are Mr L E Cole (appointed 1 October 1998), Dr R A Easton, Mr G R Fairweather, Mr J M Fry, Mr M J Hartnall, Mrs F A Heaton, Mr H S Mellor and Mr M P Parker. Mr W J Turcan resigned as a director on 13 November 1998.
A statement of the directors' interests in the share capital and in the loan notes of the Company is set out on page 23.

**Substantial shareholders**
The Company has been advised of the following notifiable interests in the issued ordinary capital of the Company as at the close of business on 1 March 1999:
Franklin Resources Inc. 84,230,210 ordinary shares of 5 pence each (19.52 per cent of the issued share capital); M&G Group plc 25,582,885 ordinary shares of 5 pence each (5.93 per cent of the issued share capital); Schroder Investment Management Limited 35,262,745 ordinary shares of 5 pence each (8.17 per cent of the issued share capital) and AXA Sun Life Investment Management Limited 14,372,881 ordinary shares of 5 pence each (3.33 per cent of the issued share capital).

**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. This is done in a variety of ways including in-house newspapers, bulletins and briefing sessions. The Company operates a savings –related share option scheme allowing all UK 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, sex, age, marital status 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 an employee becomes disabled whilst employed by a group company every effort is made to allow that person to continue in employment.

**Creditor days**

Since the Company has no trade creditors the disclosure of creditor days does not apply.

**Policy on payment of suppliers**

The Group applies a policy of agreeing payment terms with each of its major suppliers and abides by these terms, subject to satisfactory performance by the suppliers.

**Auditors**

Following the merger of Price Waterhouse and Coopers & Lybrand from 1 July 1998, Price Waterhouse resigned as auditors of the Company in favour of the new firm PricewaterhouseCoopers and the directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation. A special notice has been received in accordance with Sections 379 and 388(3) of the Companies Act 1985 of a resolution that PricewaterhouseCoopers be re-appointed as auditors of the Company and this will be proposed at the Annual General Meeting.

By order of the Board
Philip Brown
Secretary
4 March 1999

# Corporate Governance

**Compliance with the provisions of the Combined Code**

Elementis Holdings Limited complied with all the provisions set out in Section 1 of the Combined Code ("the Provisions") from the beginning of the accounting period until its shares ceased to be listed on the London Stock Exchange as a result of the scheme of arrangement on 23 February 1998. Its new holding company, Elementis plc, complied with all the provisions from 23 February 1998 to the end of the accounting period. In the following paragraphs references to the Company means Elementis Holdings Limited until 23 February 1998 and thereafter Elementis plc.

**Application of the principles set out in the Combined Code**

In the following statement the heading to each of the principles is set out and the manner in which the Company has applied the principle underlying each of the headings is described.

**The Board**

The Company has a Board comprising an independent non-executive Chairman, three executive directors and four independent non-executive directors. At the end of the accounting period Mr M J Hartnall was nominated as the senior non-executive director.

**Chairman and Chief Executive**

The Company has both a Chairman and a Group Chief Executive. There is a clear division of responsibility between the two positions with the Chairman responsible for the running of the Board and the Chief Executive responsible for the running of the Group's business. Major decisions have to be made by the Board as a whole and no one individual has unfettered powers of decision.

**Board balance**

The Board has both executive and independent non-executive directors. Each director has a vote and no individual or small group of individuals dominates the Board's decision taking.

**Supply of information to the Board**

The Board normally meets ten times a year and considers at each meeting a report from the Group Chief Executive on current trading and major business issues and monthly operating reports including management accounts. The Board also considers on a regular basis, reports from the various heads of corporate functions and agrees the operating plan for the following financial year.

**Appointments to the Board**

There is a Nominations Committee of the Board which comprises all the non-executive directors and is chaired by the Chairman of the Company. This Committee nominates appointments to the Board but the actual appointments are made by the Board as a whole.

**Re-election of directors**

One-third of the directors retire each year and submit themselves for re-election at the Annual General Meeting of the Company. Re-election of an individual director, therefore, falls at least every three years.

**The level and make-up of directors' remuneration and disclosure**

The level and make-up of remuneration is set out in the Board Report on Remuneration on pages 20 to 23. As that Report shows, a proportion of executive directors' remuneration is linked to corporate performance through both the Performance Share Plan and the annual bonus scheme and bonuses were paid during 1998 for individual performances.

**Procedure on executive remuneration**

There is a Remuneration Committee of the Board which is more fully described in the Board Report on Remuneration. The responsibilities of the Committee include the determination of (i) the

Company's policy on remuneration of the executive directors and (ii) the specific remuneration in all its forms and all other terms of service of the executive directors. No director is involved in deciding his or her own remuneration.

**Dialogue with institutional shareholders**

Directors of the Company are in contact from time to time with representatives of the institutional shareholders to discuss matters of mutual interest relating to the Company.

**Constructive use of the AGM**

The Board uses the AGM as an occasion to communicate with all shareholders, including private investors, who are provided with the opportunity to ask questions relating to the Company. The notice of the AGM of the Company held on 29 April 1998 and related papers were sent to shareholders less than 20 working days before the date of the meeting as the timetable for convening the meeting had been set before the publication of the final report of the Committee on Corporate Governance. The notice of the AGM of the Company to be held on 30 April 1999 and related papers were posted to shareholders more than 20 working days before the date of the AGM.

**Financial reporting**

The directors have acknowledged in their statement on page 24 their responsibility for preparing the financial statements of the Company. The auditors have included in their report on page 25 a statement about their reporting responsibilities.
The directors are also responsible for the publication of unaudited interim reports of the Company which provide balanced and understandable assessments of the Group's financial position for the first six months of each accounting period. The same standards are applied to other price sensitive public reports and reports to regulators as well as to information provided to satisfy statutory requirements.

**Going concern**

After making the appropriate enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

**Internal control**

The directors confirm that they have carried out a review of the effectiveness of the system of internal financial control as it operated during the accounting period. The Company has an internal audit department which monitors and reports on internal financial control throughout the Group. The function reports to the Group Finance Director with access to the Group Chief Executive and the Chairman of the Audit Committee.

**Audit Committee and Auditors**

The Audit Committee comprises all the non- executive directors of the Company. The Committee meets at least three times a year to review, inter alia, in conjunction with the external and internal auditors, internal financial controls within the Group. The Committee operates under written terms of reference and its duties include a detailed review of the financial statements prior to their recommendation to the Board for approval.
The duties of the Audit Committee include keeping under review the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors.

# Board Report on Remuneration

### The Remuneration Committee

Remuneration to be paid to the executive directors is considered and determined by the Remuneration Committee.
The Committee comprises the Chairman and all the non-executive directors of the Company. The Group Chief Executive attends some meetings of the Committee in an advisory capacity but he is not a member of the Committee and is not present for any discussions which directly concern him.

### Remuneration policy

Remuneration policy centres on ensuring that remuneration packages are sufficiently competitive to attract, retain and motivate the right calibre of executive director for each individual function. Any incentive payments are conditional upon demanding performance criteria so as to align incentive awards paid to directors directly with the interests of shareholders. The Committee uses the services of external consultants to help it agree appropriate packages reflecting the remuneration policy. The constituent parts of those packages are set out in the following paragraphs.

### Basic salary and benefits

Salaries are reviewed annually and determined by the Committee taking into account both the performance of each individual director over the previous twelve months and the pay and employment conditions elsewhere in the Group. The Committee also uses information provided by the external consultants relating to the rates of pay for similar positions in comparable companies. Any increases in basic salary are effective from 1 July each year.
The remuneration table included within this report also shows the taxable benefits received in 1998. The main benefits relate to relocation expenses on joining the Company and the provision of company cars.

### Short term bonus

During the year a bonus of £35,000 was paid to Mr W J Turcan and bonuses of £25,000 were paid to both Mr G R Fairweather and Mr M P Parker. These bonuses were in recognition of the significant amount of additional work undertaken by the executive directors in both 1997 and 1998 in connection with the restructuring of the Group.
In 1998 an annual bonus scheme was introduced for executive directors. Under the scheme the executive directors, who were in office for the whole of the year, would have been entitled to receive a maximum of 50 per cent of their salaries if a predetermined level of earnings per share had been achieved in 1998. The level was not achieved and no bonuses are payable in respect of that scheme.

### Long term incentive plan

The directors participate in a long term incentive plan known as the Performance Share Plan (the "Plan"). This is similar to schemes operated by a number of other listed companies and it uses total shareholder return (TSR) as the performance measure. At the date of this report the only two executive directors who participate in the Plan are Mr G R Fairweather and Mr M P Parker although it is intended that Mr L E Cole will participate in the Plan in 1999.
Under the Plan participants are, on payment of a nominal option price of 1 pence per share, able to exercise options over shares in the Company in respect of an individual grant if the performance criteria over a three year performance period is met.
Grants made in 1997 and 1998 remain outstanding. The maximum value of the shares over which options were granted in 1997 was equivalent to 80 per cent of the salary paid to the individual directors in that year. The maximum value in 1998 was 80 per cent of the annual salary of the individual directors as determined at 1 January 1998.
The comparator companies for purposes of the 1997 grant are the FTSE 100 companies. The total shareholder return on each of the FTSE 100 companies will be measured over the three years between 1 January 1997 and 31 December 1999 and the companies will then be placed in descending order according to their TSR returns with the company with the highest return shown first. If the Company's TSR over the same

period is more than the company in 30th position all the options will become exercisable; options to the value of 60 per cent of salary will be exercisable if in top 40; 40 per cent if in top 50 and 20 per cent if in top 60. No options will be exercisable if the Company's performance is below 60th position. The same terms apply to the grant made in 1998 except the comparator companies are the FTSE 250 excluding investment trusts and the positions determining the extent to which options will be exercisable will be 'percentile' positions e.g. all options will become exercisable if the Company's TSR is higher than the company in the 30th percentile position.

In order to emphasise the long term nature of the Plan, a participant may only sell enough shares to cover his liability for income tax arising on the exercise of an option within the two year period following the date of the exercise of that option.

An Employee Share Ownership Plan trust (ESOP) was established in 1995 and it has purchased the shares in the Company which would be required if the executive directors were entitled to exercise the maximum number of options outstanding under the Plan. Details of options granted to executive directors under the Plan are shown in the table of directors' interests in shares at the end of this report on page 23. The ESOP purchased 320,540 shares of 5 pence each in the Company during the year for £506,453 from the cash proceeds it received as part of the return of capital to shareholders of Elementis Holdings Limited and held 866,728 shares at the end of the year which had a market value of £723,718. The ESOP has been included in the financial statements in accordance with UTIF Abstract 13. The amount outstanding on the balance sheet at 31 December 1998 was £232,000 and £528,000 was charged as an operating cost to the profit and loss account for the year. The right to a dividend on the shares owned by the ESOP has been waived.

**Pensions**

The executive directors participate in the Company's Inland Revenue approved funded occupational pension scheme. The main benefits to the executive directors, who have to contribute a percentage of their gross salaries to the scheme each year, are:

1. Normal pension age of 60
2. An accrual rate of 1/30 for each year of pensionable service
3. Life assurance cover of four times pensionable salary
4. Spouse's and dependent children pensions payable on death

All the executive directors joined the Company after 1 June 1989 and are, therefore, subject to the Inland Revenue cap on the amount of salary which may be treated as pensionable. As at 31 December 1998 the cap was £87,600. The Company has undertaken to provide benefits to the directors equivalent to the entitlements which cannot be provided by the Company's scheme. These are currently unfunded but will be put on a funded basis for Messrs Cole and Fairweather during 1999.

