Elementis plc

Making chemistry work harder

Annual Report 2000

Registered number: 3299608

ɹport of the directors

Report and financial statements
The directors submit their report and the audited financial statements for the year ended 31 December 2000. For the purposes of this report, the expression "Company" means Elementis plc and the expression "Group" means the Company and its subsidiaries.

Issue of redeemable B shares
At the Annual General Meeting held on 28 April 2000, shareholders conferred authority on the Board to issue redeemable B shares. The total nominal value of redeemable B shares issued to shareholders during the year was 5.2 pence per ordinary share. The Board intends to issue further redeemable B shares to ordinary shareholders on the register on 26 April 2001, such that they receive redeemable B shares with a total nominal value of 3.3 pence for each ordinary share held. This will be coupled with an offer to redeem these new shares for cash at their nominal value on 2 May 2001. A further offer will also be made to existing holders of redeemable B shares to redeem these shares for cash at their nominal value on 2 May 2001.

Results and dividend
The Group profit for the year attributable to shareholders amounted to £34.2 million (1999: £20.0 million). No ordinary interim or final dividends have been declared. Holders of redeemable B shares are entitled to a non-cumulative preferential dividend at a rate of 75 per cent of six month sterling LIBOR payable six monthly in arrears; the charge to the profit and loss account in 2000 in respect of these dividends was £0.1 million.

Principal activities, business review and future development
The Chairman's statement and the Chief Executive's report contain a review and description of the principal activities of the Group during 2000, 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 the notes to the financial statements.

Donations and contributions
During the year, the Group donated £8,549 for charitable purposes in the United Kingdom.

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

Directors
The present directors of the Company are Jonathan Fry, Lyndon Cole, George Fairweather, Philip Brown, Michael Hartnall, Rick McNeel and Edward Wilson.

A statement of the directors' interests in the share capital of the Company is set out in the Board report on remuneration. Robert Easton resigned as a director on 28 April 2000. Mike Parker resigned as a director on 14 July 2000.

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 UK employees an opportunity to become shareholders and introduced a similar scheme for US employees during 2000.

Employment policies
The Group is committed to the principle of equal opportunity in employment, regardless of a person's race, creed, colour, nationality, gender, age, marital status 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.

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 23 February 2001:

	Ordinary shares million	Percentage of issued ordinary share capital
Franklin Resources, Inc.	56.0	12.9%
Silchester International Investors Limited	53.6	12.4%
Sanford C. Bernstein & Co., Inc.	28.5	6.6%
Fidelity Investment Limited	26.3	6.1%

Auditors
A resolution to re-appoint PricewaterhouseCoopers as Auditors of the Company will be proposed at the forthcoming Annual General Meeting to be held on 26 April 2001.

By order of the Board
Philip Brown
Company Secretary
28 February 2001

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 of the Group 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 United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- 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 Company and the Group
- taking reasonable steps for the prevention and detection of fraud and other irregularities
- ensuring the maintenance and integrity of the Company's corporate website.

Independent auditors' report

To the members of Elementis plc
We have audited the financial statements, comprising the consolidated profit and loss account, balance sheets, cash flow statement, reconciliation of operating profit to net cash inflow from operating activities, statement of total recognised gains and losses, reconciliation of movements in shareholders' funds and notes to the financial statements, which have been prepared under the historical cost convention and the accounting policies set out in the notes to the financial statements.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report, including the financial statements, in accordance with applicable United Kingdom law and accounting standards, are set out in the directors' responsibilities statement. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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 United Kingdom Companies Act 1985. We also report to you if, in our opinion, the report of the directors 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. The other information comprises the Chairman's statement, Chief Executive's report, financial review, Board and senior management biographies, report of the directors, Board report on corporate governance, Board report on remuneration, the five year record and other information for shareholders.

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

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 at 31 December 2000 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
28 February 2001

Consolidated profit & loss account

for the year ended 31 December 2000

	Note	Before goodwill amortisation & exceptionals £million	Goodwill amortisation £million	Exceptionals £million	2000 £million	1999 £million
Turnover – continuing operations	2	**573.8**	-	-	**573.8**	535.1
Group operating profit						
Before goodwill amortisation and exceptionals		**63.4**	-	-	**63.4**	56.7
Goodwill amortisation		-	**(13.3)**	-	**(13.3)**	(12.5)
Exceptionals		-	-	**(3.0)**	**(3.0)**	(15.3)
	2,3,4	**63.4**	**(13.3)**	**(3.0)**	**47.1**	28.9
Associates		**0.1**	-	-	**0.1**	0.1
Operating profit – continuing operations		**63.5**	**(13.3)**	**(3.0)**	**47.2**	29.0
Profit on disposal of properties		-	-	-	-	6.6
Profit on ordinary activities before interest		**63.5**	**(13.3)**	**(3.0)**	**47.2**	35.6
Net interest payable	5	**(5.1)**	-	-	**(5.1)**	(5.4)
Profit on ordinary activities before tax						
Before goodwill amortisation and exceptionals		**58.4**	-	-	**58.4**	51.4
Goodwill amortisation		-	**(13.3)**	-	**(13.3)**	(12.5)
Exceptionals		-	-	**(3.0)**	**(3.0)**	(8.7)
		58.4	**(13.3)**	**(3.0)**	**42.1**	30.2
Tax on profit on ordinary activities	6	**(8.2)**	-	**0.4**	**(7.8)**	(10.5)
Profit on ordinary activities after tax		**50.2**	**(13.3)**	**(2.6)**	**34.3**	19.7
Minority interests – equity		**(0.1)**	-	-	**(0.1)**	0.3
Profit for the financial year		**50.1**	**(13.3)**	**(2.6)**	**34.2**	20.0
Dividends – equity	7	-	-	-	-	(8.6)
Dividends – non-equity	7	**(0.1)**	-	-	**(0.1)**	-
Amount transferred to reserves	24	**50.0**	**(13.3)**	**(2.6)**	**34.1**	11.4

	Note	2000	1999
Earnings per ordinary share	8		
Basic and diluted		**7.9p**	4.6p
Basic before goodwill amortisation and exceptionals		**11.6p**	9.3p
Diluted before goodwill amortisation and exceptionals		**11.5p**	9.3p

Balance sheets

at 31 December 2000

		Group		Company	
		2000	1999	2000	1999
	Note	£million	£million	£million	£million
Fixed assets					
Goodwill	14	**228.8**	225.5	**-**	-
Tangible assets	15	**192.1**	182.7	**-**	-
Investments	16	**2.0**	1.8	**759.1**	959.0
		422.9	410.0	**759.1**	959.0
Current assets					
Stocks	17	**76.7**	71.6	**-**	-
Debtors	18	**109.2**	104.9	**1.6**	1.1
Cash at bank and in hand	20a	**51.2**	79.9	**-**	-
		237.1	256.4	**1.6**	1.1
Creditors: amounts falling due within one year					
Borrowings	20b	**7.3**	11.2	**6.5**	7.7
Creditors	19	**106.2**	109.4	**1.6**	0.4
		113.5	120.6	**8.1**	8.1
Net current assets/(liabilities)		**123.6**	135.8	**(6.5)**	(7.0)
Total assets less current liabilities		**546.5**	545.8	**752.6**	952.0
Creditors: amounts falling due after more than one year					
Borrowings	20b	**85.6**	114.2	**-**	-
Government grants		**0.6**	0.8	**-**	-
Amounts due to subsidiary undertakings		**-**	-	**127.9**	304.9
		86.2	115.0	**127.9**	304.9
Provisions for liabilities and charges	21	**46.6**	48.1	**0.3**	0.3
		132.8	163.1	**128.2**	305.2
		413.7	382.7	**624.4**	646.8
Capital and reserves					
Called up share capital	24	**23.6**	21.6	**23.6**	21.6
Share premium	24	**1.1**	1.1	**1.1**	1.1
Capital redemption reserve	24	**20.4**	-	**20.4**	-
Other reserves	24	**-**	-	**311.7**	534.4
Profit and loss account	24	**366.1**	357.7	**267.6**	89.7
Shareholders' funds		**411.2**	380.4	**624.4**	646.8
Minority interests		**2.5**	2.3	**-**	-
		413.7	382.7	**624.4**	646.8
Shareholders' funds					
Equity		**409.2**	380.4	**622.4**	646.8
Non-equity		**2.0**	-	**2.0**	-
		411.2	380.4	**624.4**	646.8
Net borrowings		**(41.7)**	(45.5)	**(6.5)**	(7.7)

Lyndon Cole/George Fairweather Directors

The financial statements were approved by the Board on 28 February 2001.

Cash flow statement

for the year ended 31 December 2000

		2000		1999	
	Note	£million	£million	£million	£million
Net cash inflow from operating activities			**58.4**		74.1
Returns on investments and servicing of finance					
Interest received		**9.3**		8.8	
Interest paid		**(14.4)**		(14.4)	
			(5.1)		(5.6)
Taxation			**(4.5)**		(4.7)
Capital expenditure and financial investment					
Purchase of fixed assets		**(22.1)**		(43.9)	
Disposal of fixed assets		**6.7**		12.0	
			(15.4)		(31.9)
Acquisitions and disposals					
Acquisition of businesses in prior years		**-**		(0.2)	
Disposal of businesses in prior years		**(1.0)**		(0.5)	
			(1.0)		(0.7)
Equity dividends paid			**-**		(21.6)
Cash inflow before use of liquid resources and financing			**32.4**		9.6
Financing and management of liquid resources	27b		**(35.7)**		(1.7)
(Decrease)/increase in cash	27e		**(3.3)**		7.9

Reconciliation of operating profit to net cash inflow from operating activities

for the year ended 31 December 2000

	2000	1999
	£million	£million
Operating profit	**47.2**	29.0
Goodwill amortisation	**13.3**	12.5
Depreciation (less grants credited)	**17.3**	15.3
Share of profits of associated undertakings	**(0.1)**	(0.1)
Loss on disposal of fixed assets	**-**	0.2
Exceptionals in operating profit	**3.0**	15.3
Cash outflow on exceptionals	**(3.9)**	(12.2)
(Increase)/decrease in stocks	**(1.8)**	15.0
Increase in debtors	**(8.4)**	(6.2)
(Decrease)/increase in creditors	**(2.2)**	10.6
Decrease in provisions	**(6.0)**	(5.3)
	58.4	74.1

Statement of total recognised gains and losses
for the year ended 31 December 2000

	2000 £million	1999 £million
Profit for the financial year	**34.2**	20.0
Currency translation differences	**19.4**	2.2
Taxation on currency translation differences on foreign currency borrowings	**(2.0)**	(1.0)
Total recognised gains for the year	**51.6**	21.2

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2000

	2000 £million	1999 £million
Profit for the financial year	**34.2**	20.0
Dividends – ordinary shares	-	(8.6)
Dividends – redeemable B shares	**(0.1)**	-
Amounts transferred to reserves	**34.1**	11.4
Redemption of redeemable B shares (including issue costs)	**(20.7)**	-
Currency translation differences	**19.4**	2.2
Taxation on currency translation differences on foreign currency borrowings	**(2.0)**	(1.0)
Net increase in shareholders' funds	**30.8**	12.6
At beginning of the financial year	**380.4**	367.8
At end of the financial year	**411.2**	380.4

Notes to the financial statements

1 Accounting policies

Basis of preparation In 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. The acquisition was 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 were not adopted as, in the opinion of the directors, this would not have given a true and fair view of the Scheme of Arrangement, which in substance represented a change in identity of holding company rather than an acquisition of a business. Accordingly, the financial statements of the Company were combined with those of Elementis Holdings Limited and its subsidiaries in 1998. The directors consider that it is not practicable to quantify the effect of this departure from the Companies Act 1985 requirements.

The financial statements comprising the consolidated profit and loss account, balance sheets, cash flow statement, reconciliation of operating profit to net cash inflow from operating activities, statement of total recognised gains and losses, reconcilitation of movements in shareholders' funds and notes to the financial statements have been prepared under the historical cost convention in accordance with generally accepted accounting principles and applicable accounting standards. These are unchanged from the previous year.

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 2000. The results of subsidiary undertakings acquired or disposed of during a year are dealt with in the consolidated profit and loss account from the date of their acquisition or to the date of their disposal.

