

Company number: 3299608

A global specialty  
chemicals company

Elementis plc  
Annual report and accounts

---

09



**Elementis is a global specialty chemicals company comprising three businesses: Specialty Products, Surfactants and Chromium.**

**Both Specialty Products and Chromium hold leading market positions in their chosen sectors. Elementis employs over 1,200 people at more than 30 locations in eight countries and is listed in the UK on the London Stock Exchange.**

**Contents**

**Company overview**

- lfc Who we are and contents
- lfc Global operations overview
- 01 Highlights and financial summary
- 02 Chairman's statement

**Business review**

- 04 Statement of Group strategy
- 05 Group Chief Executive's overview
- 06 Business commentaries
- 08 Finance report
  - 12 Key performance indicators
  - 13 Principal risks and uncertainties
- 15 Corporate social responsibility report

**Corporate governance**

- 20 Board of directors
- 22 Directors' report
- 25 Directors' responsibility statement
- 26 Corporate governance report
- 30 Directors' remuneration report
- 39 Independent auditor's report

**Financial statements**

- 40 Consolidated income statement
- 40 Consolidated statement of comprehensive income
- 41 Consolidated balance sheet
- 42 Consolidated statement of changes in equity
- 43 Consolidated cash flow statement
- 44 Notes to the consolidated financial statements
- 79 Parent company statutory accounts
- 80 Notes to the financial statements of Elementis plc
- 83 Five year record

**Shareholder information**

- 84 Shareholder services
- lbc Corporate information
- lbc Financial calendar
- lbc Annual General Meeting
- lbc Principal offices

**Cautionary statement**

The Annual Report and Accounts for the financial year ended 31 December 2009, as contained in this document ("Annual Report"), contain information which viewers or readers might consider to be forward looking statements relating to or in respect of the financial condition, results, operations or businesses of Elementis plc. Any such statements involve risk and uncertainty because they relate to future events and circumstances. There are many factors that could cause actual results or developments to differ materially from those expressed or implied by any such forward looking statements. Nothing in this Annual Report should be construed as a profit forecast.

## GLOBAL OPERATIONS OVERVIEW

### Elementis plc

Based in London and listed on the London Stock Exchange  
The role of the Group holding company is to

- Set corporate objectives and the strategic direction of the Group
- Provide leadership and direction to management and monitor corporate and business performance
- Set high standards in business conduct and ethics, and in business, employee and community relations
- Set policy and provide oversight for governance, financial control and risk management, and health, safety and environmental performance
- Provide funding for the Group to invest in growth

#### Key facts

3

Specialist businesses

30+

Locations around the world

1,200+

Group employees

15

Manufacturing locations

### Elementis Specialty Products

#### Revenue

£194.6m

#### Number of employees

850+

#### Key facts

- The Group's largest and most profitable division
- Employs over 850 people at more than 25 locations worldwide
- Ten manufacturing sites across the US, Europe and Asia Pacific

#### Key products

Rheological additives/modifiers, organoclays, colourants, high performance dispersing agents, defoamers, coalescing agents, flow and levelling additives, wetting and slip agents, other specialty additives and resins, and lanolin and other natural oil derivatives

#### Key sectors

- Industrial coatings (55 per cent)
- Architectural coatings (24 per cent)
- Construction
- Oilfield chemicals
- Personal care

#### Key geographies

- Asia Pacific (38 per cent)
- Europe (34 per cent)
- Americas (28 per cent)

#### Key applications

Custom designed additives to manage the flow characteristics of liquids in a wide range of applications, including

- Architectural coatings homes, offices and similar environments
- Industrial coatings protective applications in automotive, containers, furniture, white goods, flooring, marine, plastics and construction
- Oilfield drilling fluids utilised in oil and gas exploration activities
- Construction concrete, plasters, mortars, renderings, stuccos, flooring systems and building adhesives
- Personal care antiperspirants, nail enamels, mascara, make-up, eye shadow, lipsticks, creams, lotions and suncare products