**Service contracts**

Messrs. Fairweather and Parker have service agreements with Elementis plc which were entered into on 29 December 1997. Each agreement is terminable by the Company on giving not less than 24 months' notice to the director concerned (where such notice is given prior to 31 January 2000) and not less than 12 months' notice (where such notice is given on or after 31 January 2000) and by the director concerned giving not less than 12 months' notice to the Company. Mr L E Cole has a service agreement with Elementis plc which was entered into on 1 October 1998. The agreement is terminable by the Company on giving not less than 24 months' notice to Mr Cole (where such notice is given prior to 1 October 2001) and not less than 12 months' notice (where such notice is given on or after 1 October 2001) and by Mr Cole giving not less than 12 months' notice to the Company.

# Board Report on Remuneration

**Directors' remuneration table**

| **Executive** | Salary/ fees £'000 | Benefits £'000 | Compen- sation payment £'000 | Total emoluments excluding pensions 1998 £'000 | 1997 £'000 | 1998 Pensions Accrued benefits 31.12.98 £'000 | Early retirement pension £'000 | Increases/ (decreases) in accrued benefits £'000 | Transfer value of increases in accrued benefits £'000 |
|---|---|---|---|---|---|---|---|---|---|
| L E Cole | 84 | 101 | | 185 | | 1 | | 1 | 3 |
| W J Turcan* | 324 | 23 | 487 | 834 | 349 | | 202 | (24)[1] | 742[2] |
| M P Parker | 249 | 20 | | 269 | 216 | 15 | | 8 | 107[3] |
| G R Fairweather | 249 | 49 | | 298 | 300 | 5 | | 3 | 13 |
| J G Barnard** | | | 8 | 8 | 344 | | | | |
| **Non-executive** | | | | | | | | | |
| J M Fry (Chairman) | 150 | | | 150 | 49 | | | | |
| G W Paul (Chairman) retired | - | | | - | 113 | | | | |
| R A Easton | 20 | | | 20 | 20 | | | | |
| M J Hartnall | 20 | | | 20 | 20 | | | | |
| Mrs F A Heaton | 20 | | | 20 | 20 | | | | |
| H S Mellor | 23 | | | 23 | 23 | | | | |
| Director who resigned in 1996 | | | | | | | | | |
| Compensation payments | | | | | 99 | | | | |
| | 1,139 | 193 | 495 | 1,827 | 1,553 | 21 | 202 | (12) | 865 |

* Mr Turcan resigned as a director with effect from 13 November 1998. In compensation for the early termination of his service agreement Mr Turcan received £487,286 for loss of salary and other taxable benefits. Mr Turcan has been in receipt of an early retirement pension from the Elementis Group Pension Scheme since 1 November 1998.The pension was reduced for early retirement which results in the decrease marked (1) in accrued benefits representing the difference between the early retirement pension and deferred pension to which Mr Turcan would have been entitled on 31 December 1997.The amount marked (2) represents the notional increase in the transfer value of the pension during 1998. This is because the value of the pension in payment is equal to the past service reserve which allows for future earnings growth; the value of the deferred pension at the beginning of the year allows only for future leaver revaluation broadly in line with price inflation, and lower than anticipated earnings growth.

** Mr Barnard, who resigned as a director with effect from December 1997, was paid a further £8,000 in compensation for loss of salary and other taxable benefits. In addition to the amounts shown above, as disclosed in the 1997 Annual Report of the Company, Mr Barnard was paid £230,200 being the value of his accrued rights under the unfunded pension arrangements.

The amount marked (3) includes the value of the unapproved pension arrangements for Mr Parker.

The value of the unapproved pension arrangements of Messrs Cole and Fairweather at 31 December 1998 were estimated at £12,700 and £30,000 respectively. Mr Cole joined the Company during the year and the corresponding value of the arrangements for Mr Fairweather at 31 December 1997 was £13,500.

| | Ordinary shares Beneficial holdings | | | Ordinary shares under option | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Elementis Holdings Limited 25 pence at 1.1.98 (or at date of appointment) | Elementis plc 5 pence at 23.2.98 scheme of arrangement | 5 pence at 31.12.98 | Elementis Holdings Limited 25 pence at 1.1.98 (or at date of appointment) | Elementis plc 5 pence at 23.3.98 scheme of arrangement | Granted during 1998 | 5 pence at 31.12.98 | Exercise price | Date from which exercisable | Expiry date |
| J M Fry | 400 | 240 | 15,240 | | | | | | | |
| L E Cole | | | 126,000 | | | | | | | |
| G R Fairweather | 2,000 | 1,200 | 21,200 | 113,094 | 119,768 | | 119,768[1] | 1.0p | 1.1.2000 | 9.5.2004 |
| | | | | | | 10,354 | 10,354[2] | 94.2p | 1.11.2001 | 1.4.2002 |
| | | | | | | 153,024 | 153,024[1] | 1.0p | 1.1.2001 | 2.6.2005 |
| M P Parker | 400,400 | 240,240 | 240,240 | 113,094 | 119,768 | | 119,768[1] | 1.0p | 1.1.2000 | 9.5.2004 |
| | | | | | | 153,024 | 153,024[1] | 1.0p | 1.1.2001 | 2.6.2005 |
| R A Easton | 2,000 | 1,200 | 51,200 | | | | | | | |
| M J Hartnall | 10,000 | 6,000 | 6,000 | | | | | | | |
| Mrs F A Heaton | 6,400 | 3,840 | 3,840 | | | | | | | |
| H S Mellor | 12,000 | 7,200 | 7,200 | | | | | | | |

**Notes:**

(1) Performance Share Plan – exerciseable only if performance criteria are met.
(2) Group Savings-Related Share Option Scheme

Summary particulars of the Group's share option schemes are given in note 24 on page 47.
The market price of the shares at 31 December 1998 was 83.5 pence and the range during 1998 was 74 pence to 177 pence.

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

# Directors' Responsibilities Statement

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period. In preparing those 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for ensuring that the Company keeps proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Report of the Auditors

**To the members of Elementis plc**

We have audited the financial statements on pages 26 to 51 which have been prepared under the historical cost convention and the accounting policies set out on pages 30 and 31.

**Respective responsibilities of directors and auditors**

The directors are responsible for preparing the Annual Report, including as described on page 24 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. 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 or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 18 and 19 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its internal controls.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards 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. 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 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 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.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

**PricewaterhouseCoopers, London**

Chartered Accountants and Registered Auditors

4 March 1999

# Consolidated Profit & Loss Account

*for the year ended 31 December 1998*

| | Note | Before goodwill amortisation & exceptionals £million | Goodwill amortisation £million | Exceptionals £million | 1998 £million | Before exceptionals *Restated* £million | Exceptionals *Restated* £million | 1997 *Restated* £million |
|---|---|---|---|---|---|---|---|---|
| **Turnover** | | | | | | | | |
| Existing operations | | 455.9 | - | - | 455.9 | 471.5 | - | 471.5 |
| Acquisitions | | 78.3 | - | - | 78.3 | - | - | - |
| Continuing operations | | 534.2 | - | - | 534.2 | 471.5 | - | 471.5 |
| Discontinued operations | | 508.4 | - | - | 508.4 | 1,447.7 | - | 1,447.7 |
| Turnover: Group and share of joint venture | | 1,042.6 | - | - | 1,042.6 | 1,919.2 | - | 1,919.2 |
| Less share of discontinued joint venture's turnover | | (68.2) | - | - | (68.2) | (93.9) | - | (93.9) |
| Group turnover | 2 | 974.4 | - | - | 974.4 | 1,825.3 | - | 1,825.3 |
| Existing operations | | 41.0 | - | (3.2) | 37.8 | 44.7 | (40.7) | 4.0 |
| Acquisitions | | 20.5 | (11.2) | - | 9.3 | - | - | - |
| Continuing operations | | 61.5 | (11.2) | (3.2) | 47.1 | 44.7 | (40.7) | 4.0 |
| Discontinued operations | | (5.6) | - | (1.4) | (7.0) | 33.0 | (8.4) | 24.6 |
| **Group operating profit** | 2/3/4 | 55.9 | (11.2) | (4.6) | 40.1 | 77.7 | (49.1) | 28.6 |
| Share of operating profit/(loss): | | | | | | | | |
| Joint venture - discontinued operations | | 2.1 | - | - | 2.1 | 4.7 | - | 4.7 |
| Associates - discontinued operations | | (0.1) | - | - | (0.1) | (0.2) | - | (0.2) |
| **Operating profit** | | 57.9 | (11.2) | (4.6) | 42.1 | 82.2 | (49.1) | 33.1 |
| Profit on disposal of property | | - | - | 5.0 | 5.0 | - | - | - |
| Loss on disposal of businesses -discontinued operations | 4 | - | - | (26.9) | (26.9) | - | (121.8) | (121.8) |
| Fundamental restructuring costs -discontinued operations | | - | - | - | - | - | (4.8) | (4.8) |
| **Profit/(loss) on ordinary activities before interest** | | 57.9 | (11.2) | (26.5) | 20.2 | 82.2 | (175.7) | (93.5) |
| Interest rate swap cancellation costs | | - | - | (2.3) | (2.3) | - | - | - |
| Private placement redemption costs | | - | - | - | - | - | (9.8) | (9.8) |
| Net interest payable | 5 | (8.3) | - | - | (8.3) | (2.9) | - | (2.9) |
| **Profit/(loss) on ordinary activities before tax** | | 49.6 | (11.2) | (28.8) | 9.6 | 79.3 | (185.5) | (106.2) |
| Tax on profit/(loss) on ordinary activities | 6 | (7.2) | - | (1.2) | (8.4) | (16.1) | 11.2 | (4.9) |
| **Profit/(loss) on ordinary activities after tax** | | 42.4 | (11.2) | (30.0) | 1.2 | 63.2 | (174.3) | (111.1) |
| Minority interests - equity | | - | - | - | - | (0.1) | - | (0.1) |
| **Profit/(loss) for the financial year** | | 42.4 | (11.2) | (30.0) | 1.2 | 63.1 | (174.3) | (111.2) |
| Dividends | 7 | (21.6) | - | - | (21.6) | (25.8) | - | (25.8) |
| **Amount transferred to/(from) reserves** | 24 | 20.8 | (11.2) | (30.0) | (20.4) | 37.3 | (174.3) | (137.0) |
| **Earnings/(loss) per ordinary share** | 8 | | | | | | | |
| Basic | | 9.0p | (2.4)p | (6.3)p | 0.3p | 8.8p | (24.3)p | (15.5)p |
| Diluted | | 9.0p | (2.4)p | (6.3)p | 0.3p | 8.8p | (24.3)p | (15.5)p |
| **Dividends per ordinary share** | 7 | 5.0p | - | - | 5.0p | 3.6p | - | 3.6p |