Joint venture and associated undertakings The Group's share of the results and net assets of joint ventures and associated undertakings included in the consolidated profit and loss account and balance sheet are based on their financial statements for the relevant period ended 31 December.

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 rates 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.

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) ESOPs 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.

Research, development and intangible assets Expenditure on research, development, patents and trademarks 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; on subsequent disposals this is charged through the profit and loss account.

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

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

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.

Taxation 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. Advance corporation tax is carried forward to the extent that it is expected to be recovered.

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.

Notes to the financial statements

Continued

2 Segmental information

	Group turnover		Group operating profit		Net assets	
	2000 £million	1999 £million	2000 £million	1999 £million	2000 £million	1999 £million
Analysis by activity						
Chromium						
Before exceptionals	**131.7**	118.2	**23.7**	20.3	**122.1**	118.0
Inter-group turnover	**(6.9)**	(5.4)	**-**	-	**-**	-
Exceptionals	**-**	-	**0.7**	(8.8)	**-**	-
	124.8	112.8	**24.4**	11.5	**122.1**	118.0
Pigments & Specialties						
Before goodwill amortisation and exceptionals	**234.9**	222.9	**31.1**	28.5	**349.9**	332.3
Goodwill amortisation	**-**	-	**(13.3)**	(12.5)	**-**	-
Exceptionals	**-**	-	**(1.4)**	(5.3)	**-**	-
	234.9	222.9	**16.4**	10.7	**349.9**	332.3
Chemical Distribution	**160.0**	144.5	**6.0**	5.5	**7.6**	5.0
Specialty Rubber						
Before exceptionals	**54.1**	54.9	**2.6**	2.4	**23.7**	21.9
Exceptionals	**-**	-	**(2.3)**	(1.2)	**-**	-
	54.1	54.9	**0.3**	1.2	**23.7**	21.9
Total						
Before goodwill amortisation and exceptionals	**573.8**	535.1	**63.4**	56.7	**503.3**	477.2
Goodwill amortisation	**-**	-	**(13.3)**	(12.5)	**-**	-
Exceptionals	**-**	-	**(3.0)**	(15.3)	**-**	-
	573.8	535.1	**47.1**	28.9	**503.3**	477.2
Unallocated liabilities	**-**	-	**-**	-	**(89.6)**	(94.5)
	573.8	535.1	**47.1**	28.9	**413.7**	382.7

Group turnover and operating profit are derived from continuing operations.

2 Segmental information (continued)

	Group turnover		Group operating profit		Net assets	
	2000 £million	1999 £million	2000 £million	1999 £million	2000 £million	1999 £million
Analysis by area of operations						
North America	**389.0**	357.6	**33.4**	24.2	**359.0**	336.4
Europe	**163.4**	157.3	**12.2**	4.8	**128.9**	127.2
Rest of the World	**21.4**	20.2	**1.5**	(0.1)	**15.4**	13.6
	573.8	535.1	**47.1**	28.9	**503.3**	477.2
Unallocated liabilities	-	-	-	-	**(89.6)**	(94.5)
	573.8	535.1	**47.1**	28.9	**413.7**	382.7

Unallocated liabilities comprise:

	2000 £million	1999 £million
Net borrowings	**(41.7)**	(45.5)
Taxation and dividends	**(20.7)**	(15.2)
Post retirement benefits and government grants	**(14.8)**	(15.9)
Other	**(12.4)**	(17.9)
	(89.6)	(94.5)

	2000 £million	1999 £million
Group turnover analysed by geographical markets		
North America	**368.3**	336.8
Europe	**143.0**	141.4
Rest of the World	**62.5**	56.9
	573.8	535.1

3 Supplementary profit & loss account information

	2000 £million	Restated* 1999 £million
Turnover	**573.8**	535.1
Cost of sales		
Before exceptionals	**(389.5)**	(359.9)
Exceptionals	**(1.8)**	(12.2)
	(391.3)	(372.1)
Gross profit		
Before exceptionals	**184.3**	175.2
Exceptionals	**(1.8)**	(12.2)
	182.5	163.0
Distribution costs		
Before exceptionals	**(82.3)**	(74.0)
Exceptionals	**(0.4)**	-
	(82.7)	(74.0)
Administrative expenses		
Before goodwill amortisation and exceptionals	**(38.6)**	(44.5)
Goodwill amortisation	**(13.3)**	(12.5)
Exceptionals	**(0.8)**	(3.1)
	(52.7)	(60.1)
Group operating profit		
Before goodwill amortisation and exceptionals	**63.4**	56.7
Goodwill amortisation	**(13.3)**	(12.5)
Exceptionals	**(3.0)**	(15.3)
	47.1	28.9

* 1999 figures have been restated on a basis consistent with a new Group-wide chart of accounts.

4 Exceptionals

Group operating profit includes the following charges/(income):

	Settlement of US litigation		Restructuring costs		Impairment of assets		Total	
	2000 £million	1999 £million	2000 £million	1999 £million	2000 £million	1999 £million	2000 £million	1999 £million
Chromium	**(0.7)**	6.4	-	2.4	**-**	-	**(0.7)**	8.8
Pigments & Specialties	**-**	0.2	**1.4**	2.4	-	2.7	**1.4**	5.3
Specialty Rubber	**-**	-	**2.3**	1.2	-	-	**2.3**	1.2
	(0.7)	6.6	**3.7**	6.0	-	2.7	**3.0**	15.3

Tax on these charges was a credit of £0.4 million (1999: £0.8 million).

5 Net interest payable

	2000 £million	1999 £million
Interest payable:		
On bank loans	**13.6**	13.3
On other loans	**0.5**	0.8
	14.1	14.1
Interest receivable:		
On bank deposits	**(9.0)**	(8.7)
	5.1	5.4

Notes to the financial statements

Continued

6 Tax on profit on ordinary activities

	2000		1999	
	£million	£million	£million	£million
United Kingdom corporation tax:				
Current tax on income for the period	**9.4**		7.5	
Adjustments in respect of prior periods	**(1.3)**		-	
		8.1		7.5
Double tax relief		-		(1.3)
		8.1		6.2
Recoverable ACT		**(4.6)**		(1.0)
		3.5		5.2
Overseas tax:				
Current tax on income for the period	**2.3**		4.2	
Adjustments in respect of prior periods	**(0.6)**		-	
		1.7		4.2
Deferred tax:				
United Kingdom	**0.8**		(0.4)	
Overseas	**(0.1)**		1.5	
Adjustments in respect of prior periods	**1.9**		-	
		2.6		1.1
		7.8		10.5

The charge for United Kingdom tax has been based on a corporation tax rate of 30 per cent (1999: 30.25 per cent). If deferred tax had been fully provided in 2000 under the liability method, the tax charge for the year would have increased by £0.2 million (1999: £4.1 million).

	2000 £million	1999 £million
Reconciliation of the tax charge:		
Notional tax charge before goodwill amortisation and exceptionals at UK corporation tax rate (2000: 30 per cent, 1999: 30.25 per cent)	**17.5**	15.5
Recoverable ACT	**(4.6)**	(1.0)
Differences in overseas effective tax rates	**2.2**	3.9
Benefit of US goodwill	**(6.0)**	(5.7)
Overseas tax losses (relieved)/unrelieved	**(0.3)**	0.4
Other current tax items	**0.6**	0.2
Deferred tax not provided on excess capital allowances and other timing differences	**(1.2)**	(2.0)
	8.2	11.3
Tax credit on exceptionals	**(0.4)**	(0.8)
	7.8	10.5

7 Dividends

	Pence per share	2000 £million	Pence per share	1999 £million
Interim dividends on ordinary shares – paid	-	-	2.0	8.6
Dividends on redeemable B shares (non-equity) – charge	-	**0.1**	-	-

8 Earnings per ordinary share

	2000			1999		
	Profit for the financial year*	Weighted average number of shares	Earnings per share	Profit for the financial year*	Weighted average number of shares	Earnings per share
	£million	million	pence	£million	million	pence
Basic earnings per share	**34.1**	**431.5**	**7.9**	20.0	431.5	4.6
Share options	-	**2.6**	-	-	1.8	-
Diluted earnings per share	**34.1**	**434.1**	**7.9**	20.0	433.3	4.6
Basic earnings per share	**34.1**	**431.5**	**7.9**	20.0	431.5	4.6
Goodwill amortisation	**13.3**	-	**3.1**	12.5	-	2.9
Exceptionals net of taxation	**2.6**	-	**0.6**	7.7	-	1.8
Basic earnings per share before goodwill amortisation and exceptionals	**50.0**	**431.5**	**11.6**	40.2	431.5	9.3
Share options	-	**2.6**	**(0.1)**	-	1.8	-
Diluted earnings per share before goodwill amortisation and exceptionals	**50.0**	**434.1**	**11.5**	40.2	433.3	9.3

* after non-equity dividends

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 loss of £1.6 million (1999: profit of £61.7 million) is dealt with in the financial statements of the Company.

10 Fees paid to auditors

	Group		Company	
	2000 £million	1999 £million	2000 £million	1999 £million
Audit fees and expenses	**0.4**	0.5	-	-
Other fees paid to the Company's auditors:				
United Kingdom	**0.5**	0.9	-	-
Overseas	**0.4**	0.5	-	-
	0.9	1.4	-	-
Analysis of other fees by type of service:				
Accounting	**0.3**	0.4	-	-
Tax	**0.6**	1.0	-	-
	0.9	1.4	-	-

Notes to the financial statements
Continued

11 Employees

	2000 £million	1999 £million
Employee costs:		
Wages and salaries	**86.3**	83.7
Social security costs	**7.3**	7.1
Pension costs (including other post-retirement costs)	**2.1**	2.2
	95.7	93.0

	2000 Number	1999 Number
Average number of persons employed:		
Chromium	**506**	608
Pigments & Specialties	**1,193**	1,319
Chemical Distribution	**452**	458
Specialty Rubber	**820**	895
	2,971	3,280

12 Directors' emoluments

	2000 £'000	1999 £'000
Executive directors:		
Salaries	**922**	806
Bonuses	**292**	-
Benefits	**33**	154
Compensation for loss of office	**336**	-
Other payments	**236**	-
	1,819	960
Chairman	**150**	150
Non-executive Directors	**57**	65
	2,026	1,175

Detailed information on directors' emoluments, including performance related bonuses and long-term incentives, is provided in the Board report on remuneration.

13 Related party transactions

The following related party transactions were entered into during 2000 in the ordinary course of business:
Elementis Specialties Inc purchased raw materials at a cost of £7.4 million (1999: £5.5 million) from Enenco Inc, an associated undertaking.
The balance payable at 31 December 2000 was £0.6 million (1999: £2.1 million).

14 Goodwill

	£million
Group	
Cost	
At 1 January 2000	**249.5**
Currency translation differences	**18.3**
At 31 December 2000	**267.8**
Amortisation	
At 1 January 2000	**24.0**
Charge for the year	**13.3**
Currency translation differences	**1.7**
At 31 December 2000	**39.0**
Net book value	
At 31 December 2000	**228.8**
At 31 December 1999	225.5

15 Tangible fixed assets

	Land & buildings £million	Plant & machinery £million	Fixtures, fittings, tools & equipment £million	Under construction £million	Total £million
Group					
Cost					
At 1 January 2000	**101.6**	**275.8**	**27.0**	**33.2**	**437.6**
Additions	**0.7**	**2.3**	**1.0**	**15.6**	**19.6**
Disposals	**(0.8)**	**(25.5)**	**(3.5)**	**-**	**(29.8)**
Transfers	**3.8**	**41.9**	**1.1**	**(46.8)**	**-**
Currency translation differences	**5.2**	**11.6**	**1.3**	**1.9**	**20.0**
At 31 December 2000	**110.5**	**306.1**	**26.9**	**3.9**	**447.4**
Depreciation					
At 1 January 2000	**49.8**	**181.8**	**23.3**	**-**	**254.9**
Charge for the year	**3.2**	**12.5**	**1.8**	**-**	**17.5**
Reclassification	**-**	**1.1**	**(1.1)**	**-**	**-**
Disposals	**(0.4)**	**(25.2)**	**(3.2)**	**-**	**(28.8)**
Currency translation differences	**2.9**	**7.7**	**1.1**	**-**	**11.7**
At 31 December 2000	**55.5**	**177.9**	**21.9**	**-**	**255.3**
Net book value					
At 31 December 2000	**55.0**	**128.2**	**5.0**	**3.9**	**192.1**
At 31 December 1999	51.8	94.0	3.7	33.2	182.7

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

	Group	
	2000 £million	1999 £million
Freehold property	**104.0**	98.7
Property on long leases (over 50 years unexpired)	**-**	2.0
Property on short leases	**6.5**	0.9
	110.5	101.6

Notes to the financial statements
Continued

15 Tangible fixed assets (continued)

Analysis of additions:

	Group 2000 £million	Group 1999 £million
Chromium	**10.3**	26.3
Pigments & Specialties	**7.2**	17.0
Specialty Rubber	**2.1**	1.9
	19.6	45.2

During the year £0.2 million (1999: £nil million) was released to the profit and loss account in respect of government grants received.