#### Supply chain

- Top ten customers represent 26 per cent of divisional sales
- Many competitors from multinationals to privately owned enterprises
- Key raw material suppliers are for clays, quaternary amines and other chemical intermediaries

### Elementis locations

- Specialty Products
- Surfactants
- Chromium
- US head office
- ▲ Corporate head office (London)

(All percentage figures quoted are based on 2009 sales volumes)

## Elementis Surfactants

### Revenue

£49.2m

### Number of employees

140

### Key facts

- Employs around 140 people mostly in Delden, the Netherlands
- Shares its manufacturing site with Elementis Specialty Products

### Key products

Range of surface active ingredients

### Key sectors

- Oilfield
- Textile and leather
- Pulp and paper
- Plastics and resins
- Chemicals and construction
- Household
- Agrochemical and feed markets

### Key geographies

- Europe (81 per cent)
- Asia Pacific
- Americas

### Key applications

Household/domestic detergents, industrial cleaning, oilfield chemicals, leather and textiles, and pulp and paper

### Supply chain

- Top ten customers represent 57 per cent of divisional sales
- Many competitors from multinationals to privately owned enterprises
- Uses ethylene and propylene oxides, nonylphenol ethoxylate and fatty alcohols to manufacture its products

North America

UK and Europe

## Elementis Chromium

### Revenue

£119.9m

### Number of employees

200

### Key facts

- Employs around 200 people at five locations mostly in the US
- Two chrome chemical processing sites in Castle Hayne, North Carolina and Corpus Christi, Texas
- Three facilities serving leather tanneries in Milwaukee, Wisconsin, in Dakota City, Nebraska and in Amarillo, Texas

### Key products

Sodium dichromate, chromic acid, chromic oxide and liquid chrome sulphate

### Key sectors

- Leather tanning
- Timber treatment
- Metal finishing
- Chrome metal alloys
- Chrome pigments
- Ceramics/refractory

### Key geographies

- North America (47 per cent)
- Europe (25 per cent)
- Asia Pacific (19 per cent)

### Key applications

- Sodium dichromate in metal finishing, in organic products as an oxidising agent, in pigments as a corrosion inhibitor, in ceramics to prepare coloured glass and ceramic glazes, and in textiles to improve dyes' colouring properties
- Liquid chrome sulphate to tan animal hides
- Chromic acid in timber treatment, in chromium plating in domestic, automobile and medical applications, as well as in other industrial applications to increase wear and corrosion resistance
- Chromic oxide used to produce high performance superalloys in the aerospace and power generation industries, used in paints, coatings, plastics, enamels, concrete and other construction materials as well as in the ceramics industry, and used in the production of refractory bricks

### Supply chain

- Top ten customers represent 56 per cent of divisional sales
- Competitors one multinational and a number of privately owned producers
- Key raw material suppliers are for chrome ore, soda ash and sulphuric acid

Asia

## HIGHLIGHTS AND FINANCIAL SUMMARY

### Highlights

**Operating profit and margins improved sequentially in the second half of 2009**

#### Specialty Products

- Acquired new product line in personal care in December 2009
- Strong performance in Asia Pacific

**Chromium restructuring on schedule**

**Cost savings achieved at an annualised rate of £16 million**

**Year end debt position consistent with previous year**

**Full year dividend maintained at same level as last year – 2.9p**

### Financial summary

|                                   | 2009     | 2008    |
|-----------------------------------|----------|---------|
| Sales                             | £363.7m  | £400.5m |
| Operating profit*                 | £23.4m   | £52.0m  |
| Profit before tax*                | £18.3m   | £48.5m  |
| Diluted earnings per share*       | 2.8p     | 9.1p    |
| Net debt                          | £66.0m   | £63.9m  |
| (Loss)/profit for the year        | £(37.0)m | £19.8m  |
| Diluted (loss)/earnings per share | (8.3)p   | 4.5p    |
| Dividend to shareholders          |          |         |
| – final proposed                  | 1.4p     | 1.4p    |
| – full year                       | 2.9p     | 2.9p    |