# Balance Sheets

*at 31 December 1998*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | *Note* | 1998 £million | 1997 *Restated* £million | 1998 £million | 1997 £million |
| **Fixed assets** | | | | | |
| Goodwill | *14* | 231.9 | - | - | - |
| Tangible assets | *15* | 155.5 | 178.2 | - | - |
| Investment in joint venture: | *16* | | | | |
| Share of gross assets | | - | 64.2 | - | - |
| Share of gross liabilities | | - | (26.3) | - | - |
| | | - | 37.9 | - | - |
| Other investments | *16* | 1.6 | 3.3 | 959.0 | - |
| | | 389.0 | 219.4 | 959.0 | - |
| **Current assets** | | | | | |
| Stocks | *17* | 85.5 | 145.8 | - | - |
| Debtors | *18* | 108.8 | 196.8 | - | - |
| Cash at bank and in hand | *20a* | 224.7 | 585.5 | - | - |
| | | 419.0 | 928.1 | - | - |
| **Creditors: amounts falling due within one year** | | | | | |
| Borrowings | *20b* | 24.6 | 132.4 | 8.8 | - |
| Proposed dividend | *7* | 13.0 | - | 13.0 | - |
| Creditors | *19* | 98.7 | 191.8 | 0.8 | - |
| | | 136.3 | 324.2 | 22.6 | - |
| **Net current assets/(liabilities)** | | 282.7 | 603.9 | (22.6) | - |
| **Total assets less current liabilities** | | 671.7 | 823.3 | 936.4 | - |
| **Creditors: amounts falling due after more than one year** | | | | | |
| Borrowings | *20b* | 248.1 | 2.5 | - | - |
| Government grants | | 0.8 | 0.6 | - | - |
| Amounts due to subsidiary undertaking | | - | - | 342.7 | - |
| | | 248.9 | 3.1 | 342.7 | - |
| **Provisions for liabilities and charges** | *21* | 52.6 | 54.1 | - | - |
| | | 301.5 | 57.2 | 342.7 | - |
| | | 370.2 | 766.1 | 593.7 | - |
| **Capital and reserves** | | | | | |
| Called up share capital | *24* | 21.6 | 35.9 | 21.6 | - |
| Share premium | *24* | 1.1 | - | 1.1 | - |
| Other reserves | *24* | - | 326.7 | 534.4 | - |
| Profit and loss account | *24* | 345.1 | 401.6 | 36.6 | - |
| **Shareholders' funds - equity** | | 367.8 | 764.2 | 593.7 | - |
| Minority interests - equity | | 2.4 | 1.9 | - | - |
| | | 370.2 | 766.1 | 593.7 | - |
| **Net (borrowings)/cash** | | (48.0) | 450.6 | | |

**L E Cole / G R Fairweather** Directors

*The financial statements on pages 26 to 51 were approved by the Board on 4 March 1999.*

# Cash Flow Statement

*for the year ended 31 December 1998*

| | Note | 1998 £million | 1998 £million | 1997 £million | 1997 Restated £million |
|---|---|---|---|---|---|
| **Net cash inflow from operating activities** | | | | | |
| Continuing operations | | 77.4 | | 66.9 | |
| Discontinued operations | | 7.1 | | 87.2 | |
| | | | 84.5 | | 154.1 |
| **Dividends from joint venture** | | | 0.2 | | 3.8 |
| **Returns on investments and servicing of finance** | | | | | |
| Interest rate swap cancellation costs | | (2.3) | | - | |
| Private placement redemption costs | | (9.8) | | - | |
| Interest received | | 13.8 | | 12.3 | |
| Interest paid | | (20.4) | | (15.8) | |
| Dividends paid to minority shareholders in subsidiaries | | (0.4) | | - | |
| | | | (19.1) | | (3.5) |
| **Tax paid** | | | (7.0) | | (28.9) |
| **Capital expenditure and financial investment** | | | | | |
| Purchase of fixed assets | | (32.6) | | (64.5) | |
| Fixed assets disposals | | 7.1 | | 3.6 | |
| | | | (25.5) | | (60.9) |
| **Acquisitions and disposals** | | | | | |
| Acquisition of businesses | *27f* | (283.7) | | (4.3) | |
| Disposal of businesses | *27g* | 161.1 | | 465.2 | |
| | | | (122.6) | | 460.9 |
| **Equity dividends paid** | | | (8.6) | | (59.7) |
| **Cash (outflow)/inflow before use of liquid resources and financing** | | | (98.1) | | 465.8 |
| **Financing and management of liquid resources** | *27b* | | 103.3 | | (491.6) |
| **Increase/(decrease) in cash** | *27e* | | 5.2 | | (25.8) |

# Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

*for the year ended 31 December 1998*

| | Continuing operations £million | Discontinued operations £million | 1998 Total £million | 1997 Total *Restated* £million |
|---|---|---|---|---|
| Operating profit/(loss) | 47.1 | (5.0) | 42.1 | 33.1 |
| Goodwill amortisation | 11.2 | - | 11.2 | - |
| Depreciation (less grants credited) | 15.1 | 1.5 | 16.6 | 39.7 |
| Share of profits of joint venture | - | (2.1) | (2.1) | (4.7) |
| Share of losses of associated undertakings | - | 0.1 | 0.1 | 0.2 |
| Loss/(profit) on disposal of fixed assets | 0.2 | (0.1) | 0.1 | 0.4 |
| Exceptionals in operating profit | 3.2 | 1.4 | 4.6 | 49.1 |
| Cash outflow on exceptionals | (1.5) | (1.9) | (3.4) | (8.1) |
| Fundamental restructuring costs | - | (2.7) | (2.7) | (2.1) |
| Decrease in stocks | 5.4 | 12.2 | 17.6 | 33.0 |
| Decrease/(increase) in debtors | 2.1 | 12.6 | 14.7 | (21.6) |
| (Decrease)/increase in creditors | (2.9) | (10.7) | (13.6) | 39.2 |
| Provisions | (2.5) | 1.8 | (0.7) | (4.1) |
| | 77.4 | 7.1 | 84.5 | 154.1 |

# Statement of Total Recognised Gains and Losses

*for the year ended 31 December 1998*

| | Note | 1998 £million | 1997 *Restated* £million |
|---|---|---|---|
| Profit/(loss) for the financial year | | 1.2 | (111.2) |
| Currency translation differences | | (0.5) | (5.4) |
| Taxation on currency translation differences on foreign currency borrowings | | (0.4) | 0.3 |
| **Total recognised gains/(losses) for the year** | | 0.3 | (116.3) |
| Prior year adjustments | 1 | 6.7 | |
| **Total gains recognised since last Annual Report** | | 7.0 | |

# Reconciliation of Movements in Shareholders' Funds

*for the year ended 31 December 1998*

| | Note | 1998 £million | 1997 *Restated* £million |
|---|---|---|---|
| Profit/(loss) for the financial year | | 1.2 | (111.2) |
| Dividends | | (21.6) | (25.8) |
| Shares issued in lieu of cash dividends | | - | 4.6 |
| Share option schemes allotments | | 1.1 | 1.1 |
| Return of capital to shareholders | | (402.2) | - |
| Goodwill on acquisition of businesses charged against reserves | | - | (2.9) |
| Goodwill on disposal of businesses acquired prior to 1 January 1998 charged to profit and loss account | | 26.0 | 240.5 |
| Currency translation differences | | (0.5) | (5.4) |
| Taxation on currency translation differences on foreign currency borrowings | | (0.4) | 0.3 |
| **Net (decrease)/increase in shareholders' funds** | | (396.4) | 101.2 |
| At 1 January as originally stated | | 757.5 | 662.2 |
| Prior year adjustments | 1 | 6.7 | 0.8 |
| **At 31 December** | | 367.8 | 764.2 |

# Notes to the Financial Statements

## 1. Accounting policies

**Basis of preparation** The Company was incorporated on 7 January 1997. Prior to 23 February 1998, it did not trade, pay any dividends or make any other distributions and had a nominal amount of paid up share capital. On 23 February 1998, the Company acquired Elementis Holdings Limited (formerly Harrisons & Crosfield plc) by way of a Scheme of Arrangement under section 425 of the Companies Act 1985 for a consideration of 430,957,201 ordinary shares of 5 pence each, and cash and loan notes totalling £402.2 million. The acquisition has been accounted for as a merger, the true and fair override being applied such that the fair value acquisition accounting requirements of the Companies Act 1985 have not been adopted as, in the opinion of the directors, this would not give a true and fair view as the Scheme of Arrangement, in substance represents a change in identity of holding company rather than an acquisition of a business. Accordingly, the financial statements of the Company have been combined with those of Elementis Holdings Limited and its subsidiaries for the year ended 31 December 1998. The directors consider that it is not practicable to quantify the effect of this departure from the Companies Act 1985 requirement. Comparatives have been restated as if the Group had been established throughout 1997 and the five year record has been similarly restated. Share capital and reserves in prior period consolidated balance sheets have been restated on a proforma basis. The proforma share capital at 31 December 1997 represents the nominal value of shares that would have been in issue immediately prior to the reorganisation. Differences between this amount and the previously reported capital and reserves, excluding the profit and loss account, have been reflected in other reserves. Prior period earnings per share figures have not been adjusted as the number of new shares was set to facilitate comparability of earnings per share.

The financial statements on pages 26 to 51 have been prepared under the historical cost convention in accordance with generally accepted accounting principles and applicable accounting standards. Except for the changes set out below, the financial information is presented on the basis of accounting policies set out in the financial statements of Elementis Holdings Limited for the year ended 31 December 1997. The seven recently issued accounting standards have all been adopted; the impact of which is as follows:

In accordance with FRS9, which is effective for accounting periods ended on or after 23 June 1998, the Group has equity accounted for its former 50 per cent investment in the Akcros joint venture with Akzo Nobel. In previous years, the Group accounted for the joint venture on a proportional basis, consolidating its share of the joint venture's turnover and profits and each category of its assets and liabilities. Comparatives have been restated to reflect this change.

In accordance with FRS10, which is effective for accounting periods ended on or after 23 December 1998, goodwill arising on acquisitions since 1 January 1998 is capitalised in the balance sheet as a fixed asset and is being amortised through the profit and loss account over its estimated useful life, up to a maximum of 20 years. Goodwill arising on acquisitions in periods prior to this date was charged directly against reserves in the year of acquisition. Subsequent disposals of such businesses will result in a charge to the profit and loss account of the original amount written off unless an impairment provision has been made.

In accordance with FRS12, which is compulsory for accounting periods ending on or after 23 March 1999, but for which early adoption is recommended, restructuring provisions have now been charged to the profit and loss account by reference to constructive obligations to incur the expenditure; previously such provisions were charged when management decisions to restructure were taken. Exceptional restructuring costs in 1998 relate to provisions made in prior years which have been reversed in the restated comparatives.

In accordance with FRS13, which is compulsory for accounting periods ending on or after 23 March 1999, but for which early adoption is also recommended, disclosures regarding financial instruments have been included in the financial statements.

Basic and diluted earnings per share have been calculated in accordance with FRS14, which is effective for accounting periods ended on or after 23 December 1998. Comparatives have been restated to reflect this change.

Following the acquisition of Rheox, segmental reporting has been expanded to report separately the results of Chromium and the enlarged Pigments & Specialties business groupings. In addition, the Industrial division has been renamed Specialty Rubber to more accurately describe the Linatex business.

**Basis of consolidation** The consolidated financial statements include the financial statements of the Company and all its subsidiary undertakings for the year ended 31 December 1998. The results of subsidiary undertakings acquired or disposed of during the year are dealt with in the consolidated profit and loss account from the date of their acquisition or to the date of their disposal.

**Turnover** Turnover represents the value of goods sold and services rendered to third parties during the year.

**Exchange rates** Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Results of overseas undertakings are translated into sterling at the average rates of exchange ruling for the relevant period. Assets and liabilities overseas and related hedging instruments are translated into sterling at the exchange rates ruling at the relevant balance sheet date. Differences arising from the retranslation of opening net assets are dealt with through reserves.

**Derivatives** Gains and losses on forward foreign exchange contracts, which hedge future purchases and sales denominated in foreign currencies, are taken to the profit and loss account on maturity to match the underlying transactions. Unrealised gains and losses on interest rate swap agreements, which manage the interest rate exposure on borrowings, are carried forward so that the profit and loss account reflects the rate of interest applicable to the instrument which has been entered into.

**Joint venture and associated undertakings** The Group's share of the results of the joint venture and associated undertakings included in the consolidated profit and loss account are based on their financial statements for the period ended 31 December 1998 or to the date of their disposal, if earlier.

**Pension and other post-retirement benefits** The cost of providing retirement pensions and related benefits is charged to the profit and loss account on a systematic and regular basis over the periods during which the Group benefits from employees' services. Any difference between the charge to the profit and loss account and contributions paid to beneficiaries or retirement fund trustees is dealt with in the balance sheet as a prepayment or provision, whichever is appropriate. Deferred tax is accounted for in full on this balance.