16 Investments

	Unlisted shares at cost £million	Post acquisition results £million	Total £million
Group			
Associated undertakings			
At 1 January 2000	**1.6**	**0.2**	**1.8**
Retained profits	-	**0.1**	**0.1**
Currency translation differences	**0.1**	-	**0.1**
At 31 December 2000	**1.7**	**0.3**	**2.0**

	Unlisted loans £million	Unlisted shares at cost £million	Total £million
Company			
Subsidiary undertakings			
At 1 January 2000	-	**959.0**	**959.0**
Write down of investment	-	**(200.0)**	**(200.0)**
Additions	**759.0**	**0.1**	**759.1**
Disposals	-	**(759.0)**	**(759.0)**
At 31 December 2000	**759.0**	**0.1**	**759.1**

The Company's investment in Elementis Holdings Limited was written down following the waiver of £200.0 million of amounts owed by Elementis Holdings Limited to the Company.

During the year, the Company's direct investment in Elementis Holdings Limited, a wholly owned subsidiary, was sold to Elementis Group Limited, an indirect wholly owned subsidiary, in exchange for unlisted loans of £759.0 million.

The investment in unlisted shares is in Elementis Group BV, 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	
	2000	1999
	£million	£million
Raw materials and consumables	**13.7**	15.9
Work in progress	**6.7**	7.1
Finished goods and goods purchased for resale	**56.3**	48.6
	76.7	71.6

18 Debtors

	Group		Company	
	2000	1999	2000	1999
	£million	£million	£million	£million
Trade debtors	**86.4**	80.6	**-**	-
Corporate tax recoverable	**-**	0.3	**1.6**	1.1
ACT recoverable	**1.2**	3.6	**-**	-
Other debtors	**15.2**	16.0	**-**	-
Prepayments and accrued income	**6.4**	4.4	**-**	-
	109.2	104.9	**1.6**	1.1

Other debtors for the Group include £1.2 million (1999: £0.4 million) falling due after more than one year.

19 Creditors: amounts falling due within one year

	Group		Company	
	2000	1999	2000	1999
	£million	£million	£million	£million
Trade creditors	**59.7**	49.7	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**1.1**	-
Amounts owed to associated undertakings	**0.6**	2.1	**-**	-
Corporate tax payable	**19.0**	18.9	**-**	-
Other taxes and social security	**0.9**	0.9	**0.2**	-
Other creditors	**11.3**	18.0	**-**	-
Accruals and deferred income	**14.7**	19.8	**0.3**	0.4
	106.2	109.4	**1.6**	0.4

20 Financial instruments

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures. Policies in respect of financial investments are contained within the Treasury section of the financial review.

(a) Cash at bank and in hand

	Group	
	2000 £million	1999 £million
Sterling cash deposits	**32.0**	56.3
US dollar cash deposits	**5.0**	5.4
Cash at bank	**14.2**	18.2
	51.2	79.9

Sterling and US dollar 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		Company	
	2000 £million	1999 £million	2000 £million	1999 £million
Borrowings repayable within one year	**7.3**	11.2	**6.5**	7.7
Borrowings repayable after one year	**85.6**	114.2	**-**	-
	92.9	125.4	**6.5**	7.7
Bank borrowings – repayable				
In one year or less, or on demand	**0.8**	1.6	**-**	-
In more than two and less than five years	**85.6**	114.2	**-**	-
	86.4	115.8		
Borrowings other than bank borrowings				
Loan notes	**6.5**	7.7	**6.5**	7.7
Other unsecured	**-**	1.9	**-**	-
	6.5	9.6	**6.5**	7.7

Bank borrowings are unsecured.

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.

The Group had undrawn committed facilities available to it at 31 December 2000 of £164.0 million (1999: £135.1 million); these expire in more than two years, and less than five years.

Currency and interest rate profile of the Group at 31 December was:

Currency	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years	Fixed rate £million	Floating rate £million	2000 Total £million
Sterling	**-**	**-**	**-**	**6.9**	**6.9**
US dollar	**6.8**	**0.4**	**40.3**	**26.4**	**66.7**
Euro bloc	**-**	**-**	**-**	**19.2**	**19.2**
Other	**-**	**-**	**-**	**0.1**	**0.1**
		0.4	**40.3**	**52.6**	**92.9**

20 Financial instruments (continued)

(b) Borrowings (continued)

Currency	Weighted average fixed interest rate %	Weighted average period for which rate is fixed years	Fixed rate £million	Floating rate £million	1999 Total £million
Sterling	11.0	0.8	1.9	7.7	9.6
US dollar	6.8	1.4	37.3	59.3	96.6
Euro bloc	-	-	-	18.9	18.9
Other	-	-	-	0.3	0.3
		1.4	39.2	86.2	125.4

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 for the Group and the Company at 31 December 2000 was approximately equal to the book value at that date.The fair value of interest rate swaps held by the Group for hedging purposes was £nil at 31 December 2000 (1999: £0.1 million adverse). Movements in unrecognised gains/(losses) on hedges during the year were:

	£million
Unrecognised losses on hedges at 1 January 2000	**(0.1)**
Gains arising during the year	**0.1**
Unrecognised gains/(losses) on hedges at 31 December 2000	-

(d) Monetary assets and liabilities

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

	Sterling £million	US dollar £million	Euro bloc £million	Other £million	2000 Total £million
Functional currency					
Sterling	**-**	**2.2**	**7.2**	**0.2**	**9.6**
US dollar	**-**	-	**-**	-	-
Euro bloc	-	-	**-**	-	**-**
Other	**-**	**2.4**	-	-	**2.4**
	-	**4.6**	**7.2**	**0.2**	**12.0**

	Sterling £million	US dollar £million	Euro bloc £million	Other £million	1999 Total £million
Functional currency					
Sterling	-	3.8	3.5	0.3	7.6
US dollar	-	-	-	0.2	0.2
Euro bloc	-	-	-	-	-
Other	(0.4)	0.1	-	0.3	-
	(0.4)	3.9	3.5	0.8	7.8

Notes to the financial statements

Continued

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 2000	**0.2**	**15.1**	**24.1**	**3.4**	**5.3**	**48.1**
Charge to profit and loss account	**2.6**	**2.1**	**0.4**	**3.7**	**1.4**	**10.2**
Utilised during the year	-	**(4.0)**	**(4.2)**	**(4.5)**	**(1.9)**	**(14.6)**
Currency translation differences	-	**1.0**	**1.6**	-	**0.3**	**2.9**
At 31 December 2000	**2.8**	**14.2**	**21.9**	**2.6**	**5.1**	**46.6**
Company						
At 1 January 2000	-	**0.3**	-	-	-	**0.3**
Charge to profit and loss account	-	**1.0**	-	-	-	**1.0**
Utilised during the year	-	**(1.0)**	-	-	-	**(1.0)**
At 31 December 2000	-	**0.3**	-	-	-	**0.3**

Environmental provisions at 31 December 2000 relate to chemical manufacturing and distribution sites including certain sites no longer owned by the Group; these provisions have been made where the Group believes that it is probable that expenditure will be incurred and have been derived using a discounted cash flow methodology. Restructuring provisions at 31 December 2000 relate to Pigments & Specialties and Specialty Rubber. Self insurance provisions at 31 December 2000 represent the aggregate of outstanding claims plus a projection of losses incurred but not reported. Restructuring and self insurance provisions are expected to be utilised over a five year period.

Deferred tax provision comprises:

	2000 £million	1999 £million
Accelerated capital allowances	**3.8**	2.0
Other timing differences	**(1.0)**	(1.8)
	2.8	0.2

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:

	2000 £million	1999 £million
Amount arising from accelerated capital allowances and other timing differences	**8.5**	3.8
Advance corporation tax recoverable	**(5.4)**	(0.9)
	3.1	2.9

At 31 December 2000 the full amount of surplus ACT previously written off, available for offset against future UK profits, was £18.5 million (1999: £23.7 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 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 or are unfunded but with provisions maintained on the Group balance sheet. The total cost of post-retirement health care and pensions to the Group was £2.1 million (1999: £2.2 million), of which £3.3 million (1999: £3.1 million) related to overseas schemes, and which included a credit of £4.0 million (1999: £4.0 million) for variations from regular pension costs in respect of the amortisation of a surplus arising on the main UK scheme.

At 31 December 2000, provisions for liabilities and charges include provisions of £0.3 million (1999: £2.8 million) in respect of the Group's UK pension arrangements, £1.3 million (1999: £0.7 million) in respect of overseas pension schemes and £12.6 million (1999: £11.6 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. An actuarial valuation of the Scheme was undertaken as at 30 September 1999 using the projected unit method. The pension charge for 2000 is based on the results of this actuarial valuation. In carrying out the valuations, separate investment assumptions were made for gilt and equity based investments. These two types of investments were assumed to back different parts of the Scheme's liabilities. The principal actuarial assumptions used were that the return on equity investments would exceed the return on gilts by 2.25 per cent per annum. The assumption for the return on gilts was derived from prevailing market yields and was taken as 5.9 per cent per annum for terms up to 10 years and 5.1 per cent per annum for longer terms. Salaries were assumed to increase at 4.9 per cent per annum, inflation to average 2.9 per cent per annum and present and future pensions to increase at 2.9 per cent per annum. Assets were taken at market value. The valuation takes full account of the removal of tax credits on UK equity dividends.

At the date of this valuation, the market value of the Scheme's assets was £474 million; of which £130 million relates to pension assets to be transferred out in respect of historic business disposals and £3 million relates to money purchase benefits. The balance of £341 million has been used for the purposes of the actuarial valuation and is sufficient to cover 108 per cent of the benefits that had accrued to members after allowing for expected future increases in salaries.

The surplus as calculated by the actuaries is being amortised on a straight line basis over a period of 12 years, being 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 schemes are funded defined benefit schemes in the US. The most recent actuarial valuation of that scheme was made at 1 January 2000 using the projected unit credit method and based on assumptions of investment returns of 8.0 per cent per annum and of weighted average salary increases of 4.7 per cent per annum. There are no increases in pensions in payment post retirement. The most recent actuarial valuation has been projected to 31 December 2000. At that date, the market value of the Scheme's assets was £52.3 million, which is sufficient to cover 103 per cent of the benefits that had accrued to members after allowing for expected future increases in salaries.

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 2000, approximately 789 (1999: 1,051) current and retired employees were potentially eligible to receive benefits. The cost to the Group in 2000 was £0.8 million (1999: £0.4 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 7.25 per cent. The Group funds the post retirement benefits when incurred.

Notes to the financial statements
Continued

23 Operating leases

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

	Land and buildings		Other	
	2000 £million	1999 £million	2000 £million	1999 £million
Leases terminating:				
Within one year	**0.9**	0.3	**0.6**	0.5
Between one and five years	**1.2**	1.0	**2.2**	3.0
After five years	**0.7**	2.0	**0.3**	0.2
	2.8	3.3	**3.1**	3.7

Operating lease rentals charged to the profit and loss account in the year amounted to £5.2 million (1999: £6.1 million), including £3.0 million (1999: £2.2 million) for plant and machinery.