\* Before exceptional items

## CHAIRMAN'S STATEMENT

**Robert Beeston**  
Chairman

The economic downturn that the world experienced in 2009 has severely tested the resilience and financial strength of most companies and businesses around the globe. I am therefore happy to report that, despite the resultant downturn in results that we have experienced in 2009, our businesses have nevertheless each reported a positive operating result for the year, before exceptional items, and the Group's balance sheet remains robust, with the year end net debt to EBITDA ratio at a level of 1.8 times. This was achieved through the inherent quality of our main businesses, each of which maintained its market leading position in its sector, and by management taking immediate action on costs in the early part of the year to mitigate the effects of the sharp downturn. In addition, while the severity of the downturn caused management to put greater focus on some shorter term issues during the year, such as current costs and cash flow, we were nevertheless still able to take some strategic actions that will help us achieve our longer term goals. Specialty Products completed an acquisition, in December 2009, of a US based business called Fancor. Although modest in size, this acquisition increases our presence and product offering in the faster growing personal care market. In Chromium, we took the decision to close our UK facility which will improve earnings stability and therefore the quality of the business going forward.

---

**£363.7m**

Group revenue

---

**£23.4m**

Operating profit before  
exceptional items

## Results

Operating profit for the year, before exceptional items, was £23.4 million compared to £52.0 million in the previous year. Earnings per share on the same basis was 2.8 pence compared to 9.1 pence in 2008. Revenue in 2009 was £363.7 million which, on a constant currency basis and after adjusting for 2008 acquisitions, is 28 per cent lower than the previous year, mainly due to the effects of the economic downturn which were more prominent in the first half of the year as a result of severe customer destocking. Consequently, sales volumes in the second half of the year were 27 per cent higher than in the first half and operating profit, before exceptional items, in the second half was £17.8 million compared to £5.6 million in the first half.

The Group recorded a number of exceptional items in the year, including the closure of the UK Chromium plant and some one-time hedging costs, all of which were announced at the time of the Group's 2009 interim results statement. In the second half of the year we received notification of fines from the EU Commission relating to their investigation into heat stabilisers and, while we are appealing this decision in the strongest terms, we have taken the prudent approach of providing for the full potential cost of the fines. An exceptional pension credit has also been recorded in respect of adjustments to past service credits relating to bridging pension offsets. The total of all exceptional items recorded in 2009 is therefore £49.5 million (2008: £20.5 million). After taking account of these items the Group recorded a loss of 8.3 pence per share compared to a profit of 4.5 pence in 2008.

## EU Commission fines

As announced in November 2009 the Group received a communication from the EU Commission regarding the imposition of fines on Elementis and others. The communication stated that the Commission was imposing a fine of Euro 14.3 million on Elementis and a further fine of Euro 18.3 million jointly and severally on Elementis, Akcros Chemicals Ltd and companies owned by Akzo Nobel. The Euro 14.3 million fine was paid in February 2010 and the Company's share of the latter fine has yet to be determined. The Company has filed with the General Court of the EU an action to annul the decision of the Commission to impose the fines and will continue to vigorously assert its position that the Commission is precluded from imposing any fine on Elementis or its affiliates. Elementis' policy is to conduct its business in full compliance with all applicable competition laws.

## Dividend

The Board is recommending a final dividend of 1.4 pence per share, taking the total return to shareholders for the year to 2.9 pence, the same amount as last year. The Board concluded that maintaining the dividend was appropriate in spite of the downturn as it remains confident in the Group's strategy and expects to make progress as the

economy recovers. Subject to approval at the Annual General Meeting, the dividend will be paid on 28 May 2010 to shareholders on the register on 30 April 2010. The Board intends to continue to review the dividend policy as earnings performance and debt levels permit.