**Employee Share Ownership Plans (ESOPs)** ESOP's are included on the balance sheet where the Group has de facto control of the shares held by the ESOP trust. Where the shares are conditionally gifted or under option to employees/directors at below book value, the difference is amortised as an operating cost in accordance with UITF Abstract 13. Further details on the current ESOP trust are provided in the Board Report on Remuneration on pages 20 to 23.

**Depreciation** 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. 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 |

**Intangible assets** Expenditure on research, development, patents and trade marks is written off through the profit and loss account in the year in which it is incurred.

**Goodwill** Goodwill arising on acquisitions since 1 January 1998 is capitalised in the balance sheet and then amortised through the profit and loss account over its estimated useful life, up to a maximum of 20 years. Goodwill arising on acquisitions prior to this date was charged directly against reserves in the year of acquisition.

**Leased assets** Rental costs arising from operating leases are charged against profit before interest as they arise.

**Stocks** Stocks are stated at cost or net realisable value, whichever is the lower. Cost, in the case of manufactured goods, includes direct and overhead expenses attributable to manufacture.

**Deferred tax** Deferred tax is provided using the liability method in respect of timing differences between profits as computed for tax purposes and profits as stated in the financial statements to the extent that the liability is expected to be payable in the foreseeable future.

**Government grants** Grants against capital expenditure from government and other bodies are capitalised and released to the profit and loss account over the period during which the relevant assets are depreciated.

## 2. Segmental information

| Analysis by activity | Group turnover 1998 £million | Group turnover 1997 £million | Group operating profit 1998 £million | Group operating profit 1997 £million | Net assets 1998 £million | Net assets 1997 £million |
|---|---|---|---|---|---|---|
| Chromium | | | | | | |
| Total | 129.7 | 132.4 | 27.1 | 29.9 | 109.5 | 90.2 |
| Intra-group turnover | (5.3) | (5.6) | - | - | - | - |
| | 124.4 | 126.8 | 27.1 | 29.9 | 109.5 | 90.2 |
| Pigments & Specialties | | | | | | |
| Before exceptionals | 135.6 | 148.8 | 6.6 | 8.8 | 61.7 | 81.3 |
| Exceptionals | - | - | (3.2) | (14.9) | - | - |
| Existing operations | 135.6 | 148.8 | 3.4 | (6.1) | 61.7 | 81.3 |
| Acquisitions - Rheox | 78.3 | - | 20.5 | - | 276.9 | - |
| Goodwill amortisation - Rheox | - | - | (11.2) | - | - | - |
| | 213.9 | 148.8 | 12.7 | (6.1) | 338.6 | 81.3 |
| Chemical Distribution | | | | | | |
| Before exceptionals | 139.2 | 134.4 | 2.6 | 1.2 | 3.4 | 2.0 |
| Exceptionals | - | - | - | (25.0) | - | - |
| | 139.2 | 134.4 | 2.6 | (23.8) | 3.4 | 2.0 |
| Specialty Rubber | | | | | | |
| Before exceptionals | 56.7 | 61.5 | 4.7 | 4.8 | 22.9 | 24.7 |
| Exceptionals | - | - | - | (0.8) | - | - |
| | 56.7 | 61.5 | 4.7 | 4.0 | 22.9 | 24.7 |
| Total - continuing operations | | | | | | |
| Before exceptionals | 455.9 | 471.5 | 41.0 | 44.7 | 197.5 | 198.2 |
| Exceptionals | - | - | (3.2) | (40.7) | - | - |
| Existing operations | 455.9 | 471.5 | 37.8 | 4.0 | 197.5 | 198.2 |
| Acquisitions | 78.3 | - | 20.5 | - | 276.9 | - |
| Goodwill amortisation | - | - | (11.2) | - | - | - |
| | 534.2 | 471.5 | 47.1 | 4.0 | 474.4 | 198.2 |
| Total - discontinued operations | | | | | | |
| Before exceptionals | 440.2 | 1,353.8 | (5.6) | 33.0 | - | 135.6 |
| Exceptionals | - | - | (1.4) | (8.4) | - | - |
| | 440.2 | 1,353.8 | (7.0) | 24.6 | - | 135.6 |
| Unallocated (liabilities)/assets | - | - | - | - | (104.2) | 432.3 |
| | 974.4 | 1,825.3 | 40.1 | 28.6 | 370.2 | 766.1 |

## 2. Segmental information (continued)

| Analysis by area of operations | Group turnover 1998 £million | 1997 £million | Group operating profit 1998 £million | 1997 £million | Net assets 1998 £million | 1997 £million |
|---|---|---|---|---|---|---|
| Continuing operations: | | | | | | |
| United Kingdom | 148.6 | 138.8 | 16.2 | 12.9 | 113.0 | 86.7 |
| USA | 345.9 | 303.7 | 27.4 | (11.3) | 328.4 | 82.8 |
| Rest of Europe | 33.8 | 18.7 | 1.9 | (0.1) | 18.1 | 9.4 |
| Rest of the World | 34.9 | 40.3 | 1.6 | 2.5 | 14.9 | 19.3 |
| Intra-group turnover | (29.0) | (30.0) | - | - | - | - |
| | 534.2 | 471.5 | 47.1 | 4.0 | 474.4 | 198.2 |
| Discontinued operations: | | | | | | |
| United Kingdom | 440.6 | 1,180.1 | (7.0) | 24.6 | - | 135.6 |
| USA | - | 175.7 | - | - | - | - |
| Intra-group turnover | (0.4) | (2.0) | - | - | - | - |
| | 440.2 | 1,353.8 | (7.0) | 24.6 | - | 135.6 |
| Unallocated (liabilities)/assets | - | - | - | - | (104.2) | 432.3 |
| | 974.4 | 1,825.3 | 40.1 | 28.6 | 370.2 | 766.1 |

**Unallocated (liabilities)/assets comprise:**

| | 1998 £million | 1997 £million |
|---|---|---|
| Net (borrowings)/cash | (48.0) | 450.6 |
| Taxation and dividends | (21.7) | (7.4) |
| Post retirement benefits and government grants | (16.9) | (19.7) |
| Other | (17.6) | 8.8 |
| | (104.2) | 432.3 |

**Group turnover analysed by geographical markets**

| | Continuing operations 1998 £million | 1997 £million | Discontinued operations 1998 £million | 1997 £million | Total 1998 £million | 1997 £million |
|---|---|---|---|---|---|---|
| United Kingdom | 64.4 | 68.4 | 424.8 | 1,088.7 | 489.2 | 1,157.1 |
| USA | 306.2 | 273.0 | 0.1 | 175.9 | 306.3 | 448.9 |
| Rest of Europe | 95.1 | 67.1 | 10.2 | 52.9 | 105.3 | 120.0 |
| Rest of the World | 68.5 | 63.0 | 5.1 | 36.3 | 73.6 | 99.3 |
| | 534.2 | 471.5 | 440.2 | 1,353.8 | 974.4 | 1,825.3 |

# Notes to the Financial Statements

## 3. Supplementary profit and loss account information

| | Existing operations £million | Acquisitions £million | 1998 Total £million | 1997 Total £million |
|---|---|---|---|---|
| **Group turnover** | | | | |
| Continuing operations | 455.9 | 78.3 | 534.2 | 471.5 |
| Discontinued operations net of discontinued joint venture's turnover | | | 440.2 | 1,353.8 |
| | | | 974.4 | 1,825.3 |
| **Cost of sales** | | | | |
| Continuing operations: | | | | |
| Before exceptionals | (329.2) | (39.7) | (368.9) | (346.8) |
| Exceptionals | (3.2) | - | (3.2) | (14.4) |
| | (332.4) | (39.7) | (372.1) | (361.2) |
| Discontinued operations: | | | | |
| Before exceptionals | | | (367.0) | (1,108.0) |
| Exceptionals | | | | (4.9) |
| | | | (739.1) | (1,474.1) |
| **Gross profit** | | | | |
| Continuing operations: | | | | |
| Before exceptionals | 126.7 | 38.6 | 165.3 | 124.7 |
| Exceptionals | (3.2) | - | (3.2) | (14.4) |
| | 123.5 | 38.6 | 162.1 | 110.3 |
| Discontinued operations: | | | | |
| Before exceptionals | | | 73.2 | 245.8 |
| Exceptionals | | | - | (4.9) |
| | | | 235.3 | 351.2 |
| **Distribution costs** | | | | |
| Continuing operations: | | | | |
| Before exceptionals | (43.9) | (5.0) | (48.9) | (42.1) |
| Exceptionals | - | - | - | (25.3) |
| | (43.9) | (5.0) | (48.9) | (67.4) |
| Discontinued operations: | | | | |
| Before exceptionals | | | (26.0) | (98.2) |
| Exceptionals | | | - | (0.3) |
| | | | (74.9) | (165.9) |
| **Administrative expenses** | | | | |
| Continuing operations: | | | | |
| Before goodwill amortisation and exceptionals | (41.8) | (13.1) | (54.9) | (37.9) |
| Goodwill amortisation | - | (11.2) | (11.2) | - |
| Exceptionals | - | - | - | (1.0) |
| | (41.8) | (24.3) | (66.1) | (38.9) |
| Discontinued operations: | | | | |
| Before exceptionals | | | (52.8) | (114.6) |
| Exceptionals | | | (1.4) | (3.2) |
| | | | (120.3) | (156.7) |
| **Group operating profit** | | | | |
| Continuing operations: | | | | |
| Before goodwill amortisation and exceptionals | 41.0 | 20.5 | 61.5 | 44.7 |
| Goodwill amortisation | - | (11.2) | (11.2) | - |
| Exceptionals | (3.2) | - | (3.2) | (40.7) |
| | 37.8 | 9.3 | 47.1 | 4.0 |
| Discontinued operations: | | | | |
| Before exceptionals | | | (5.6) | 33.0 |
| Exceptionals | | | (1.4) | (8.4) |
| | | | 40.1 | 28.6 |

## 4. Exceptionals

Group operating profit includes the following:

| | Restructuring costs | | Impairment of fixed assets | | Environmental provisions | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 1998 £million | 1997 £million | 1998 £million | 1997 £million | 1998 £million | 1997 £million | 1998 £million | 1997 £million |
| Continuing operations: | | | | | | | | |
| Pigments & Specialties | 3.2 | 0.6 | - | 14.3 | - | - | 3.2 | 14.9 |
| Chemical Distribution | - | - | - | 15.0 | - | 10.0 | - | 25.0 |
| Specialty Rubber | - | 0.8 | - | - | - | - | - | 0.8 |
| | 3.2 | 1.4 | - | 29.3 | - | 10.0 | 3.2 | 40.7 |
| Discontinued operations | 1.4 | 8.4 | - | - | - | - | 1.4 | 8.4 |
| | 4.6 | 9.8 | - | 29.3 | - | 10.0 | 4.6 | 49.1 |

Restructuring costs in 1998 relate to provisions made in prior years which have been reversed to restate prior year figures in accordance with FRS12. Tax on these charges was a credit of £0.4 million (1997: £3.0 million).

**(Loss)/profit on disposal of businesses**

| 1998 | (Loss)/profit before goodwill adjustments £million | Goodwill previously charged to reserves £million | Total £million |
|---|---|---|---|
| Discontinued operations: | | | |
| BOCM PAULS | (10.5) | - | (10.5) |
| Akcros joint venture | 9.6 | (26.0) | (16.4) |
| | (0.9) | (26.0) | (26.9) |
| 1997 | | | |
| Discontinued operations | 118.7 | (240.5) | (121.8) |

Tax on (loss)/profit on business disposals was a charge of £1.9 million (1997: £6.9 million credit).