24 Share capital and reserves

	Issued and fully paid ordinary share capital £million	Issued and fully paid B share capital £million	Share premium account £million	Capital redemption reserve £million	Profit & loss account £million	Total £million
Group						
At 1 January 2000	**21.6**	-	**1.1**	-	**357.7**	**380.4**
Retained profit for the year	-	-	-	-	**34.1**	**34.1**
Currency translation differences	-	-	-	-	**19.4**	**19.4**
Taxation on currency translation differences on foreign currency borrowings	-	-	-	-	**(2.0)**	**(2.0)**
Issue of B shares	-	**22.4**	-	-	**(22.7)**	**(0.3)**
Redemption of B shares	-	**(20.4)**	-	**20.4**	**(20.4)**	**(20.4)**
At 31 December 2000	**21.6**	**2.0**	**1.1**	**20.4**	**366.1**	**411.2**

At 31 December 2000, the cumulative amount of goodwill written off to reserves for businesses acquired prior to 1 January 1998 amounted to £56.0 million (1999: £56.0 million).

	Issued and fully paid ordinary share capital £million	Issued and fully paid B share capital £million	Share premium account £million	Capital redemption reserve £million	Other reserves £million	Profit & loss account £million	Total £million
Company							
At 1 January 2000	**21.6**	-	**1.1**	-	**534.4**	**89.7**	**646.8**
Retained loss for the year	-	-	-	-	-	**(1.7)**	**(1.7)**
Write down of investment	-	-	-	-	**(200.0)**	**200.0**	-
Issue of B shares	-	**22.4**	-	-	**(22.7)**	-	**(0.3)**
Redemption of B shares	-	**(20.4)**	-	**20.4**	-	**(20.4)**	**(20.4)**
At 31 December 2000	**21.6**	**2.0**	**1.1**	**20.4**	**311.7**	**267.6**	**624.4**

The authorised share capital of the Company at 31 December 2000 was £32.0 million (1999: £32.0 million) in 5 pence ordinary shares and £125 million (1999: nil) in 1 penny redeemable B shares.

The allotted, called up and fully paid 5 pence ordinary shares comprise:

	Number '000	Share capital £million
At 1 January 2000 and 31 December 2000	**431,463**	**21.6**

24 Share capital and reserves (continued)

The allotted, called up and fully paid 1 penny redeemable B shares comprise:

	Number '000	B share capital £million
At 1 January 2000	-	-
Issue of B shares	2,243,626	22.4
Redemption of B shares	(2,037,706)	(20.4)
At 31 December 2000	205,920	2.0

On 2 May 2000, 1,337,544,542 redeemable B shares were issued to ordinary shareholders at the rate of 3.1 redeemable B shares for every 1 ordinary share held. On 2 November 2000, 906,081,873 redeemable B shares were issued to ordinary shareholders at a rate of 2.1 redeemable B shares for every 1 ordinary share held.

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

Holders of redeemable B shares were given the opportunity to redeem their shares on 2 May 2000 and 2 November 2000. As a result, 2,037,706,902 (91 per cent of the total issued) redeemable B shares were purchased for cash at their nominal value of 1 penny (£20.4 million in value) and cancelled.

At 31 December 2000, certain directors and employees held the following options to subscribe for ordinary shares of 5 pence each:

	Price per share	2000 Number	1999 Number
Share option scheme 1987 normally exercisable between:			
30 April 1994 and 30 April 2001	153.7p	**265,589**	384,372
1 May 1995 and 1 May 2002	119.1p	**249,969**	328,350
11 May 1996 and 11 May 2003	168.5p	**291,916**	371,006
13 September 1997 and 13 September 2004	184.8p	**399,852**	487,177
19 September 1998 and 19 September 2005	152.5p	**232,321**	275,219
5 November 1999 and 5 November 2006	132.8p	**259,456**	265,174
		1,699,103	2,111,298
Share option scheme 1998 normally exercisable between:			
6 April 2001 and 6 April 2008	137.0p	**202,950**	313,749
15 September 2001 and 15 September 2008	86.0p	**218,022**	218,022
1 April 2002 and 1 April 2009	92.8p	**490,666**	619,850
31 March 2003 and 31 March 2010	69.5p	**3,156,220**	-
		4,067,858	1,151,621
UK savings-related share option scheme 1989 exercisable within six months of:			
1 November 1998 or 1 November 2000	154.3p	**605**	31,023
1 November 1999 or 1 November 2001	147.2p	**42,474**	103,981
1 January 2000 or 1 January 2002	111.4p	**107,980**	315,159
1 November 2000 or 1 November 2002	123.6p	**50,647**	153,212
		201,706	603,375
UK savings-related share option scheme 1998 exercisable within six months of:			
1 November 2001 or 1 November 2003	94.2p	**237,640**	470,293
1 December 2002 or 1 December 2004	93.4p	**190,644**	377,820
1 June 2003 or 1 June 2005	53.4p	**1,328,645**	-
		1,756,929	848,113
US savings-related share option scheme exercisable within three months of:			
10 April 2002	80.0p	**882,776**	-
Performance Share Plan exercisable between:			
1 January 2000 and 9 May 2004	1.0p	-	264,288
1 January 2001 and 2 May 2005	1.0p	**274,747**	543,698
1 January 2002 and 14 October 2006	1.0p	**694,476**	955,413
1 January 2003 and 11 April 2007	1.0p	**933,900**	-
		1,903,123	1,763,399

24 Share capital and reserves (continued)

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

The UK savings-related share option schemes 1989 and 1998 are schemes under which UK employees can enter into savings contracts with a building society or bank for a period of three or five years and use the proceeds from their savings accounts to purchase shares in the Company on the exercise of their options. The option price is the average market price over the five working days preceding the grant, discounted by a maximum of 20 per cent.

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

Details of the Performance Share Plan are shown in the Board report on remuneration.

25 Capital commitments
Group capital expenditure contracted but not provided for in these financial statements amounted to £2.4 million (1999: £2.5 million).

26 Contingent liabilities
The Group was notified of a potential warranty claim in 1998, under the contract for the sale of Pauls Malt Limited, relating to export refunds from the Intervention Board for Agricultural Produce. Should such a claim materialise, this will be vigorously defended and, in any event, in the opinion of the directors, this will not have a significant effect on the financial position of the Group.

27 Cash flow statement

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

	2000 £million	1999 £million
Cash inflow before use of liquid resources and financing	**32.4**	9.6
Redemption B shares (including issue costs)	**(20.7)**	-
Currency translation differences	**(7.9)**	(7.1)
Decrease in net borrowings	**3.8**	2.5

(b) Financing and management of liquid resources

	2000 £million	1999 £million
Financing		
Redemption of B shares (including issue costs)	**(20.7)**	-
Loan notes redeemed	**(3.1)**	(1.3)
Decrease in borrowings repayable within one year	-	(6.3)
Decrease in borrowings repayable after one year	**(37.3)**	(140.1)
	(61.1)	(147.7)
Management of liquid resources		
New cash deposits	**(0.1)**	(5.4)
Repayment of cash deposits	**25.5**	151.4
	25.4	146.0
Total financing and management of liquid resources	**(35.7)**	(1.7)

Redeemable B shares of nominal value £22.4 million were issued for nil consideration during the year (1999: nil).

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

	2000 £million	1999 £million
Change in net borrowings resulting from cash flows:		
(Decrease)/increase in cash in the period	**(3.3)**	7.9
Decrease in borrowings	**40.4**	147.7
Decrease in liquid resources	**(25.4)**	(146.0)
	11.7	9.6
Currency translation differences	**(7.9)**	(7.1)
Decrease in net borrowings	**3.8**	2.5
Net borrowings beginning of the financial year	**(45.5)**	(48.0)
Net borrowings at end of the financial year	**(41.7)**	(45.5)

Notes to the financial statements

Continued

27 Cash flow statement (continued)

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

	1 January 2000 £million	Cash flow £million	Currency translation differences £million	31 December 2000 £million
Net cash repayable on demand	16.6	**(3.3)**	**0.1**	**13.4**
Repayable within one year:				
Cash deposits	61.7	**(25.4)**	**0.7**	**37.0**
Borrowings	(9.6)	**3.1**	-	**(6.5)**
Repayable after one year:				
Borrowings	(114.2)	**37.3**	**(8.7)**	**(85.6)**
Net (borrowings)/cash	(45.5)	**11.7**	**(7.9)**	**(41.7)**

(e) (Borrowings)/cash repayable on demand

	2000 £million	1999 £million	Change in year £million
Cash at bank and in hand	**51.2**	79.9	**(28.7)**
Bank borrowings repayable within one year	**(0.8)**	(1.6)	**0.8**
Other borrowings repayable within one year	**(6.5)**	(9.6)	**3.1**
	43.9	68.7	**(24.8)**
Borrowings and deposits repayable within one year not repayable on demand:			
Bank deposits	**(37.0)**	(61.7)	**24.7**
Other borrowings	**6.5**	9.6	**(3.1)**
Net cash repayable on demand	**13.4**	16.6	**(3.2)**
Currency translation differences			**(0.1)**
Decrease in cash per cash flow statement			**(3.3)**

28 Principal trading investments

		Country of incorporation and operation
Subsidiary undertakings		
Elementis UK Limited trading as:		United Kingdom
Elementis Chromium	Chromium chemicals	
Elementis Pigments	Synthetic iron oxide pigments, chromic oxide pigments, carboxylates, catalysts, zinc products	
Elementis Specialties	Rheological additives, colourants, waxes, other specialty additives	
Linatex Limited (with fellow Linatex subsidiaries trading in the Netherlands, Malaysia, South Africa, Australia and Belgium)	Abrasion-resistant rubber: sheet, mouldings, fabricated products, lining, screens	United Kingdom
Elementis Chromium LP	Chromium chemicals	United States of America
Elementis Pigments Inc	Synthetic iron oxide pigments, chromic oxide pigments	United States of America
Elementis Specialties Inc	Rheological additives, colourants, waxes, other specialty additives	United States of America
Harcros Chemicals Inc	Chemical distribution	United States of America
Linatex Corporation of America Inc	Abrasion-resistant rubber: sheet, mouldings, fabricated products, lining, screens	United States of America

Notes:

1 None of the undertakings are held directly by the Company.
2 Equity capital is in ordinary shares, wholly-owned and voting rights equate to equity ownership.
3 All undertakings listed above have accounting periods ending 31 December.
4 Undertakings operating in the United Kingdom are incorporated in Great Britain and registered in England and Wales. In the case of corporate undertakings other than in the United Kingdom their country of operation is also their country of incorporation.
5 All undertakings listed above have been included in the consolidated financial statements of the Group for the year.

Elementis at a glance

Chromium

	£million
Sales[1]	131.7
Operating profit[2]	23.7
Capital employed[4]	122.1

Number of employees at year end 492

Business
Elementis Chromium

Global headquarters
Eaglescliffe, Stockton-on-Tees, UK

Principal products
Dichromate
Chrome sulphate
Chromic acid
Chromic oxide
Chromic hydrate
Sodium sulphate

Principal markets
Leather tanning
Timber treatment
Metal finishing
Metal alloys
Ceramics
Magnetic media

Growth drivers
Market share growth underpinned by significant capital investment programme
Environmental excellence
Price/cost competitiveness

Pigments & Specialties

	£million
Sales	234.9
Operating profit[3]	31.1
Capital employed[4]	349.9

Number of employees at year end 1,153

Business
Elementis Pigments

Global headquarters
Fairview Heights, Illinois, US

Principal products
Iron oxide pigments
Chromic oxide pigments
Carboxylates
Catalysts
Zinc products

Principal markets
Coatings
Construction
Chemicals
Automotive
Consumer products

Growth drivers
Globalisation of customer base
Niche product development
Customer service

Business
Elementis Specialties

Global headquarters
Hightstown, New Jersey, US

Principal products
Rheological additives
Colourants
Waxes
Other specialty additives

Principal markets
Coatings
Oil drilling
Inks
Personal care
Adhesives

Growth drivers
Customer service
Globalisation of customer base
Growth of water based additives
Product innovation

1 before elimination of inter-group sales
2 before exceptionals
3 before goodwill amortisation and exceptionals
4 at year end before unallocated liabilities

Chemical Distribution

	£million
Sales	160.0
Operating profit	6.0
Capital employed[4]	7.6

Number of employees at year end 440

Business
Harcros Chemicals

Global headquarters
Kansas City, Kansas, US

Principal products
General chemicals including:
Caustic soda
Surfactants
Chlorine
Acids

Principal markets
General chemicals including:
Chemical manufacturing
Water & utilities

Growth drivers
Location
Customer service
Price/cost competitiveness

Specialty Rubber

	£million
Sales	54.1
Operating profit[2]	2.6
Capital employed[4]	23.7

Number of employees at year end 719

Businesses
Linatex, Bergmann

Global headquarters
Yateley, Hampshire, UK

Principal products
Abrasion-resistant rubber:
Sheet
Mouldings
Fabricated products
Linings
Screens

Principal markets
Minerals processing
Sand & gravel
Defence & security
Transportation

Growth drivers
Product quality and cost effectiveness
Customer service
Product innovation

Our group

Elementis is an international specialty chemicals group. 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 while preserving the integrity of its commitment to the health and safety of employees, their communities and the environment.