## Future reporting

The Board has decided to present the Group's financial statements in US dollars under IFRS with effect from the beginning of 2010. The majority of the Group's sales and earnings originate in US dollars or US dollar linked currencies and the change will more closely align external reporting with the profile of the Group, as well as with current internal management reporting. In the future, dividends will be determined in US dollars and paid in sterling at the closing exchange rate on the date the dividend is announced. More information will be provided to shareholders, including restated 2009 figures in US dollars, in a press release at the time of the next Annual General Meeting on 22 April 2010. The first set of Group financial statements to be presented in US dollars will be the interim results statement for 2010.

## Health, safety and environment

I am happy to report that our activities in this important area of our business have continued to be of a high standard during 2009 with no significant incidents reported by any of our businesses.

## People

In a difficult year of trading, such as we have experienced in 2009, the pressures and responsibilities on our people are greatly increased, and it is through their efforts that the Group has ended 2009 in a position to be able to benefit from the eventual economic recovery. On behalf of the Board I would like to thank them for their tremendous contributions.

## Outlook

As we begin 2010, trading has started on a more positive note and it appears that our customers are restocking, which is having a positive impact on our sales volumes. Our businesses have been strengthened by the strategic actions taken in 2009 and the Group remains well financed, therefore we expect to make progress going forward. However, we will remain cautious until underlying demand patterns become clearer and signs of a sustained global recovery become more evident.

**Robert Beeston**  
Chairman

23 February 2010

## STATEMENT OF GROUP STRATEGY

### What we do

Elementis utilises scientific innovation and manufacturing technology to deliver products that enhance the performance and value of our customers' products. The Specialty Products business provides rheology additives that enhance the flow characteristics of our customers' products in markets such as paints and coatings, cosmetics, and oil and gas exploration. The Surfactants business provides chemicals that enhance the performance of our customers' products in markets such as household cleaners, paper goods and oilfield chemicals. The Chromium business provides chemicals to our customers that make their products more durable in applications such as aerospace alloys, timber treatment and leather production.



### How we do it

The strategy of the Group is to leverage our competitive advantage, deliver technological innovation and cultivate our global presence in order to profitably grow the Specialty Products business, utilising cash flow from the Chromium and Surfactants businesses.



#### We will do this by:

1. Preferentially growing the Specialty Products business through a mixture of organic growth from new products, markets, applications or geographies, and selective acquisitions in rheology or complementary additives, with the aim of growing revenue and market share whilst maintaining margins
2. Consistently delivering a relatively stable and sustainable level of earnings from the Chromium business by serving higher margin markets and customers, optimising operational performance from the business's more flexible and lower cost manufacturing footprint, and improving margins through maintaining pricing discipline, managing energy and raw material costs and creating more efficient supply chains.
3. Steadily upgrading the product portfolio in Surfactants by focussing on higher margin applications, while at the same time maintaining cost discipline
4. Continually improving the quality of the Group's balance sheet by generating strong free cash flow and reducing the proportion of non-business items such as legacy pension funds and provisions

## GROUP CHIEF EXECUTIVE'S OVERVIEW

**David Dutro**  
Group Chief  
Executive

Dear Shareholders,

2009 witnessed the most challenging macro economic conditions experienced in decades, testing both the strength of our business model and the ability of our leadership to take fast, decisive actions. We succeeded in addressing the impact of unprecedented erosion in global demand across our markets by swiftly implementing a global cost reduction programme, while maintaining superior customer service and continuing our investment in innovative technology. In addition, we have been able to maintain our market share in each business segment, whilst maintaining contribution margins. Disciplined leadership at the business unit level resulted in all three Elementis businesses contributing to positive operating cash flow for the year and a stable year on year debt position.

Whilst the weak global trading environment disrupted the positive momentum created by four consecutive years of double digit EPS\* improvement, our business teams stayed focussed throughout the year. That focus was on the successful execution of our long term strategy and a resolute commitment that Elementis enters 2010 in a stronger competitive position.