## 5. Net interest payable

| | 1998 £million | 1997 £million |
|---|---|---|
| Interest payable: | | |
| On bank loans | 14.1 | 9.0 |
| On other loans | 4.3 | 7.8 |
| Joint venture bank loans | 0.7 | 0.8 |
| | 19.1 | 17.6 |
| Interest receivable: | | |
| Bank deposits | (10.7) | (14.4) |
| Joint venture bank deposits | (0.1) | (0.3) |
| | (10.8) | (14.7) |
| | 8.3 | 2.9 |

### 6. Tax on profit/(loss) on ordinary activities

| | 1998 | | 1997 | |
|---|---|---|---|---|
| | £million | £million | £million | £million |
| The charge for tax, based on the profit/(loss) on ordinary activities, comprises: | | | | |
| United Kingdom corporation tax | 8.7 | | 18.8 | |
| Double tax relief | (3.7) | | (2.3) | |
| | | 5.0 | | 16.5 |
| Recoverable ACT | | (1.6) | | (5.9) |
| Overseas tax | | 0.7 | | (4.0) |
| Deferred tax: | | | | |
| United Kingdom | 2.8 | | (1.2) | |
| Overseas | 0.2 | | (2.2) | |
| | | 3.0 | | (3.4) |
| Joint venture taxation | | 1.3 | | 1.7 |
| | | 8.4 | | 4.9 |

The charge for United Kingdom tax has been based on a corporation tax rate of 31 per cent (1997: 31.5 per cent). If deferred tax had been fully provided in 1998 under the liability method the tax charge for the year would have decreased by £3.5 million (1997: £0.6 million).

| Reconciliation of the tax charge: | 1998 £million | 1997 £million |
|---|---|---|
| Notional tax charge before goodwill amortisation and exceptionals at UK corporation tax rate (1998 - 31 per cent, 1997 - 31.5 per cent) | 15.4 | 25.0 |
| Recoverable ACT | (1.6) | (9.2) |
| Benefit of excess capital allowances in discontinued operations | (1.8) | - |
| Differences in overseas effective tax rates | 2.2 | (1.2) |
| Cost of remitting overseas profits | - | 0.2 |
| Benefit of US goodwill | (5.7) | - |
| Overseas tax losses unrelieved | 2.6 | - |
| Other current tax items | (0.7) | 1.6 |
| Deferred tax (under)/over provided on excess capital allowances and other timing differences | (1.0) | 2.0 |
| Prior year adjustments | (2.2) | (2.3) |
| | 7.2 | 16.1 |
| Tax charge/(credit) on exceptionals | 1.2 | (11.2) |
| | 8.4 | 4.9 |

### 7. Dividends

| | Pence per share | 1998 £million | Pence per share | 1997 £million |
|---|---|---|---|---|
| Dividends on ordinary shares: | | | | |
| First interim - paid | 2.0 | 8.6 | 2.6 | 18.6 |
| Second interim - paid | - | - | 1.0 | 7.2 |
| Final - proposed | 3.0 | 13.0 | - | - |
| | 5.0 | 21.6 | 3.6 | 25.8 |
| Adjustment for shares issued in lieu of cash dividends | | - | | (4.6) |
| Net dividend | | 21.6 | | 21.2 |

The second interim dividend in 1997 and the first interim dividend in 1998 were both Foreign Income Dividends.

## 8. Earnings/(loss) per ordinary share

| | 1998 | | | 1997 | | |
|---|---|---|---|---|---|---|
| | Profit for the financial year £million | Weighted average number of shares million | Earnings per share pence | (Loss)/profit for the financial year £million | Weighted average number of shares million | Earnings/(loss) per share pence |
| **Basic earnings/(loss) per share** | 1.2 | 472.9 | 0.3 | (111.2) | 715.3 | (15.5) |
| Share options | - | 1.6 | - | - | 0.9 | - |
| **Diluted earnings/(loss) per share** | 1.2 | 474.5 | 0.3 | (111.2) | 716.2 | (15.5) |
| **Basic earnings/(loss) per share** | 1.2 | 472.9 | 0.3 | (111.2) | 715.3 | (15.5) |
| Goodwill amortisation | 11.2 | - | 2.4 | - | - | - |
| Exceptionals net of taxation | 30.0 | - | 6.3 | 174.3 | - | 24.3 |
| **Basic earnings per share before goodwill amortisation and exceptionals** | 42.4 | 472.9 | 9.0 | 63.1 | 715.3 | 8.8 |
| Share options | - | 1.6 | - | - | 0.9 | - |
| **Diluted earnings per share before goodwill amortisation and exceptionals** | 42.4 | 474.5 | 9.0 | 63.1 | 716.2 | 8.8 |

Earnings per share before goodwill amortisation and exceptionals provides a measure of the underlying financial performance of the Group on a comparable basis with many other groups.

## 9. 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. Of the profit for the financial year attributable to shareholders, a profit of £58.2 million (1997: £nil) is dealt with in the financial statements of the Company.

## 10. Fees paid to auditors

| | Group | | Company | |
|---|---|---|---|---|
| | 1998 £million | 1997 £million | 1998 £million | 1997 £million |
| Audit fees and expenses | 0.6 | 1.0 | 0.2 | - |
| Other fees paid to the Company's auditors: | | | | |
| United Kingdom | 1.5 | 2.7 | | |
| Overseas | 0.8 | 0.2 | | |
| | 2.3 | 2.9 | | |
| Analysis of other fees by type of service: | | | | |
| Accounting | 0.3 | 0.2 | | |
| Tax | 0.6 | 0.8 | | |
| Other services connected with disposals and restructuring | 1.4 | 1.9 | | |
| | 2.3 | 2.9 | | |

# Notes to the Financial Statements

### 11. Employees

| | 1998 £million | 1997 £million |
|---|---|---|
| Employee costs: | | |
| Wages and salaries | 114.5 | 181.8 |
| Social security costs | 10.4 | 16.1 |
| Pension costs (including other post-retirement costs) | 7.4 | 11.3 |
| | 132.3 | 209.2 |

| | 1998 Number | 1997 Number |
|---|---|---|
| Average number of persons employed: | | |
| Chromium | 615 | 632 |
| Pigments & Specialties | 1,448 | 1,067 |
| Chemical Distribution | 460 | 457 |
| Specialty Rubber | 976 | 972 |
| Continuing operations | 3,499 | 3,128 |
| Discontinued operations | 1,587 | 7,454 |
| | 5,086 | 10,582 |

### 12. Directors' emoluments

| | 1998 £million | 1997 £million |
|---|---|---|
| Executive directors | | |
| Salary | 906 | 880 |
| Benefits-in-kind | 193 | 144 |
| Pension contributions | 48 | 66 |
| Unfunded pension entitlements paid to former directors | - | 230 |
| Compensation payments to former directors | 495 | 284 |
| | 1,642 | 1,604 |
| Emoluments of the Chairman | 150 | 162 |
| Non-executive directors | 83 | 83 |
| | 1,875 | 1,849 |

Detailed information on directors' emoluments including performance related bonuses and long term incentives, is provided in the Board Report on Remuneration on pages 20 to 23.

### 13. Related party transactions

The following related party transactions were entered into during 1998 in the ordinary course of business:

Rheox purchased raw materials at a cost of £5.8 million from Enenco, an associated undertaking, in the period from 1 February 1998 to 31 December 1998. The balance payable at 31 December 1998 was £nil million.

BOCM PAULS supplied goods at a price of £1.7 million (1997: £6.6 million) to Breckland Farms, an associated undertaking, for the period up to 24 April 1998 when it became a wholly owned subsidiary.

## 14. Goodwill

| Group | £million |
|---|---|
| Cost | |
| At 1 January 1998 | - |
| Additions | 244.3 |
| Currency translation differences | (1.2) |
| At 31 December 1998 | 243.1 |
| | |
| Amortisation | |
| At 1 January 1998 | - |
| Charge for the year | 11.2 |
| At 31 December 1998 | 11.2 |
| | |
| Net book value | |
| At 31 December 1998 | 231.9 |
| At 31 December 1997 | - |

## 15. Tangible fixed assets

| Group | Land & buildings £million | Plant & machinery £million | Fixtures, fittings, tools & equipment £million | Under construction £million | Total £million |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1 January 1998 | 123.4 | 426.4 | 21.1 | 30.4 | 601.3 |
| Additions | 0.6 | 4.2 | 0.8 | 23.4 | 29.0 |
| Disposals | (9.5) | (5.3) | (0.5) | - | (15.3) |
| Business acquisitions | 21.6 | 36.1 | 5.3 | 0.7 | 63.7 |
| Business disposals | (50.2) | (199.4) | (1.4) | (26.9) | (277.9) |
| Transfers | 5.8 | 10.8 | 0.5 | (17.1) | - |
| Currency translation differences | (0.4) | (0.7) | - | (0.1) | (1.2) |
| At 31 December 1998 | 91.3 | 272.1 | 25.8 | 10.4 | 399.6 |
| | | | | | |
| Depreciation | | | | | |
| At 1 January 1998 | 72.7 | 332.7 | 17.7 | - | 423.1 |
| Charge for the year | 2.4 | 13.0 | 1.5 | - | 16.9 |
| Disposals | (1.7) | (4.3) | (0.4) | - | (6.4) |
| Business acquisitions | 13.0 | 19.7 | 3.7 | - | 36.4 |
| Business disposals | (39.6) | (184.2) | (1.4) | - | (225.2) |
| Currency translation differences | (0.2) | (0.5) | - | - | (0.7) |
| At 31 December 1998 | 46.6 | 176.4 | 21.1 | - | 244.1 |
| | | | | | |
| Net book value | | | | | |
| At 31 December 1998 | 44.7 | 95.7 | 4.7 | 10.4 | 155.5 |
| At 31 December 1997 | 50.7 | 93.7 | 3.4 | 30.4 | 178.2 |

### 15. Tangible fixed assets (continued)

Land and buildings at cost comprised the following at 31 December:

| | Group 1998 £million | 1997 £million |
|---|---|---|
| Freehold property | 88.4 | 115.5 |
| Property on long leases (over 50 years unexpired) | 2.2 | 7.0 |
| Property on short leases | 0.7 | 0.9 |
| | 91.3 | 123.4 |

Analysis of additions:

| Group | 1998 £million | 1997 £million |
|---|---|---|
| Chromium | 14.3 | 17.1 |
| Pigments & Specialties | 9.3 | 7.4 |
| Chemical Distribution | - | 2.7 |
| Specialty Rubber | 1.4 | 1.2 |
| Discontinued operations | 4.0 | 37.8 |
| | 29.0 | 66.2 |

During the year £0.3 million (1997: £0.4 million) was released to the profit and loss account in respect of government grants received.

### 16. Investments

| Group | Net assets £million |
|---|---|
| **Joint venture** | |
| At 1 January 1998 | 37.9 |
| Profit before taxation | 1.5 |
| Dividend paid | (0.2) |
| Currency translation differences | 0.5 |
| Disposal | (39.7) |
| At 31 December 1998 | - |

| Group | Unlisted shares at cost £million | Post acquisition results £million | Loans £million | Total £million |
|---|---|---|---|---|
| **Associated undertakings** | | | | |
| At 1 January 1998 | 4.3 | (2.3) | 1.3 | 3.3 |
| Additions | 1.6 | - | - | 1.6 |
| Retained losses | - | (0.1) | - | (0.1) |
| Transfer to subsidiary undertakings | (4.3) | 2.4 | (1.3) | (3.2) |
| At 31 December 1998 | 1.6 | - | - | 1.6 |

## 16. Investments (continued)

| | Shares £million |
|---|---|
| **Company** | |
| **Subsidiary undertakings** | |
| At 1 January 1998 | - |
| Addition | 959.0 |
| At 31 December 1998 | 959.0 |

The investment is in Elementis Holdings Limited which is a wholly owned subsidiary.