Our markets

Elementis has leading positions in its chosen areas of expertise

- → Elementis Chromium is the world's largest producer of chromium chemicals
- → Elementis Pigments is a world leading producer of synthetic iron oxide pigments
- → Elementis Specialties is a world leading producer of rheological additives
- → Linatex is a leading brand of abrasion resistant rubber

Financial highlights

- → Sales up 7 per cent to £573.8 million
- → Operating profit up 12 per cent to £63.5 million*
- → Profit before tax up 14 per cent to £58.4 million*
- → Earnings per share up 25 per cent to 11.6 pence*
- → Net year end borrowings down £3.8 million to £41.7 million

* before goodwill amortisation and exceptionals

Sales by division**

1 Chromium 22%
2 Pigments & Specialties 41%
3 Chemical Distribution 28%
4 Specialty Rubber 9%

** after elimination of inter-group sales

Group operating profit by division*

1 Chromium 37%
2 Pigments & Specialties 49%
3 Chemical Distribution 10%
4 Specialty Rubber 4%

* before goodwill amortisation and exceptionals

Chairman's statement

"The 2000 results clearly demonstrate that the Group-wide focus on business re-engineering, launched in 1999, is delivering enhanced financial performance."

Jonathan Fry
Chairman
28 February 2001

Overview and financial results
The 2000 results clearly demonstrate that the Group-wide focus on business re-engineering, launched in 1999, is delivering enhanced financial performance.

Sales growth is being driven through customer focus and innovation. The Group's lower cost base and improved health and safety performance are direct results of the operational excellence programme.

Overall market conditions improved during the period with a number of Asian economies continuing their recovery, but competition remains aggressive.

In the Group's Interim Report 2000, concerns were expressed relating to rising energy costs and also the weakness of the euro. Since then, the adverse energy price trend has continued; US gas prices quadrupled over the course of the year. Average exchange rates for the US dollar and sterling, our key manufacturing currencies, strengthened against the euro by 15 per cent and 8 per cent respectively over the course of the year.

Operating profit before goodwill amortisation and exceptionals was £63.5 million, up 12 per cent on 1999. Operating profit on the same basis for the second half of 2000 was £31.3 million, up 7 per cent on the second half of 1999. Energy cost increases adversely impacted operating profit by around £4.5 million compared to 1999. Currency transaction and translation adversely impacted operating profit by around £0.5 million.

Profit before goodwill amortisation, exceptionals and tax was £58.4 million, up 14 per cent on 1999. Basic earnings per share before goodwill amortisation and exceptionals increased by 25 per cent to 11.6 pence.

Net exceptional charges before tax were £3.0 million (1999: £8.7 million). Net cash inflow from operating activities was £58.4 million (1999: £74.1 million). Net borrowings at the year end were £41.7 million (1999: £45.5 million).

Dividends and issue of redeemable B shares
The Board did not declare an interim dividend and, similarly, is not proposing a final dividend. Instead, it will continue with the programme, started in 2000, of issuing and redeeming redeemable B shares. The total nominal value of redeemable B shares issued to shareholders during 2000 was 5.2 pence per ordinary share. The Board intends to issue further redeemable B shares to ordinary shareholders on the register on 26 April 2001, such that they receive redeemable B shares with a total nominal value of 3.3 pence for each ordinary share held. This represents a 6 per cent increase on the comparable issue last year. This will be coupled with an offer to redeem these new shares for cash at their nominal value on 2 May 2001. A further offer will also be made to existing holders of redeemable B shares to redeem these shares for cash at their nominal value on 2 May 2001.

By not paying dividends on ordinary shares during 2000, Elementis will recover £4.6 million of advance corporation tax previously paid. Elementis estimates that it will be able to recover a further £3.6 million of advance corporation tax by not paying a final dividend for 2000.

A circular providing full details of the issue and redemption of redeemable B shares will be posted to all ordinary shareholders on 21 March 2001.

Health, safety and the environment
The focus on health, safety and the environment continues throughout the Group. Compared to 1999, lost time accident frequency reduced by 2 per cent although disappointingly, non-compliance with environmental consents rose by two to 19; this received additional management attention in the second half.

Employees
The Elementis culture continues to develop, driven by open communication and strong leadership. This is delivering operational benefits as well as providing a stimulating and responsive environment for employees.

I would like to take this opportunity to thank everyone throughout Elementis for their commitment and support during a year of continuing change.

The Board
In July, the Board was strengthened by the appointment of Philip Brown, Company Secretary, as an executive director and Rick McNeel as a non-executive director. Philip joined the Group in 1992 and played a major role in the corporate restructuring that created Elementis plc in 1998. Rick, a US citizen based in the UK, is Group Vice President responsible for Intermediaries and Fabrications within the chemical business of BP Amoco p.l.c.

Mike Parker stepped down as an executive director in July; his departure followed the decision to strengthen business development functions within individual operating businesses.

Shareholder information
Since the year end, the Elementis website, **www.elementis.com** has been significantly upgraded to provide, inter alia, more comprehensive information for shareholders including share price information, press releases and brokers' forecasts.

Current trading and outlook
Since the year end, sales growth continues to be encouraging, despite concerns over the strength of the US economy.

High energy prices have significantly impacted short-term profitability, particularly in Elementis Chromium.

There is still considerable uncertainty over the future timing and direction of US gas prices. If prices for the remainder of 2001 reflect forward market rates obtainable at the beginning of February, the Board estimates that the Group's energy costs would increase by around £10.0 million compared to 2000. This should be partially mitigated by selective price increases and substantial benefits from the ongoing business improvement projects.

Corporate update
In December 2000, in response to press speculation, the Board confirmed that it had received a speculative approach from a financial buyer concerning potential interest in making an offer for the Company and that the Board was considering the most appropriate means of maximising value for shareholders.

Since that announcement, the Board, together with its recently appointed advisers, Deutsche Bank, have embarked on an in-depth targeted marketing exercise to determine whether it can obtain an offer for the Company which it believes to be in the best interests of shareholders.

The Board will provide shareholders with further information in due course.

Chief Executive's report

"Elementis has achieved an impressive year on year financial performance. Over the last two years, improved business results have been driven by key processes covering operational excellence, innovation, customer focus and human resources."

"These processes are measured by Group-wide and business specific key performance indicators and continue to form the basis of all business improvement projects."

Lyndon Cole
Group Chief Executive

Divisional highlights
for the year ended 31 December 2000

	2000	2000	1999	1999
	Sales	Operating profit*	Sales	Operating profit*
	£million	£million	£million	£million
Chromium	**131.7**	**23.7**	118.2	20.3
Pigments & Specialties	**234.9**	**31.1**	222.9	28.5
Chemical Distribution	**160.0**	**6.0**	144.5	5.5
Specialty Rubber	**54.1**	**2.6**	54.9	2.4
Associates	**–**	**0.1**	–	0.1
Inter-group	**(6.9)**	**–**	(5.4)	–
	573.8	**63.5**	535.1	56.8

* before goodwill amortisation and exceptionals

Group-led business improvement projects underway

→ Development of a Group-wide 'data-warehouse'

This information system will enable Elementis sales people, throughout the world, to access and interrogate transaction level sales data using web based browser software.

targeted benefits: better understanding of customer needs, product/market trends and greater sharing of customer information within and across businesses

→ Introduction of improved supply chain management techniques utilising sophisticated forecasting and demand planning software

Implemented in Elementis Specialties and Linatex to date, this project links to a new Group-wide procurement programme designed to further reduce costs.

targeted benefits: improved customer service through higher level of on-time, in full deliveries, improved manufacturing efficiencies and lower inventories

→ Introduction of proven stable manufacturing methodology

Stable manufacturing is a statistically based process that eliminates low production days by determining root causes and taking corrective action. This type of continuous improvement process, used by other world-class companies, will enable Elementis to achieve new levels of operational excellence. It is the first stage of implementing Six Sigma projects to improve business performance, linked to measurable financial results.

Stable manufacturing is led, at Group level, by the recently appointed Vice President of Global Manufacturing. Projects are now underway at every major site across the Group, involving hundreds of people at all levels of the business.

targeted benefits: increased manufacturing capacity, improved customer service, lower costs and reduced inventories

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.

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 gain their commitment to the effective implementation of this policy.

What are our objectives?
- To strive for continuous improvement in health, safety and environmental performance in all aspects of our operations

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

- To minimise the impact of the actions of Elementis on the environment by promoting sustainable development, seeking continual improvement and employment of best practice

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

- To respect our neighbours and ensure that our operations have no discernable impact on the quality of life in the local community

- To continue to emphasise health, safety and environmental performance in the workplace through focusing on human behaviour and risk awareness

- To rigorously analyse the cause of incidents and implement effective corrective actions

How do we provide leadership of health, safety and the environment?
Lyndon Cole, Group Chief Executive, has Board level responsibility for health, safety and environmental (HSE) issues. At operational level, HSE policy is implemented by business managing directors through HSE managers. Additionally, leadership on HSE matters is provided by the Group Vice President of Global Manufacturing.

How are we doing?
HSE reporting
Elementis achieved a further improvement in safety performance as lost time accident frequency reduced by 2 per cent year on year to 0.5, the sixth successive year of improvement.

Disappointingly, non-compliance with environmental consents rose by two to 19 during the year, although these were all localised incidents.

A new incident investigation reporting system was piloted at Elementis Specialties at Belleville, New Jersey, US and, since the year end, at Elementis Chromium at Eaglescliffe, UK. This provides a more detailed analysis of the causes of reportable incidents and 'near misses' and will be rolled out to other locations during the first half of 2001.

Sustainable development
Elementis is working towards making more efficient use of resources, including energy. A range of activities is being undertaken at operational level to support this.

During the year, Elementis Specialties in Livingston, Scotland developed two schemes to re-use clay waste products; hectorite clay waste is a useful source of potash and lime and is now used to assist in remediation of agricultural land and bentonite clay waste is used to provide impermeable lining for landfill sites.

At Linatex, a new continuous rubber plant in Malaysia was commissioned which eliminates all effluent associated with the old production process.

Elementis Chromium at Eaglescliffe is undertaking research programmes addressing waste minimisation and practical end uses for residue.

Product stewardship
Elementis undertakes life cycle analysis, risk management assessment and waste disposal for certain products and customers and works with relevant industry associations to share expertise and best practice.

Elementis Chromium places particular emphasis on its programme of product stewardship to ensure best handling of chromium chemicals.

Employee involvement
Elementis Chromium at Eaglescliffe, UK received the Institute of Environmental Health's Green Apple Award for environmental work by volunteers at its Ecology Site for the third consecutive year. During the year over 2000 local school children and other groups visited the site.

'three day LTA/100,000 hours worked frequency for continuing operations

Business review

Chromium

Sales	£131.7 million
Operating profit*	£23.7 million

* before exceptionals

Elementis Chromium is the world's largest producer of chromium chemicals.

Operating profit before exceptionals was £23.7 million, a year on year increase of 17 per cent, on sales up 11 per cent to £131.7 million. Operating profit before exceptionals in the second half of 2000 was £11.7 million, up 8 per cent on the second half of 1999.

The business estimates that the global chromium chemicals market has grown modestly in volume terms compared to last year with principal growth coming from chromic acid demand for US timber treatment and metal finishing. The chromic oxide market recovered slowly as the year progressed with demand for metal alloys for land based turbines increasing. Demand for metal alloys for aerospace applications remained low, as predicted. During the year, there have been signs that the Asian leather tanning market for chrome sulphate is starting to recover, although competition strengthened in the second half.