**£16.0m**

Annualised cost savings

**£5.6m**

Fancor acquisition

### 2009 Highlights:

All of our efforts resulted in a solid performance relative to the industry and the economic environment.

- Annualised costs reduced by £16 million, of which £10 million is expected to be sustained as customer demand recovers
- Specialty Products maintained its contribution margin
- Chromium ceased production at its UK facility in July, successfully transitioning customers and releasing £7 million of cash flow from the liquidation of working capital at the site
- Surfactants continued to improve the quality of its product portfolio
- Deuchem was successfully integrated and began contributing impressively to our performance in Asia Pacific
- Acquisition of Fancor in December 2009 strengthens our profitable personal care business
- Maintained an excellent health and safety record
- Net debt remains essentially unchanged despite unprecedented decline in volumes and exceptional cash costs of £14.7 million

Looking ahead we will continue to pursue profitable growth in specialty markets and applications. Specialty Products' technical expertise, product leadership, customer understanding and balanced geographical footprint provide a competitive advantage that enhances a strong platform for growth. We will direct our energy and resources to geographies, market segments and technologies that have the potential to generate material growth during what we anticipate will be a period of modest progress in global GDP trends. While innovation and new product development remain the cornerstone of our organic growth strategy, we will continue to seek prudent investments that leverage Specialty Products' quality core competencies and further strengthen its market position.

The closure of the Chromium UK manufacturing facility addressed a fundamental long term strategic issue. Idling the high cost facility, that had manufactured a non-differentiated product line, has positioned the business to deliver stable earnings and cash flow by providing high quality products from low cost, flexible manufacturing facilities to a diverse global customer base.

While market sentiment is generally turning more positive as we begin 2010, we continue to plan prudently and to leverage the operational efficiencies achieved in 2009. The progress we made towards achieving our goals has been realised thanks to the hard work and initiative of the global Elementis team. Their engagement and commitment is remarkable and truly appreciated. Based on the fundamental strength of our businesses, strong market position versus our peers, a more robust Chromium business structure and the growth potential of Specialty Products, I am quite positive about the future and confident in our ability to make progress in the medium term. I would like to thank our shareholders and customers for their continued confidence and support.

**David Dutro**  
Group Chief Executive  
23 February 2010

\* Before exceptional items

## BUSINESS COMMENTARIES

**£194.6m**

Specialty Products'  
2009 revenue

**£18.4m**

Specialty Products'  
2009 operating profit\*

### Elementis Specialty Products

#### Business strategy

To grow in rheology products and complementary additives through new product innovation, expansion into new geographies and bolt-on acquisitions

#### Areas of focus

- Excellent customer service and understanding
- Technical expertise and support, and product innovation
- Operational excellence to maintain margins and improve procurement and supply chain efficiencies

Elementis Specialty Products is a leading manufacturer of rheology control additives that are used to enhance the performance of our customers' products. Best in class technical support and customer service are critical core competencies of the business and provide the platform to deliver added value in the coatings, oilfield exploration, construction and personal care markets. The strategy of the business is to grow in rheology products and complementary additives through new product innovation, expansion into new geographies and bolt-on acquisitions. In 2008 the business made an important step forward in this strategy by acquiring the Deuchem additives and Yuhong organoclay businesses in Taiwan and China. Deuchem is a leading supplier of additives and resins to the coatings and related industries and the acquisition significantly expanded Elementis' presence in Asia Pacific, and provided a platform for the Specialty Products business to accelerate growth in the region. In December 2009, the business also acquired substantially all of the assets of The Fanning Corporation and Fancor Ltd ("Fancor") for £5.6 million. Fancor is one of the largest North American suppliers of lanolin and lanolin derivatives, with sales of £7.9 million in 2009, and is a global leader in eco-friendly Meadowfoam and Abyssinian oil derivatives. The addition of the Fancor products will allow Elementis Specialty Products to bring an expanded product portfolio of specialty additives to the global personal care market and creates an exciting opportunity to work more closely with existing customers in the personal care, hair-care, skin-care, colour-cosmetics and antiperspirant markets.