The directors' valuation of the unlisted investments of the Group and the Company is not less than their carrying value.

## 17. Stocks

| | Group | |
|---|---|---|
| | 1998 £million | 1997 £million |
| Raw materials and consumables | 20.3 | 74.3 |
| Work in progress | 6.2 | 7.3 |
| Finished goods and goods purchased for resale | 59.0 | 64.2 |
| | 85.5 | 145.8 |

## 18. Debtors

| | Group | |
|---|---|---|
| | 1998 £million | 1997 £million |
| Trade debtors | 71.7 | 150.5 |
| Amounts owed by associated undertakings | - | 1.0 |
| Corporate tax recoverable | 7.4 | 10.6 |
| ACT recoverable | 3.6 | 5.4 |
| Deferred tax (see note 21) | 0.8 | 3.6 |
| Other debtors | 20.1 | 11.2 |
| Prepayments and accrued income | 5.2 | 14.5 |
| | 108.8 | 196.8 |

Other debtors for the Group include £0.4 million (1997: £0.9 million) falling due after more than one year.

## 19. Creditors: amounts falling due within one year

| | Group | | Company | |
|---|---|---|---|---|
| | 1998 £million | 1997 £million | 1998 £million | 1997 £million |
| Trade creditors | 36.1 | 101.3 | - | - |
| Corporate tax payable | 20.5 | 27.0 | - | - |
| Other taxes and social security | 2.2 | 3.6 | - | - |
| Other creditors | 15.2 | 13.3 | 0.1 | - |
| Accruals and deferred income | 24.7 | 46.6 | 0.7 | - |
| | 98.7 | 191.8 | 0.8 | - |

## 20. Financial instruments

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

**(a) Cash at bank and in hand** Group

| | 1998 £million | 1997 £million |
|---|---|---|
| Sterling cash deposits | 200.7 | 565.9 |
| Cash at bank | 24.0 | 19.6 |
| | 224.7 | 585.5 |

Sterling cash deposits are placed on the UK money markets at floating bank deposit interest rates for periods of up to three months. Cash at bank is primarily held in sterling and US dollars.

**(b) Borrowings**

| | Group 1998 £million | Group 1997 £million | Company 1998 £million | Company 1997 £million |
|---|---|---|---|---|
| Borrowings repayable within one year | 24.6 | 132.4 | 8.8 | - |
| Borrowings repayable after one year | 248.1 | 2.5 | - | - |
| | 272.7 | 134.9 | 8.8 | - |
| **Bank borrowings** | | | | |
| Unsecured | 260.8 | 45.0 | - | - |
| Secured | 1.0 | 1.8 | - | - |
| | 261.8 | 46.8 | - | - |
| Repayable: | | | | |
| In one year or less, or on demand | 13.7 | 44.3 | - | - |
| In more than one, but not more than two years | 248.1 | - | - | - |
| In more than two and less than five years | - | 1.8 | - | - |
| In more than five years | - | 0.7 | - | - |
| | 261.8 | 46.8 | - | - |
| **Borrowings other than bank borrowings** | | | | |
| Unsecured US dollar private placement loans: | | | | |
| 9.15 per cent due 2002 | - | 31.5 | - | - |
| 9.23 per cent due 2004 | - | 41.2 | - | - |
| Loan notes | 8.8 | - | 8.8 | - |
| Other unsecured | 2.1 | 3.9 | - | - |
| Secured | - | 11.5 | - | - |
| | 10.9 | 88.1 | 8.8 | - |

Borrowings other than bank borrowings are repayable in one year or less or on demand. Loan notes bear interest at six monthly intervals at one per cent below sterling LIBOR; these are redeemable at par at the option of holders on any interest payment date, and in any event on 30 April 2005. Secured borrowings are secured by charges on assets of certain subsidiary undertakings.

The Group had undrawn committed facilities available to it at 31 December 1998 of £101.1 million; these expire in more than one year, but no more than two years.

## 20. Financial instruments (continued)

### (b) Borrowings (continued)

Currency and interest rate profile at 31 December 1998 was:

| | Weighted average fixed interest rate % | Weighted average period for which rate is fixed years | Fixed rate £million | Floating rate £million | Total £million |
|---|---|---|---|---|---|
| Currency | | | | | |
| Sterling | 11.0 | 1.8 | 2.0 | 9.3 | 11.3 |
| US dollar | 6.5 | 3.3 | 66.3 | 173.0 | 239.3 |
| Euro bloc | - | - | - | 21.5 | 21.5 |
| Other | - | - | - | 0.6 | 0.6 |
| | | 3.2 | 68.3 | 204.4 | 272.7 |

The profile takes into account interest rate swaps. The majority of floating rate borrowings are for periods of up to six months and bear interest at the relevant inter bank rates plus a margin.

### (c) Fair values and hedges

The fair value of cash at bank and in hand and borrowings at 31 December 1998 was equal to the book value at that date. The fair value of interest rate swaps held for hedging purposes was £2.6 million adverse, which was unrecognised at 31 December 1998.

| | £million |
|---|---|
| Unrecognised losses on hedges at 1 January 1998 | (2.3) |
| Losses arising during the year | (2.6) |
| Losses recognised during the year | 2.3 |
| Unrecognised losses on hedges at 31 December 1998 | (2.6) |
| Of which: | |
| Losses expected to be recognised in 1999 | (0.9) |
| Losses expected to be recognised in 2000 or later | (1.7) |

### (d) Monetary assets and liabilities

The net value of monetary assets and liabilities held in currencies other than the functional currencies and not hedged at 31 December 1998 was as follows:

| | Sterling £million | US dollar £million | Euro bloc £million | Other £million | Total £million |
|---|---|---|---|---|---|
| Functional currency | | | | | |
| Sterling | - | 2.8 | 1.7 | - | 4.5 |
| US dollar | (0.2) | - | - | 0.1 | (0.1) |
| Euro bloc | (0.2) | (0.1) | - | - | (0.3) |
| Other | (0.2) | (0.6) | - | - | (0.8) |
| | (0.6) | 2.1 | 1.7 | 0.1 | 3.3 |

## 21. Provisions for liabilities and charges

| | Deferred tax £million | Post-retirement benefits £million | Environmental £million | Restructuring £million | Self insurance £million | Total £million |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| At 1 January 1998 | (3.6) | 19.1 | 22.8 | 4.8 | 7.4 | 50.5 |
| Charge to profit and loss account | 3.0 | 7.4 | 6.0 | 6.1 | 2.2 | 24.7 |
| Utilised during the year | - | (5.0) | (2.8) | (3.9) | (2.1) | (13.8) |
| Acquisition of businesses | 0.2 | 1.5 | - | - | - | 1.7 |
| Disposal of businesses | (0.4) | (6.9) | (0.1) | (3.0) | (0.8) | (11.2) |
| Currency translation differences | - | - | (0.1) | - | - | (0.1) |
| At 31 December 1998 | (0.8) | 16.1 | 25.8 | 4.0 | 6.7 | 51.8 |
| Deferred tax included in debtors | | | | | | 0.8 |
| | | | | | | 52.6 |

Environmental provisions at 31 December 1998 relate to chemical manufacturing and distribution sites including certain sites no longer owned by the Group; provisions have been made where the Group believes that it is probable that expenditure shall be incurred. Restructuring provisions at 31 December 1998 relate to the Elementis Pigments European restructuring the full details of which were announced in November 1998. Self insurance provisions at 31 December 1998 represent the aggregate of outstanding claims plus a projection of losses incurred but not reported. Environmental, restructuring and self insurance provisions are likely to be utilised over a five year period.

Deferred tax included in debtors comprises:

| | 1998 £million | 1997 £million |
|---|---|---|
| Accelerated capital allowances | 3.9 | 4.9 |
| Other timing differences | (4.7) | (8.5) |
| | (0.8) | (3.6) |

The full potential liability of the Group arising from timing differences at current rates of tax, including the amounts dealt with above, is as follows:

| | 1998 £million | 1997 £million |
|---|---|---|
| Amount arising from accelerated capital allowances and other timing differences | 5.4 | 2.4 |
| Advance corporation tax recoverable | (4.2) | (2.2) |
| | 1.2 | 0.2 |

At 31 December 1998 the full amount of surplus ACT previously written off, available for offset against future UK profits, was £24.7 million.

Provision is not made for any tax liability on capital gains which might arise on the disposal of subsidiary and associated undertakings at the amounts at which they are stated in the balance sheets. In the event of a distribution of the reserves of certain overseas subsidiary undertakings, additional liabilities to UK and overseas tax might arise. Such potential deferred tax liabilities have not been provided because there is no current intention to remit these reserves.

## 22. Operating leases

Lease commitments of the Group to pay operating lease rentals for the next year comprise:

| | Land and buildings | | Other tangible fixed assets | |
|---|---|---|---|---|
| | 1998 £million | 1997 £million | 1998 £million | 1997 £million |
| Leases terminating: | | | | |
| Within one year | 0.2 | 0.3 | 0.4 | 3.9 |
| Between one and five years | 1.2 | 0.9 | 3.2 | 4.1 |
| After five years | 0.5 | 0.4 | 0.2 | 0.7 |
| | 1.9 | 1.6 | 3.8 | 8.7 |

Operating lease rentals charged to the profit and loss account in the year amounted to £3.0 million (1997: £23.3 million).

## 23. Pensions and other post-retirement benefits

The Group has a number of contributory and non-contributory pension schemes providing retirement benefits for the majority of employees and all executive directors. The main schemes are of the defined benefit type, the benefits being based on 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. The total cost of post-retirement health care and pensions to the Group was £7.4 million (1997: £11.3 million), of which £3.4 million (1997: £4.7 million) related to overseas schemes, and which included a credit of £3.1 million (1997: £5.0 million) for variations from regular pension costs in respect of the amortisation of a surplus arising on the main UK scheme.

At 31 December 1998, provisions for liabilities and charges include provisions of £4.3 million (1997: £8.5 million) in respect of the Group's pension scheme, £0.1 million (1997: £0.7 million) in respect of overseas pension schemes and £11.7 million (1997: £9.9 million) in respect of post-retirement health care benefits.

#### United Kingdom pension scheme

In the UK, most employees are members of The Elementis Group Pension Scheme ("the Scheme"), a funded defined benefit scheme which was formed in September 1988. Contributions to the Scheme are determined with the advice of an independent qualified actuary on the basis of regular valuations.

The most recent actuarial valuation of the Scheme was made as at 1 July 1997 using the projected unit method following the changes in the Finance Act to Corporation Tax and ACT relief. The assumptions which had the most significant effect on the results of this valuation were those relating to the rate of return on investments and the rates of increases in salaries and pensions. It was assumed that the investment return would average 8.0 per cent per annum, salary increases would average 5.5 per cent per annum, and present and future pensions would increase at the rate of 4.0 per cent per annum. At the date of this valuation, the market value of the Scheme's assets was £379 million the actuarial value of which was sufficient to cover 105 per cent of the benefits that had accrued to members after allowing for expected future increases in earnings.

The pension charge in the year to 31 December 1998 is based on the actuarial valuation at 1 July 1997. The surplus as estimated by the actuaries is being amortised on a straight line basis over the expected average remaining service lives of employees in the Scheme.

#### Overseas pension schemes

The charge to profit and loss for retirement benefit costs has been determined in accordance with SSAP24. The principal overseas scheme is a funded defined benefits scheme in the US. The most recent actuarial valuation of that scheme was made at 1 January 1998 using the projected unit method and based on assumptions of investment return of 7.75 per cent per annum and of average salary increases of 4.7 per cent per annum. There are no increases in pensions in payment post retirement. At the date of the valuation, the market value of the Scheme's assets was £42.4 million the actual value of which was sufficient to cover 103 per cent of the benefits that had accrued to members after allowing for expected future increases in earnings.