Elementis Chromium sales volume increased to record levels; volume was up 17 per cent year on year, with second half volume up 15 per cent on the comparable period in 1999. Growth was achieved in all product categories, reflecting the product focused sales and marketing strategy introduced in the second half of 1999, which is also delivering good market share growth.

Chromic oxide and chromic acid volume growth were particularly strong, the latter reflecting increasing demand for the superior handling properties of our CA21™ chromic acid product. Over 40 per cent of CA21™ sales were to new chromic acid customers acquired since its launch two years ago.

Average pricing of chromium products was lower than in 1999 as a result of a more competitive pricing policy to grow market share, aggressive competition and the impact of currency. Compared to 1999, the base currencies of major competitors in the Former Soviet Union and South Africa were significantly weaker against the US dollar.

The new kiln at Corpus Christi, Texas was successfully brought on stream; the rotary hearth it replaced was shut down in July. Plans are being developed to increase capacity by de-bottlenecking downstream processes. Annualised cost savings from the new kiln, as previously announced, are £2.0 million, which brings the total annualised cost savings achieved within Elementis Chromium over the twelve month period to June 2000 to £6.0 million.

The expanded pure salt plant at Eaglescliffe, UK was commissioned in the second quarter, further enhancing environmental performance. Sodium sulphate sales volumes increased year on year but trading conditions became more difficult in the second half.

In the Group's Interim Report 2000, concerns were expressed relating to rising energy costs. Since then, the adverse energy price trend has continued; US spot gas prices quadrupled during the course of the year. This rise was partly mitigated through operation of the new energy efficient kiln and some short-term forward gas purchasing. Excluding volume increases, energy costs rose year on year by around £3.5 million, of which around £3.0 million was in the second half.

The ratio of trade working capital to sales reduced from 19 per cent at the end of 1999 to 14 per cent at the end of 2000, with inventory down by £0.8 million.

Since the year end, headcount has reduced by 10 per cent following a business process re-engineering exercise at Corpus Christi; the one-off cost of this is around £2.3 million which will be largely recouped over the balance of the year.

The branded chromic acid product CA21™ is used in the metal finishing industry, including chrome plating. Continued volume growth reflects demand for its superior handling properties.

Pigments & Specialties

Sales	£234.9 million
Operating profit*	£31.1 million

* before goodwill amortisation and exceptionals

Elementis Pigments is a world leading producer of synthetic iron oxide pigments. It also produces catalysts, zinc products and carboxylates.

Elementis Specialties is a world leading producer of rheological additives. It also produces colourants, other additives and polymers.

Operating profit before goodwill amortisation and exceptionals was £31.1 million, a year on year increase of 9 per cent, on sales up 5 per cent to £234.9 million. Operating profit before goodwill amortisation and exceptionals in the second half of 2000 was £15.5 million, up 8 per cent on the second half of 1999.

Elementis Pigments

At Elementis Pigments, sales and operating profit before exceptionals both increased. This reflects strong growth of iron oxide sales into the construction market, including granular products, and the benefits of the major restructuring and upgrading programme, partially offset by lower profits on zinc products for the depressed UK market.

Success in marketing higher value added iron oxide pigments continues, with double digit sales growth into the toners and catalysts markets. New product launches during the year include the specialty zinc derivative Decelox™ for use in plastics.

During the first half of the year, the restructuring programme in the UK was completed with the consolidation of the Northampton distribution and administration centre into Birtley, the closure of the anhydrous aluminium chloride production facility at Birtley and the consolidation of the small pigments manufacturing facility in Toronto, Canada into the recently upgraded facility at Easton, US.

Elementis Specialties

At Elementis Specialties, sales and operating profit before goodwill amortisation and exceptionals were similarly both up on 1999, despite the impact of currency. Strong sales growth was achieved in the oil exploration drilling, inks and personal care markets; oil exploration drilling benefited from a continuing market recovery.

In the year, water based additives for coatings grew by around 9 per cent against 1999 and Rheolate® sales increased by 10 per cent. Rheological additives sales growth slowed in the second half of the year. Sales grew in most geographical regions, with sales to Japan more than 50 per cent higher than that achieved in 1999, reflecting the direct and technical sales presence established in May 1999. Performance in Europe was hindered by the relative weakness of the euro.

Key new products launched during 2000:

- Rheolate® 450: a thickener for vinyl acrylic based interior house paints that imparts high film build and good sag and levelling properties
- EA-2734: a pumpable organoclay compound for printing ink developed in response to increasing industry automation
- EA-2947: a heat-resistant organoclay compound for oil drilling fluids used in deep water drilling

The number of customers evaluating zinc oxide products for personal care applications increased significantly over the year. Elementis Specialties has also developed powder derivatives of zinc oxide for use in personal care applications and other products for UV protection in clear wood coatings. A plastic nanocomposite additive, which utilises proprietary clay modification technology, is currently on trial with customers.

In June, the £2.0 million Rheolate® production facility for water based coatings in Livingston, Scotland was completed and commissioned; this enables Elementis Specialties to meet growing worldwide demand for these technically innovative products. Capacity was also increased at Livingston to replace the small high cost production unit in Germany which closed in late 1999.

Costs in Pigments & Specialties reduced by £1.5 million on an annualised basis over the first half of the year, in line with previously announced targets; exceptional restructuring costs were £1.4 million as previously announced.

The ratio of trade working capital to sales increased from 19 per cent at the end of 1999 to 21 per cent at the end of 2000, primarily as a result of higher inventory levels; action is being taken to reverse this trend.

Ferrispec GC™ (granular crystals) from Elementis Pigments is a free flowing, low density granular pigment, used in architectural concrete applications.

Drawdown tests play a vital role in ensuring quality control for Elementis Specialties' coatings customers.

Chemical Distribution

Sales	£160.0 million
Operating profit	£6.0 million

Harcros Chemicals is a major US chemical distribution business; it has 26 depots with strong coverage in the Midwest.

Operating profit was £6.0 million, a year on year increase of 9 per cent, on sales up 11 per cent to £160.0 million. Operating profit in the second half of 2000 was £3.0 million, up 7 per cent on the second half of 1999.

Margins were lower than in 1999, chlorine margins having declined towards the end of that year. Caustic soda and sodium hypochlorite margins declined in the latter part of 2000, input costs being impacted by higher gas prices and low demand for chlorine. Operating costs remained tightly controlled throughout the year.

Volume grew by 5 per cent, driven by strong growth in caustic soda and sodium hypochlorite being partially offset by lower levels of rock salt. Excluding rock salt, volume grew by 6 per cent.

An internet based ordering system was introduced for customers during the year and the vendor managed inventory programme extended to additional customers.

The Harcros Chemicals business is headquartered in Kansas City, US and uses road and rail transport to distribute products.

Specialty Rubber

Sales	£54.1 million
Operating profit*	£2.6 million

* before exceptionals

Linatex is an international manufacturer of specialist rubber based anti-abrasion products and process technology equipment.

Operating profit before exceptionals was £2.6 million, a year on year increase of 8 per cent, on sales 1 per cent lower at £54.1 million. Operating profit before exceptionals in the second half of the year was £1.0 million, compared to £1.2 million in the second half of 1999.

Performance in the minerals processing and industrial rubber business units was largely offset by lower sales and profits on major process technology equipment contracts.

The programme announced a year ago to refocus and simplify the Linatex business on its core specialty rubber capability and profitable sales opportunities was completed ahead of schedule, with the closure of the final site in Montreal in February 2001. During the year, the number of operating sites reduced from 25 to 13, headcount by 128 and annualised costs by over £3.0 million. Additional headcount reductions in excess of 50 are planned for the first quarter of 2001. Exceptional restructuring costs of £2.3 million were charged in 2000 to complete the programme, in line with previous estimates.

In addition, Linatex has decided not to pursue major new process technology equipment contracts following the disappointing financial performance in the second half of the year; this unprofitable part of the business will be phased out over the coming months.

The new £1.5 million rubber conversion and mixing plant in Malaysia was commissioned during the year; this provides lower cost and more consistent quality feedstock for the Linatex sheet manufacturing and moulding process.

A £4.0 million continuous rubber sheet press is to be installed by the end of 2001, to reduce operating costs further and enable Linatex sheet to be produced within tighter thickness tolerances for new applications and with enhanced bonding capabilities.

A tragic accident occurred in late December when an aircraft crashed into the Linatex facility at Yateley, Hampshire, UK, killing all five on board. Part of the building suffered structural damage and some machinery was destroyed causing short-term customer service issues.

Linatex rubber is made from natural latex coagulated with various chemicals to impart its exceptional abrasion resistant properties. Pictured are red Linatex rubber and orange Linatrile, which gives good abrasion resistance in the presence of oils and chemicals.

Financial review

Results for the year
Sales increased by 7 per cent year on year to £573.8 million compared to £535.1 million in 1999. Operating profit, before goodwill amortisation and exceptionals, rose by 12 per cent to £63.5 million.

Profit before goodwill amortisation, exceptionals and tax was £58.4 million, up 14 per cent on 1999.

Further details are given in the Chief Executive's report.

Exceptionals
Net exceptional charges before tax were £3.0 million, compared to £8.7 million in 1999. For 2000, exceptionals comprised:

- £3.7 million of previously announced restructuring costs at Elementis Pigments and Linatex

- £0.7 million insurance recovery for the settlement of US litigation in 1999

Interest
Net interest payable was £5.1 million, compared to £5.4 million in 1999. Interest cover (the number of times that the net interest charge is covered by operating profit before goodwill amortisation and exceptionals) was 12.5 times (1999: 10.5 times).

Taxation
The effective rate of tax on profit before goodwill amortisation and exceptionals was 14.0 per cent, compared with 22.0 per cent in 1999. This rate is substantially lower than the standard UK corporate tax rate for a number of reasons, including tax relief on purchased US goodwill and the utilisation of surplus advance corporation tax, partially offset by higher overseas tax rates. Tax on exceptional items was a credit of £0.4 million (1999: £0.8 million).

Earnings per share
Basic earnings per share before goodwill amortisation and exceptionals increased by 25 per cent year on year to 11.6 pence. Basic earnings per share, after goodwill and exceptionals, was 7.9 pence (1999: 4.6 pence). The weighted average number of shares in issue during the year was 431.5 million (1999: 431.5 million); the number of shares in issue at the year end was 431.5 million (1999: 431.5 million).

Dividends and issue of redeemable B shares
The Board did not declare an interim dividend and, similarly, is not proposing a final dividend. Instead, it will continue with the programme, started in 2000, of issuing and redeeming redeemable B shares. The total nominal value of redeemable B shares issued to shareholders during 2000 was 5.2 pence per ordinary share. The Board intends to issue further redeemable B shares to ordinary shareholders on the register on 26 April 2001, such that they receive redeemable B shares with a total nominal value of 3.3 pence for each ordinary share held. This represents a 6 per cent increase on the comparable issue last year. This will be coupled with an offer to redeem these new shares for cash at their nominal value on 2 May 2001. A further offer will also be made to existing holders of redeemable B shares to redeem these shares for cash at their nominal value on 2 May 2001.

By not paying dividends on ordinary shares during 2000, Elementis will recover £4.6 million of advance corporation tax previously paid. Elementis estimates that it will be able to recover a further £3.6 million of advance corporation tax by not paying a final dividend for 2000.

A circular providing full details of the issue and redemption of redeemable B shares will be posted to all ordinary shareholders on 21 March 2001.

Net interest payable
£million

Earnings per share before goodwill amortisation and exceptionals
pence

Cash flow and balance sheet
Net cash inflow from operating activities was £58.4 million, compared to £74.1 million in 1999.

Working capital outflow was £12.4 million, compared to a £19.4 million inflow in 1999. Debtors increased by £8.4 million, of which £1.9 million was attributed to increased sales. Trade debtor days increased by two during the year, primarily as a result of increased sales in markets with longer payment terms. The majority of debtor cash outflow is therefore related to a number of other factors, including a delay in receiving a VAT refund in continental Europe and a deposit on the Linatex continuous rubber sheet press. Stock levels continue to be tightly controlled overall.

Cash expenditure on fixed assets totalled £22.1 million (1999: £43.9 million), most of which related to Elementis Chromium, the principal project being the new kiln; this compares with depreciation of £17.5 million (1999: £15.3 million). Looking forward to 2001, capital expenditure is likely to be modestly ahead of depreciation.

Net cash inflow before the use of liquid resources and financing was £32.4 million compared to an inflow of £9.6 million in 1999. Free cash inflow was £33.4 million, compared to £10.3 million in 1999. Net borrowings at the year end were £41.7 million (1999: £45.5 million). Shareholder funds at the year end were £411.2 million, compared to £380.4 million at the end of 1999.

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 interest rate and currency risks efficiently.

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 had £164.0 million of undrawn committed facilities.

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, 97 per cent of net borrowings were at fixed rates (1999: 86 per cent), fixed for an average of 0.4 years (1999: 1.4 years) after taking account of interest rate swaps.

Currency risk
Businesses are permitted to use forward foreign currency contracts to hedge transaction exposures where deemed appropriate in consultation with Group Treasury. At the beginning of 1999, the Group switched to managing its global businesses on a US dollar basis, including internal performance measurement and reporting, in line with many other global chemical companies. As a result, it does not seek to mitigate the effect of US dollar translation exposure to its sterling reported asset base through dollar borrowings. In 2000, the average sterling exchange rate was $1.52 and €1.64 compared with $1.62 and €1.52 in 1999. The sterling exchange rate at 31 December 2000 was $1.49 and €1.59, compared with $1.61 and €1.61 at 31 December 1999.

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.

George Fairweather
Group Finance Director

Left: Currency analysis of cash at bank and in hand £51.2 million

1 GBP 62.7%
2 USD 15.0%
3 EUR 9.8%
4 Other 12.5%

Right: Currency analysis of borrowings £92.9 million

1 GBP 7.4%
2 USD 71.8%
3 EUR 20.7%
4 Other 0.1%

The Board and senior management

The Board

Jonathan Fry
Non-executive Chairman, age 63
Jonathan Fry became Chairman of Elementis in September 1997. He is Chairman of Christian Salvesen plc, Deputy Chairman of Northern Foods plc, a member of the Council of the Royal Institute of International Affairs and Chairman of Control Risks Group Holdings Ltd. Jonathan Fry is Chairman of the Nominations and Remuneration Committees and a member of the Audit Committee.

Lyndon Cole
Group Chief Executive, age 48
Lyndon Cole joined Elementis as Group Chief Executive in 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 period 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 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 43
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.

Philip Brown
Executive Director and Company Secretary, age 52
Philip Brown was appointed an executive director of Elementis in July 2000, with responsibility for company secretarial and Group legal affairs; he also chairs the Group's risk management committee. He joined the Group as Company Secretary from Ranks Hovis McDougall in 1992. He holds a law degree and is a Fellow of the Institute of Chartered Secretaries and Administrators.

Non-executive

Michael Hartnall
Non-executive Director, age 58
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 PLC. He was appointed a non-executive director of Elementis in 1993. He is the senior non-executive director and Chairman of the Audit Committee.

Rick McNeel
Non-executive Director, age 55
Rick McNeel, a US citizen based in the UK, is Group Vice President responsible for Intermediates and Fabrications within the chemical business of BP Amoco p.l.c. He was appointed a non-executive director of Elementis in July 2000.

Edward Wilson
Non-executive Director, age 56
Edward Wilson is Chief Executive Officer of Vantico Group, a Luxembourg based chemical company, which was formed by the purchase of the Performance Polymers division of Ciba Specialty Chemicals in June 2000. He was previously with Koch Industries International Europe and Dow Chemical Company. He was appointed a non-executive director of Elementis in July 1999.

Jonathan Fry
Non-executive Chairman

Lyndon Cole
Group Chief Executive

Senior management

Paul Tomkinson
Managing Director
Elementis Chromium, age 47
Paul Tomkinson was appointed Managing Director of Elementis Chromium in July 1999. He joined the Group in 1984 and worked in the Chromium business until 1997 when he was appointed Managing Director of the Catalyst, Zinc Products and Carboxylates business. His early career was spent in Shell, British Gas and Rolls Royce.

David Dutro
Managing Director
Elementis Pigments, age 45
David Dutro joined the Group in November 1998 as Managing Director 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 in the colours, polymer additives and surfactants businesses.

Neil Carr
Managing Director
Elementis Specialties, age 37
Neil Carr was appointed Managing Director of Elementis Specialties in May 2000. He joined Elementis in 1998 as Group Director of Human Resources from SmithKline Beecham, where he was Human Resource Director, Worldwide Supply Operations.

Kevin Mirner
Managing Director
Harcros Chemicals, age 45
Kevin Mirner was appointed Managing Director of Harcros Chemicals, the US based chemical distribution business, in 1994, having previously been Finance Director of the Chemicals division. He joined the Group in 1988.

Martin Pugh
Managing Director
Linatex, age 48
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 Speciality Polyethylenes.

George Fairweather
Group Finance Director

Philip Brown
Executive Director and Company Secretary

Board report on corporate governance

Compliance with the provisions of the Combined Code
The Company complied with all the provisions set out in Section 1 of the Combined Code throughout the year.

Application of the principles set out in the Combined Code
In this report, 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 three independent non-executive directors. The senior non-executive director is Michael Hartnall.

Chairman and Group 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 running the Board and the Group Chief Executive responsible for running the Group's businesses. 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. The Board also considers reports from various heads of corporate functions on a regular basis 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 independent non-executive directors and is chaired by the Chairman of the Company. This Committee nominates appointments to the Board, actual appointments being 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 directors retiring by rotation at the next Annual General Meeting are Jonathan Fry and George Fairweather.

Philip Brown and Rick McNeel were appointed directors on 28 July 2000 and submit themselves for election at the Annual General Meeting.

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. 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.

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 executive directors and (ii) the specific remuneration in all its forms and all other terms of service of executive directors. No director is involved in deciding their own remuneration.

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

Constructive use of the Annual General Meeting
The Board uses the Annual General Meeting (AGM) as an occasion to communicate with all shareholders, including private investors, who are provided with the opportunity to ask questions relating to the Group. The notice of the AGM to be held on 26 April 2001 and related papers will be posted to shareholders more than 20 working days before the AGM.

Financial reporting

The directors have acknowledged, in the Directors' responsibilities statement, their responsibility for preparing the financial statements of the Company and the Group. The auditors have included, in the independent auditors' report, a statement about their reporting responsibilities.

The directors are also responsible for the publication of unaudited interim reports of the Group 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 appropriate enquiries, the directors have a reasonable expectation that the Company and 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 Board has overall responsibility for the Group's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can therefore only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Board is of the view that an ongoing process for identifying, evaluating and managing significant risks faced by the Group was in place throughout 2000 and up to the date that the Annual Report 2000 was approved. This process is regularly reviewed by the Board and accords with the internal control guidance for directors as required by the Combined Code.

During 1999, a risk management committee was established to enhance management's ability to review and monitor the effectiveness of this process on a regular basis. The terms of reference of the committee included establishing and implementing policies and procedures for risk management and internal controls and allocating responsibility for business risk management. They also include the ongoing monitoring of the effectiveness of internal controls.

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

At the meeting held in December 2000, the Board carried out its annual review of the effectiveness of internal controls. This included considering a report from the risk management committee on action taken during the year to identify and reduce risks and to increase awareness of both risk management and the importance of having effective internal controls.

Audit Committee and Auditors

The Audit Committee comprises the Chairman and all non-executive directors. 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 external auditors.

Board report on remuneration

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

Salaries, fees and benefits
Salaries for executive directors are reviewed annually and determined by the Committee, taking into account individual performance over the previous twelve months and pay and employment conditions elsewhere in the Group. The Committee also uses information provided by external consultants relating to rates of pay for similar positions in comparable companies. Any increases in basic salary are effective from 1 July each year. Benefits relate to the provision of cars, life assurance and medical cover.

Fees for non-executive directors are determined by the Board. Individuals cannot vote on their own remuneration.

Short-term incentive arrangements
The 2000 annual bonus scheme for executive directors was based, for the first time, on a shareholder value measure which takes into account not just after tax earnings but also an estimated cost of equity capital. Under this scheme, directors could earn a bonus of up to 60 per cent of their basic annual salaries based on a pre-determined scale. For 2000, executive directors are entitled to a bonus of 43 per cent of their salaries, pro-rata to the period that they held that post during the year; this will be paid in March 2001. Additional incentive arrangements have been put in place which will crystallise should an offer for the Company's share capital become unconditional by the end of 2001.

Long-term incentive plan
The executive directors, together with certain key business managers, 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 uses total shareholder return (TSR) as the performance measure. Under the Plan, participants are, on payment of a nominal option price of 1 penny 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 are met. Details of options granted to executive directors under the Plan are shown in the table of directors' share options at the end of this report; this includes details of options granted in 1998 which have now lapsed.

At the date of this report, grants made in 1999 and 2000 remain outstanding. The maximum value of shares over which options were granted in each of these two years was equivalent to 80 per cent of annual basic salary as determined at 1 January in each year.

Comparator companies for purposes of grants are FTSE 250 companies, excluding investment trusts.

The TSR for each FTSE 250 company is measured over a three year period commencing 1 January in the year of the relevant grant, with each company then 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 the 30th percentile position, all options will become exercisable; options to the value of 60 per cent of salary will be exercisable if in the top 40; 40 per cent if in the top 50 and 20 per cent if in the top 60. No options will be exercisable if the Company's performance is below the 60th percentile position.

In order to emphasise the long-term nature of the Plan, participants may only sell enough shares to cover their 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 has purchased some of the shares in the Company which would be required if participants were entitled to exercise the maximum number of options outstanding under the Plan. At 31 December 2000, the ESOP held 736,729 shares with a market value of £0.8 million. The ESOP has been included in the financial statements in accordance with UITF Abstract 13. There were no amounts outstanding on the balance sheets at 31 December 2000 and 31 December 1999 and £nil (1999: £0.2 million) was charged as an operating cost to the profit and loss account for the year. The right to dividends on ordinary shares owned by the ESOP have been waived.

Directors' remuneration table

	Salaries/ fees 2000 £'000	Bonuses 2000 £'000	Benefits 2000 £'000	Compensation for loss of office 2000 £'000	Total emoluments excluding pensions 2000 £'000	Total emoluments excluding pensions 1999 £'000
Executive						
Lyndon Cole	**360**	**153**	**7**	-	**520**	460
George Fairweather	**245**	**108**	**18**	-	**371**	247
Philip Brown[1]	**60**	**31**	**5**	-	**96**	-
Mike Parker[2]	**257**	-	**3**	**336**	**596**	253
Non-executive						
Jonathan Fry (Chairman)	**150**	-	-	-	**150**	150
Michael Hartnall	**23**	-	-	-	**23**	20
Rick McNeel[1]	**7**	-	-	-	**7**	-
Edward Wilson	**20**	-	-	-	**20**	10
Robert Easton[3]	**7**	-	-	-	**7**	20
Frances Heaton[4]	-	-	-	-	-	7
Hugh Mellor[4]	-	-	-	-	-	8
	1,129	**292**	**33**	**336**	**1,790**	1,175

Notes:
1 Since appointed as a director on 28 July 2000.
2 Mike Parker resigned as a director with effect from 14 July 2000 and left employment of the Company on 31 December 2000. Of the amount stated for compensation for loss of office, £236,296 was paid during the year with the balance due to be paid on 30 June 2001.
3 Ceased to be a director on 28 April 2000.
4 Ceased to be a director in 1999.

Emoluments for Lyndon Cole and George Fairweather exclude salary supplements related to funded unapproved retirement benefit arrangements. These are shown in the Directors' retirement benefits table. Benefits relate mainly to the provision of cars, life assurance and medical cover.

Service contracts
Lyndon Cole has a service agreement with Elementis plc which is terminable by the Company on giving not less than 24 months' notice (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 Lyndon Cole giving not less than 12 months' notice to the Company.

George Fairweather has a service agreement with Elementis plc which is terminable by either party on giving not less than 12 months' notice to the other party.