#### Other post-retirement benefits

Certain group companies, principally in the US, provide post-retirement health care to their retired employees and dependants. The entitlement to these benefits is usually based on the employee remaining in service until retirement age and completion of a minimum service period. At 31 December 1998, approximately 1,499 (1997: 1,304) current and retired employees were potentially eligible to receive benefits. The cost to the Group in 1998 was £0.8 million (1997: £0.9 million). The obligation in respect of these benefits is assessed annually by independent actuaries. The main assumptions used in determining the required provision are medical cost inflation of 5.4 per cent and a discount rate of 7.75 per cent. The Group funds the post retirement benefits when incurred.

**24. Share capital & reserves**

| Group | Issued and fully paid share capital £million | Share premium account £million | Other reserves £million | Profit and loss account £million | Total £million |
|---|---|---|---|---|---|
| At 1 January 1998 as previously published | 179.5 | 183.1 | - | 394.9 | 757.5 |
| Prior period FRS12 adjustments | - | - | - | 6.7 | 6.7 |
| Merger adjustments to reflect scheme of arrangement at 1 January 1998 | (143.6) | (183.1) | 326.7 | - | - |
| At 1 January 1998 (restated) | 35.9 | - | 326.7 | 401.6 | 764.2 |
| Scheme of arrangement | (14.3) | - | (326.7) | (61.2) | (402.2) |
| Retained loss for the year | - | - | - | (20.4) | (20.4) |
| Share option scheme allotments | - | 1.1 | - | - | 1.1 |
| Goodwill on disposal of businesses acquired prior to 1 January 1998 charged to profit and loss account | - | - | - | 26.0 | 26.0 |
| Currency translation differences | - | - | - | (0.5) | (0.5) |
| Taxation on currency translation differences on foreign currency borrowings | - | - | - | (0.4) | (0.4) |
| At 31 December 1998 | 21.6 | 1.1 | - | 345.1 | 367.8 |

At 31 December 1998, the cumulative amount of goodwill written off to reserves for businesses acquired prior to 1 January 1998 amounted to £56.0 million (1997: £82.0 million).

| Company | Issued and fully paid share capital £million | Share premium account £million | Other reserves £million | Profit and loss account £million | Total £million |
|---|---|---|---|---|---|
| At 1 January 1998 | - | - | - | - | - |
| Scheme of arrangement | 21.6 | - | 534.4 | - | 556.0 |
| Retained profit for the year | - | - | - | 36.6 | 36.6 |
| Share option scheme allotments | - | 1.1 | - | - | 1.1 |
| At 31 December 1998 | 21.6 | 1.1 | 534.4 | 36.6 | 593.7 |

The authorised share capital of the Company in 5 pence ordinary shares at 31 December 1997 and 1998 was £32.0 million. The issued and fully paid share capital of the Company at 1 January 1998 was £2.

| | Number | Nominal amount £million | Consideration received £million |
|---|---|---|---|
| Ordinary share capital issued during the year: | | | |
| Scheme of arrangement | 430,957,201 | 21.6 | 556.0 |
| Share option scheme allotments | 504,458 | - | 1.1 |
| | 431,461,659 | 21.6 | 557.1 |

## 24. Share capital & reserves (continued)

At 31 December 1998, certain directors and employees held the following options to subscribe for ordinary shares of 5 pence each:

| | Price per share | 1998 Number | 1997 Number |
|---|---|---|---|
| Share option scheme 1987 normally exercisable between: | | | |
| 1 June 1992 and 1 June 1999 | 167.4p | 622,018 | 1,408,725 |
| 30 April 1994 and 30 April 2001 | 153.7p | 792,966 | 1,620,524 |
| 1 May 1995 and 1 May 2002 | 119.1p | 492,330 | 688,062 |
| 11 May 1996 and 11 May 2003 | 168.5p | 611,457 | 926,415 |
| 13 September 1997 and 13 September 2004 | 184.8p | 1,027,460 | 1,668,570 |
| 9 May 1998 and 9 May 2005 | 145.4p | - | 240,666 |
| 19 September 1998 and 19 September 2005 | 152.5p | 515,813 | 906,966 |
| 5 November 1999 and 5 November 2006 | 132.8p | 451,319 | 810,778 |
| 6 April 1998 and 6 April 2008 | 137.0p | 452,427 | - |
| 15 September 1998 and 15 September 2008 | 86.0p | 218,022 | - |
| | | 5,183,812 | 8,270,706 |
| Savings related share option scheme 1989 exercisable within six months of: | | | |
| 1 January 1996 or 1 January 1998 | 119.1p | - | 368,457 |
| 1 December 1996 or 1 December 1998 | 122.0p | 79,465 | 302,382 |
| 1 November 1998 or 1 November 2000 | 154.3p | 477,933 | 985,339 |
| 1 November 1999 or 1 November 2001 | 147.2p | 340,766 | 783,145 |
| 1 November 2000 or 1 November 2002 | 123.6p | 524,533 | 1,232,502 |
| 1 January 2000 or 1 January 2002 | 111.4p | 782,661 | 2,073,927 |
| 1 November 2001 or 1 November 2003 | 94.2p | 1,023,422 | - |
| | | 3,228,780 | 5,745,752 |
| Performance Share Plan exercisable between: | | | |
| 1 January 1998 to 10 May 2004 | 1.0p | 1,381,301 | 546,189 |

## 25. Capital commitments

Group capital expenditure contracted but not provided for in these financial statements amounted to £17.0 million (1997: £9.5 million).

## 26. Contingent liabilities

Contingent liabilities of the Group in respect of guarantees amounted to £nil million (1997: £1.0 million).

## 27. Cash flow statement

### (a) Reconciliation of cash flow before use of liquid resources and financing to movements in net (borrowings)/cash

| | 1998 £million | 1997 £million |
|---|---|---|
| Cash (outflow)/inflow before use of liquid resources and financing | (98.1) | 465.8 |
| Issue of ordinary share capital – share options | 1.1 | 1.1 |
| Funds provided by minority interests | 1.0 | 0.7 |
| Return of capital to shareholders | (402.2) | - |
| New finance leases | - | (0.3) |
| Business acquisitions - borrowings acquired | - | (1.4) |
| Business disposals - borrowings transferred | - | 1.1 |
| Currency translation differences | (0.4) | (2.7) |
| **Increase in net (borrowings)/cash** | (498.6) | 464.3 |

# Notes to the Financial Statements

## 27. Cash flow statement (continued)

### (b) Financing and management of liquid resources

| | 1998 £million | 1997 £million |
|---|---|---|
| **Financing** | | |
| Issue of ordinary share capital - share options | 1.1 | 1.1 |
| Funds provided by minority interests | 1.0 | 0.7 |
| Return of capital to shareholders | (402.2) | - |
| Loan notes issued | 19.5 | - |
| Loan notes redeemed | (10.7) | - |
| Decrease in borrowings repayable within one year | (108.4) | (26.6) |
| Increase/(decrease) in borrowings repayable after one year | 245.5 | (87.2) |
| Capital element of finance lease rental payments | - | (0.4) |
| | (254.2) | (112.4) |
| **Management of liquid resources** | | |
| New cash deposits | (5.6) | (552.6) |
| Repayment of cash deposits | 363.1 | 173.4 |
| | 357.5 | (379.2) |
| **Total financing and management of liquid resources** | 103.3 | (491.6) |

### (c) Reconciliation of net cash flow to movement in net (borrowings)/cash

| | 1998 £million | 1997 £million |
|---|---|---|
| Change in net (borrowings)/cash resulting from cash flows: | | |
| Increase/(decrease) in cash in the period | 5.2 | (25.8) |
| (Increase)/decrease in borrowings | (145.9) | 114.2 |
| (Decrease)/increase in liquid resources | (357.5) | 379.2 |
| | (498.2) | 467.6 |
| New finance leases | - | (0.3) |
| Business acquisitions - borrowings acquired | - | (1.4) |
| Business disposals - borrowings transferred | - | 1.1 |
| Currency translation differences | (0.4) | (2.7) |
| Movement in net (borrowings)/cash | (498.6) | 464.3 |
| Net cash/(borrowings) at 1 January | 450.6 | (13.7) |
| Net (borrowings)/cash at 31 December | (48.0) | 450.6 |

### (d) Analysis of changes in net (borrowings)/cash during the year

| | 1 January 1998 £million | Cash flow £million | Currency translation differences £million | 31 December 1998 £million |
|---|---|---|---|---|
| Net cash repayable on demand | 4.0 | 5.2 | (0.3) | 8.9 |
| Repayable within one year: | | | | |
| Cash deposits | 565.6 | (357.5) | 0.3 | 208.4 |
| Borrowings | (116.5) | 99.6 | (0.3) | (17.2) |
| Repayable after one year: | | | | |
| Borrowings | (2.5) | (245.5) | (0.1) | (248.1) |
| Net (borrowings)/cash | 450.6 | (498.2) | (0.4) | (48.0) |

## 27. Cash flow statement (continued)

### (e) (Borrowings)/cash repayable on demand

| | 1998 £million | 1997 £million | Change in year £million |
|---|---|---|---|
| Cash at bank and in hand | 224.7 | 585.5 | (360.8) |
| Bank borrowings repayable within one year | (13.7) | (44.3) | 30.6 |
| Other borrowings repayable within one year | (10.9) | (88.1) | 77.2 |
| | 200.1 | 453.1 | (253.0) |
| Borrowings and deposits repayable within one year not repayable on demand: | | | |
| Bank deposits | (208.4) | (565.6) | 357.2 |
| Bank borrowings | 6.3 | 28.4 | (22.1) |
| Other borrowings | 10.9 | 88.1 | (77.2) |
| Net cash repayable on demand | 8.9 | 4.0 | 4.9 |
| Currency translation differences | | | 0.3 |
| Increase in cash per cash flow statement | | | 5.2 |

### (f) Acquisition of businesses

| Rheox | Book value £million | Fair value adjustments: Revaluations £million | Fair value adjustments: Accounting policies £million | Fair value £million |
|---|---|---|---|---|
| **Net assets acquired:** | | | | |
| Intangible fixed assets | 0.4 | - | (0.4) | - |
| Tangible fixed assets | 18.9 | 6.4 | - | 25.3 |
| Investment in associated undertaking | 1.6 | - | - | 1.6 |
| Working capital - stocks, debtors & creditors | 13.3 | - | - | 13.3 |
| Cash at bank | 4.6 | - | - | 4.6 |
| Provisions | (0.6) | (0.9) | - | (1.5) |
| Deferred tax | - | - | (0.2) | (0.2) |
| | 38.2 | 5.5 | (0.6) | 43.1 |

| Group cash flow | |
|---|---|
| Consideration - debt free/cash free basis | 277.8 |
| Expenses | 5.0 |
| Cash at bank in assets acquired | 4.6 |
| | 287.4 |
| Goodwill | 244.3 |
| | |
| Total consideration | 287.4 |
| Cash at bank in assets acquired | (4.6) |
| Net consideration | 282.8 |
| Other acquisitions | 0.9 |
| Cost of acquisitions per cash flow statement | 283.7 |

The business acquired during the year contributed £18.2 million to the Group's net cash inflow from operating activities. Tangible fixed assets have been adjusted to reflect their market value or net present value in use at the time of acquisition.

Based on information provided by the vendors, using US GAAP accounting policies and financing arrangements prior to the acquisition, Rheox recorded a profit after tax and minority interests, for the period from 1 January 1998 to the date of acquisition, of US$0.1 million, comprising turnover of US$12.5 million, operating profit of US$3.0 million, interest paid of US$2.6 million and tax of US$0.3 million. For the year ended 31 December 1997, Rheox recorded a profit after tax and minority interests of US$20.4 million.

## 27. Cash flow statement (continued)

### (g) Disposal of businesses

| | BOCM PAULS £million | Pauls Malt £million | Akcros joint venture £million | Total £million |
|---|---|---|---|---|
| **Net assets sold** | | | | |
| Tangible fixed assets | 8.8 | 43.9 | - | 52.7 |
| Investment in joint venture | - | - | 39.7 | 39.7 |
| Working capital - stocks, debtors & creditors | 60.5 | 19.2 | - | 79.7 |
| Provisions | (5.9) | (3.9) | (1.0) | (10.8) |
| Deferred tax | - | (0.4) | - | (0.4) |
| Borrowings | (24.0) | (0.5) | - | (24.5) |
| | 39.4 | 58.3 | 38.7 | 136.4 |
| Goodwill previously charged against reserves | - | - | 26.0 | 26.0 |
| | 39.4 | 58.3 | 64.7 | 162.4 |
| Net consideration | 52.9 | 58.8 | 48.3 | 160.0 |
| Borrowings included in net assets sold | (24.0) | (0.5) | - | (24.5) |
| | 28.9 | 58.3 | 48.3 | 135.5 |
| **Loss on disposal** | 10.5 | - | 16.4 | 26.9 |
| **Group cash flow** | | | | |
| Cash received from purchasers and expenses paid | 31.6 | 58.7 | 53.6 | 143.9 |
| Borrowings in assets sold | 24.0 | 0.5 | - | 24.5 |
| | 55.6 | 59.2 | 53.6 | 168.4 |
| Prior year disposals: | | | | |
| Cash repaid to purchasers and expenses paid | | | | (7.3) |
| Proceeds on disposals per cash flow statement | | | | 161.1 |

The subsidiary undertakings disposed of during the year contributed to £7.1 million to the Group's net cash inflow from operating activities and spent £7.5 million on the purchase of fixed assets.

## 28. Principal trading investments

| Subsidiary undertakings | | Country of incorporation and operation |
|---|---|---|
| Elementis UK Ltd | | United Kingdom |
| trading as: | | |
| Elementis Chromium | Chromium chemicals | |
| Elementis Pigments | Pigments | |
| Elementis Specialties | Catalysts, zinc products & carboxylates | |
| Rheox Inc with fellow Rheox subsidiaries trading in the United Kingdom and Germany | Rheological additives | United States of America |
| Elementis Chromium Inc | Chromium chemicals | United States of America |
| Elementis Pigments Inc | Pigments | United States of America |
| Elementis DPC Inc | Colourants & additives | United States of America |
| Harcros Chemicals Inc | Chemical distribution | United States of America |
| Linatex Corporation of America Inc with fellow Linatex subsidiaries trading in the United Kingdom, the Netherlands, Malaysia, South Africa, Australia, France, Germany and Belgium | Rubber products | United States of America |

**Notes:**

(i) None of the undertakings are held directly by the Company.

(ii) Equity capital is in ordinary shares, wholly-owned and voting rights equate to equity ownership.

(iii) All listed above have accounting periods ending 31 December.

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

(v) All listed above have been included in the consolidated financial statements of the Group for the year.

# Shareholders' Information

**Company Secretary**
Philip Brown LLB FCIS

**Auditors**
PricewaterhouseCoopers

**Stockbrokers**
Cazenove & Co
Hoare Govett

**Registrars**
Lloyds Bank Registrars

**Registered office**
One Great Tower Street
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E-mail
info@elementis.com

Website
http://www.elementis.com

**Registered number**
3299608

# Financial Calendar

| | |
|---|---|
| **4 March** | Preliminary announcement of results for the year ended 31 December 1998 |
| **15 March** | Ordinary shares quoted ex-dividend |
| **19 March** | Record date for proposed final dividend |
| **20 April** | Last day for election to re-invest dividend |
| **30 April** | Annual General Meeting |
| **4 May** | Payment date for proposed final dividend |
| **5 August*** | Announcement of interim results |
| **11 October*** | Ordinary shares quoted ex-dividend |
| **15 October*** | Record date for the interim dividend |
| **25 October*** | Last day for election to re-invest dividend |
| **9 November*** | Payment date for the interim dividend |

* Provisional date

# Shareholder Services

**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
Tel: 01903 833266

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.

**Mandated dividends** Payment of mandated dividends will be made using the Bankers' Automated Clearing System (BACS). Under this system, dividends are paid directly into shareholders' bank or building society accounts and the dividend tax vouchers are sent directly to shareholders. Any shareholder wishing to have future dividends paid into a bank or building society account can obtain a mandate from Lloyds Bank Registrars.

**Dividend Re-Investment Plan**
Arrangements have been made with Lloyds TSB Registrars and Cazenove & Co to enable shareholders to use the cash dividend to buy further shares in Elementis plc through the dividend re-investment plan (DRIP). Details of the DRIP were sent to all shareholders in August 1998 and new shareholders since that date will be given the opportunity to participate in the DRIP for each dividend payment.

**Low-cost share dealing service** This service arranged with the Company's stockbrokers, Cazenove & Co, offers a low-cost method of buying and selling Elementis shares. Full details of the service and dealing forms can be obtained from Cazenove & Co on +44 (0)171 606 1768.

**Individual Savings Accounts (ISA)** It is possible to hold Elementis shares through an ISA and a number of Plan Managers offer such schemes. Lloyds Private Banking Limited intends providing an ISA with a range of shares including those of Elementis plc. Their address for information is Lloyds Bank PEPS, PO Box 149, Haywards Heath, West Sussex RH16 3GA. Participation in an ISA may not necessarily be an advantage for some shareholders and the Company, therefore, recommends that shareholders consult with their financial advisers before deciding whether or not to join an ISA.

**Annual General Meeting** The Annual General Meeting of Elementis plc will be held on Friday 30 April 1999 at 12 noon at The Conference Forum, The Sedgwick Centre, London E1 8DX. The Notice of Meeting is given in a separate document accompanying this Annual Report. Details of the ordinary and special business of the AGM are also contained in this document.

# Five Year Record

| | 1998 £million | 1997 Restated £million | 1996 Restated £million | 1995 Restated £million | 1994 Restated £million |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| Chromium | 124.4 | 126.8 | 129.1 | 116.6 | 109.8 |
| Pigments & Specialties | 213.9 | 148.8 | 149.1 | 131.1 | 123.3 |
| Chemical Distribution | 139.2 | 134.4 | 135.7 | 137.0 | 128.7 |
| Specialty Rubber | 56.7 | 61.5 | 71.0 | 71.7 | 63.3 |
| Continuing operations | 534.2 | 471.5 | 484.9 | 456.4 | 425.1 |
| Discontinued operations | 508.4 | 1,447.7 | 1,560.8 | 1,590.7 | 1,684.9 |
| Turnover: Group and share of joint venture | 1,042.6 | 1,919.2 | 2,045.7 | 2,047.1 | 2,110.0 |
| Less share of discontinued joint venture's turnover | (68.2) | (93.9) | (107.6) | (113.8) | (105.8) |
| Group turnover | 974.4 | 1,825.3 | 1,938.1 | 1,933.3 | 2,004.2 |
| **Operating profits** | | | | | |
| Chromium: | | | | | |
| Before exceptionals | 27.1 | 29.9 | 32.6 | 24.9 | 18.9 |
| Exceptionals | - | - | - | - | - |
| | 27.1 | 29.9 | 32.6 | 24.9 | 18.9 |
| Pigments & Specialties: | | | | | |
| Before goodwill amortisation and exceptionals | 27.1 | 8.8 | 10.3 | 9.2 | 8.1 |
| Goodwill amortisation | (11.2) | - | - | - | - |
| Exceptionals | (3.2) | (14.9) | - | - | (5.4) |
| | 12.7 | (6.1) | 10.3 | 9.2 | 2.7 |
| Chemical Distribution: | | | | | |
| Before exceptionals | 2.6 | 1.2 | 0.9 | 1.9 | 1.1 |
| Exceptionals | - | (25.0) | - | - | - |
| | 2.6 | (23.8) | 0.9 | 1.9 | 1.1 |
| Specialty Rubber: | | | | | |
| Before exceptionals | 4.7 | 4.8 | 6.2 | 6.1 | 3.8 |
| Exceptionals | - | (0.8) | - | - | (0.3) |
| | 4.7 | 4.0 | 6.2 | 6.1 | 3.5 |
| Total – continuing operations: | | | | | |
| Before goodwill amortisation and exceptionals | 61.5 | 44.7 | 50.0 | 42.1 | 31.9 |
| Goodwill amortisation | (11.2) | - | - | - | - |
| Exceptionals | (3.2) | (40.7) | - | - | (5.7) |
| | 47.1 | 4.0 | 50.0 | 42.1 | 26.2 |
| Discontinued operations | (7.0) | 24.6 | 68.7 | 71.0 | 81.6 |
| | 40.1 | 28.6 | 118.7 | 113.1 | 107.8 |
| Joint venture – discontinued operations | 2.1 | 4.7 | 3.8 | 7.9 | 6.5 |
| Associated undertakings – discontinued operations | (0.1) | (0.2) | 1.1 | - | - |
| | 42.1 | 33.1 | 123.6 | 121.0 | 114.3 |
| Profit/(loss) on disposal/termination of businesses & fixed assets: | | | | | |
| Continuing operations | 5.0 | - | (1.4) | 0.6 | 10.9 |
| Discontinued operations | (26.9) | (121.8) | 5.9 | - | 132.5 |
| Fundamental restructuring costs (discontinued operations) | - | (4.8) | - | - | - |
| **Profit/(loss) before interest** | 20.2 | (93.5) | 128.1 | 121.6 | 257.7 |
| Interest rate swap cancellation costs | (2.3) | - | - | - | - |
| Private placement redemption cost | - | (9.8) | - | - | - |
| Net interest payable | (8.3) | (2.9) | (6.5) | (5.4) | (17.6) |
| **Profit/(loss) before tax** | 9.6 | (106.2) | 121.6 | 116.2 | 240.1 |
| Tax | (8.4) | (4.9) | (33.1) | (35.8) | (40.3) |
| Minority interests | - | (0.1) | (8.1) | (9.9) | (4.8) |
| **Profit/(loss) for the financial year** | 1.2 | (111.2) | 80.4 | 70.5 | 195.0 |
| **Basic** | | | | | |
| Earnings per ordinary share (pence) | 0.3 | (15.5) | 11.3 | 10.0 | 27.8 |
| Earnings per ordinary share before goodwill amortisation and exceptionals (pence) | 9.0 | 8.8 | 11.1 | 11.0 | 9.1 |
| **Fully diluted** | | | | | |
| Earnings per ordinary share (pence) | 0.3 | (15.5) | 11.3 | 9.9 | 27.7 |
| Earnings per ordinary share before goodwill amortisation and exceptionals (pence) | 9.0 | 8.8 | 11.1 | 11.0 | 9.1 |
| **Dividends per ordinary share (pence)** | 5.0 | 3.6 | 9.0 | 9.0 | 9.0 |
| **Dividend cover (times)*** | 1.8 | 2.4 | 1.2 | 1.2 | 1.0 |
| **Interest cover (times)*** | 7.0 | 28.3 | 19.7 | 22.4 | 7.2 |
| **Shareholders' funds** | 367.8 | 764.2 | 663.0 | 675.7 | 660.4 |
| **Net (borrowings)/cash** | (48.0) | 450.6 | (13.7) | 7.4 | (0.6) |
| **Weighted average number of ordinary shares in issue during the year (million)** | 472.9 | 715.3 | 711.7 | 706.9 | 702.0 |

* before goodwill amortisation and exceptionals