Philip Brown has a service agreement with Elementis plc which is terminable by the Company on giving not less than 24 months' notice (where such notice is given on or before 27 July 2003) or the greater of 12 months' and the period between notice being given and 27 July 2005 (where such notice is given on or after 27 July 2003) and terminable by Philip Brown giving not less than 12 months' notice to the Company. Philip Brown previously had an employment contract with Elementis Holdings Limited which was terminable by Elementis Holdings Limited giving not less than 12 months' notice. In addition, the contract provided that he would be paid the equivalent of 24 months' salary in the specific event of redundancy. This contract was replaced by the service agreement with Elementis plc on Philip Brown's appointment as a director of the Company in July 2000.

Retirement benefits

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

- normal pension age of 60
- an accrual rate of 1/30 for each year of pensionable service
- life assurance cover of four times pensionable salary
- pensions to spouse and dependent children payable on death

All executive directors are subject to the Inland Revenue cap on the amount of salary which may be treated as pensionable. The Company has undertaken to provide benefits to directors equivalent to the entitlements which cannot be provided by the Company's scheme. During the year these were put on a funded basis for Lyndon Cole and George Fairweather in accordance with commitments made to them when they joined the Group; in addition, they are paid related salary supplements. Philip Brown's benefits are on an unfunded basis.

Directors' retirement benefits table

	Pension contributions 2000 £'000	Salary supplements 2000 £'000	Accrued benefits 31.12.00 £'000	Increases in accrued benefits 2000 £'000	Transfer value of increases in accrued benefits 2000 £'000
Executive					
Lyndon Cole[1]	**153**	**123**	**7**	**3**	**32**
George Fairweather[1]	**140**	**113**	**12**	**3**	**24**
Philip Brown[2]	-	-	**59**	**9**	**91**
Mike Parker[2]	-	-	**6**	**6**	**224**
	293	**236**	**84**	**21**	**371**

Notes:

1 Pension contributions for Lyndon Cole and George Fairweather comprise payments to separate funded unapproved retirement benefits schemes established during the year; in addition related salary supplements were paid. These arrangements are in accordance with commitments made to them when they joined the Group in October 1998 and February 1997 respectively, payments being made in respect of the period from joining until 31 December 2000.

2 Accrued benefits for Philip Brown and Mike Parker include the value of unfunded unapproved retirement benefits arrangements. Mike Parker elected to relinquish pension rights under his unfunded arrangements in return for cash of £527,774 of which £393,900 was paid to him during the year with the balance due on 31 December 2001.

Non-executive directors are not entitled to retirement benefits.

Directors' shareholdings

	Ordinary shares beneficial holdings 31.12.00	31.12.99*
Lyndon Cole	**143,704**	143,704
George Fairweather	**21,200**	21,200
Philip Brown[1]	**278**	278
Jonathan Fry (Chairman)	**65,240**	15,240
Michael Hartnall	**6,000**	6,000
Rick McNeel	**9,500**	9,500
Edward Wilson	**1,250**	1,250

* or at date of appointment if later

Note:

1 Philip Brown had £260 unsecured loan notes and 410 redeemable B shares at his date of appointment (nil at 31 December 2000).

Directors' share options

		Ordinary shares under option						
	Option type	31.12.99*	Lapsed/ cancelled during 2000	Granted during 2000	31.12.00	Exercise price	Date from which exercisable	Expiry date
Lyndon Cole	Performance Share Plan	214,876	-	-	**214,876**	1.0p	1.1.2002	14.10.2006
		-	-	269,841	**269,841**	1.0p	1.1.2003	11.4.2007
	Savings-Related Share Option Scheme	10,367	(10,367)	-	-	93.4p	1.12.2002	1.5.2003
		-	-	31,624	**31,624**	53.4p	1.6.2005	1.12.2005
George Fairweather	Performance Share Plan	119,768	(119,768)	-	-	1.0p	1.1.2000	9.5.2004
		153,024	-	-	**153,024**	1.0p	1.1.2001	2.5.2005
		150,744	-	-	**150,744**	1.0p	1.1.2002	14.10.2006
		-	-	189,304	**189,304**	1.0p	1.1.2003	11.4.2007
	Savings-Related Share Option Scheme	10,354	(10,354)	-	-	94.2p	1.11.2001	1.4.2002
		-	-	18,154	**18,154**	53.4p	1.6.2003	1.12.2003
Philip Brown	Performance Share Plan	66,078	-	-	**66,078**	1.0p	1.1.2001	2.5.2005
		66,116	-	-	**66,116**	1.0p	1.1.2002	14.10.2006
		88,010	-	-	**88,010**	1.0p	1.1.2003	11.4.2007
	Savings-Related Share Option Scheme	18,154	-	-	**18,154**	53.4p	1.6.2003	1.12.2003
	Executive share options	26,713	-	-	**26,713**	168.5p	11.5.1996	11.5.2003
		28,204	-	-	**28,204**	184.8p	13.9.1997	13.9.2004
		36,957	-	-	**36,957**	152.5p	19.9.1998	19.9.2005
		43,756	-	-	**43,756**	132.8p	5.11.1999	5.11.2006

* or at date of appointment if later

Summary particulars of the Group's share option schemes are given in the notes to the financial statements.

The market price of ordinary shares at 31 December 2000 was 111.0 pence and the range during 2000 was 60.8 pence to 111.5 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.

There has been no change in the directors' shareholdings (all of which are beneficial) and their share options between year end and 28 February 2001.

Five year record

	2000 £million	1999 £million	1998 £million	1997 Restated £million	1996 Restated £million
Turnover					
Chromium	**124.8**	112.8	124.4	126.8	129.1
Pigments & Specialties	**234.9**	222.9	213.9	148.8	149.1
Chemical Distribution	**160.0**	144.5	139.2	134.4	135.7
Specialty Rubber	**54.1**	54.9	56.7	61.5	71.0
Continuing operations	**573.8**	535.1	534.2	471.5	484.9
Discontinued operations	**-**	-	508.4	1,447.7	1,560.8
Turnover: Group and share of joint venture	**573.8**	535.1	1,042.6	1,919.2	2,045.7
Less share of discontinued joint venture's turnover	-	-	(68.2)	(93.9)	(107.6)
Group turnover	**573.8**	535.1	974.4	1,825.3	1,938.1
Operating profits					
Chromium:					
Before exceptionals	**23.7**	20.3	27.1	29.9	32.6
Exceptionals	**0.7**	(8.8)	-	-	-
	24.4	11.5	27.1	29.9	32.6
Pigments & Specialties:					
Before goodwill amortisation and exceptionals	**31.1**	28.5	27.1	8.8	10.3
Goodwill amortisation	**(13.3)**	(12.5)	(11.2)	-	-
Exceptionals	**(1.4)**	(5.3)	(3.2)	(14.9)	-
	16.4	10.7	12.7	(6.1)	10.3
Chemical Distribution:					
Before exceptionals	**6.0**	5.5	2.6	1.2	0.9
Exceptionals	-	-	-	(25.0)	-
	6.0	5.5	2.6	(23.8)	0.9
Specialty Rubber:					
Before exceptionals	**2.6**	2.4	4.7	4.8	6.2
Exceptionals	**(2.3)**	(1.2)	-	(0.8)	-
	0.3	1.2	4.7	4.0	6.2
Total – continuing operations:					
Before goodwill amortisation and exceptionals	**63.4**	56.7	61.5	44.7	50.0
Goodwill amortisation	**(13.3)**	(12.5)	(11.2)	-	-
Exceptionals	**(3.0)**	(15.3)	(3.2)	(40.7)	-
	47.1	28.9	47.1	4.0	50.0
Discontinued operations	**-**	-	(7.0)	24.6	68.7
	47.1	28.9	40.1	28.6	118.7
Joint venture – discontinued operations	-	-	2.1	4.7	3.8
Associated undertakings – continuing operations	**0.1**	0.1	-	-	-
Associated undertakings – discontinued operations	-	-	(0.1)	(0.2)	1.1
	47.2	29.0	42.1	33.1	123.6
Profit/(loss) on disposal/termination of businesses & fixed assets:					
Continuing operations	-	6.6	5.0	-	(1.4)
Discontinued operations	-	-	(26.9)	(121.8)	5.9
Fundamental restructuring costs (discontinued operations)	-	-	-	(4.8)	-
Profit/(loss) before interest	**47.2**	35.6	20.2	(93.5)	128.1
Interest rate swap cancellation costs	**-**	-	(2.3)	-	-
Private placement redemption cost	**-**	-	-	(9.8)	-
Net interest payable	**(5.1)**	(5.4)	(8.3)	(2.9)	(6.5)
Profit/(loss) before tax	**42.1**	30.2	9.6	(106.2)	121.6
Tax	**(7.8)**	(10.5)	(8.4)	(4.9)	(33.1)
Minority interests	**(0.1)**	0.3	-	(0.1)	(8.1)
Profit/(loss) for the financial year	**34.2**	20.0	1.2	(111.2)	80.4

	2000 £million	1999 £million	1998 £million	1997 Restated £million	1996 Restated £million
Basic					
Earnings/(loss) per ordinary share (pence)	**7.9**	4.6	0.3	(15.5)	11.3
Earnings per ordinary share before goodwill amortisation and exceptionals (pence)	**11.6**	9.3	9.0	8.8	11.1
Fully diluted					
Earnings/(loss) per ordinary share (pence)	**7.9**	4.6	0.3	(15.5)	11.3
Earnings per ordinary share before goodwill amortisation and exceptionals (pence)	**11.5**	9.3	9.0	8.8	11.1
Dividends per ordinary share (pence)	**-**	2.0	5.0	3.6	9.0
Dividend cover (times)*	**-**	4.7	1.8	2.4	1.2
Interest cover (times)*	**12.5**	10.5	7.0	28.3	19.7
Shareholders' funds	**411.2**	380.4	367.8	764.2	663.0
Net (borrowings)/cash	**(41.7)**	(45.5)	(48.0)	450.6	(13.7)
Weighted average number of ordinary shares in issue during the year (million)	**431.5**	431.5	472.9	715.3	711.7

* before goodwill amortisation and exceptionals

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

Telephone: +44 (0) 870 600 3966
Facsimile: +44 (0) 1903 854 031
Website: www.lloydstsb-registrars.co.uk

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

New issue of redeemable B shares
A further issue of redeemable B shares will be made to ordinary shareholders on the share register on 26 April 2001. Shareholders will have the opportunity to redeem these redeemable B shares for cash at their nominal value on 2 May 2001.

A circular providing full details of the issue and redemption of redeemable B shares and a redemption form will be posted to all ordinary shareholders on 21 March 2001.

Previously issued redeemable B shares
Any holders of previously issued redeemable B shares that have not yet redeemed them will have a further opportunity to redeem them for cash at their nominal value on 2 May 2001. The redemption form is on the reverse of the redeemable B shares certificate.

Registrars helpline for redeemable B shares enquiries:
Telephone: +44 (0) 800 169 6946

Registrars text phone for shareholders with hearing difficulties:
Telephone: +44 (0) 870 600 3950

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

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. Telephone: +44 (0) 20 7606 1768

Dividend re-investment plan
The dividend re-investment plan arrangements made with Lloyds TSB Registrars and Cazenove & Co will not operate while a cash dividend is not being paid.

Annual General Meeting
The Annual General Meeting of Elementis plc will be held on 26 April 2001 at 11.00am at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED. The Notice of Meeting is given in a separate document accompanying this Annual Report. Details of the ordinary and special business of the Annual General Meeting are also contained in this document.

Shareholder information

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Philip Brown LLB FCIS

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Website: www.elementis.com

Registered number
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Auditors
PricewaterhouseCoopers

Stockbrokers
Cazenove & Co
Hoare Govett Limited

Registrars
Lloyds TSB Registrars

Financial calendar

28 February	Preliminary announcement of results for the year ended 31 December 2000
6 April	Record date for dividend payable on redeemable B shares
24 April	Closing date for receipt of redeemable B shares redemption forms
26 April	Record date for further redeemable B shares issue
26 April	Annual General Meeting
2 May	Redemption date for redeemable B shares Payment date for redeemable B shares dividend
2 August*	Announcement of interim results for the six months ending 30 June 2001
2 November	Payment date for redeemable B shares dividend

* Provisional date

Global headquarters

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Visit the Elementis website at www.elementis.com

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The management team	Specialty Rubber	The Board	
History of Elementis		Shareholder services	
Frequently asked questions		Request information	

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