Sales in 2009 were £194.6 million compared to £181.5 million in the previous year. The acquisition of Deuchem in July 2008 contributed £23.4 million to year on year sales, as no Deuchem sales were recorded by the Group in the first half of 2008. Adjusting for this and the effects of currency movements, sales were lower by approximately 22 per cent compared to 2008. The main driver of the reduction was the severe economic downturn that occurred towards the end of 2008 that led to significant customer destocking and resulted in sales volumes (excluding Deuchem) in the first half of 2009 being almost 30 per cent lower than the previous year. However, the second half of the year saw demand levels improving as the effects of destocking subsided and some

modest restocking by customers was evident towards the end of the year. As a result, sales volumes in the second half of the year were approximately 16 per cent better than the first half. Half year coatings sales to Asia Pacific showed the largest improvement with sales volumes up by over 20 per cent, driven by a strong performance by Deuchem plus the impact of the economic stimulus package introduced by the Chinese government in the early part of the year.

Operating profit in 2009 was £18.4 million compared to £29.1 million in the previous year. The result was lower primarily as a result of the lower sales volumes, but the impact was reduced by management actions taken in the early part of the year to reduce costs, as well as there being a full year of results from Deuchem in the year as opposed to only six months in 2008. Currency movements also had a positive impact of approximately £3.1 million. Contribution margins were relatively stable, which was a constant theme throughout the year, and there was little volatility in raw material costs as the business is not a significant purchaser of the more commoditised products.

### Elementis Surfactants

#### Business strategy

To focus on higher margin markets such as agrochemicals, feed, plastic and resins to balance the base-load activity in high volume commodity applications

#### Areas of focus

- Offer innovative products to the market and to customers
- Improve productivity, operational efficiencies and sales focus
- Target growth in higher margin segments to improve profitability

Elementis Surfactants is a specialty surfactant manufacturer offering innovative products to markets such as oilfield chemicals, pulp and paper and household products. Its strategy is to focus on higher margin markets such as agrochemicals, feed, plastic and resins and limit activity in high volume commodity applications. At the same time the business seeks to continually reduce operating costs by more efficient utilisation of its manufacturing facility in the Netherlands, which it shares with the Specialty Products business.

Surfactant sales in 2009 were £49.2 million compared to £51.1 million in 2008, a fall of four per cent, or 14 per cent on a constant currency basis. Lower sales volumes brought about by the economic downturn were again the main cause of the decline, but the scale of the reduction was less severe than for other Group businesses because a greater proportion of Surfactants' sales go to more defensive market sectors that were less affected by the economic downturn, such as household consumables.

\* Before exceptional items

Operating profit for the year was £0.1 million compared to £0.5 million in 2008. The business was able to sustain its operating result in spite of the drop in sales volumes due to the ongoing management process of moving the business to more sustainable, higher margin products.

**£119.9m**

Chromium's 2009 revenue

**£10.5m**

Chromium's 2009 operating profit\*

## Elementis Chromium

### Business strategy

To produce stable earnings by serving higher value markets, providing high quality, higher margin products, such as chromic acid and chromic oxide, to its customers, and utilising its flexible manufacturing base to adjust to changes in demand.

### Areas of focus

- Operational discipline to maintain price and cost competitiveness and margins
- Improve cost base by securing supply of raw materials and energy
- Superior customer service and technical support applications

Elementis Chromium is one of the world's largest suppliers of chrome chemicals, which are used in a variety of end markets including metal alloys, pigments, metal finishing, leather tanning and foundry applications. The business operates within the Group from a separate legal entity structure and has no interactions with other Group businesses other than at the administrative level. Its strategy is to provide high quality products to its customers utilising low cost, sustainable manufacturing facilities to produce mostly higher margin products such as chromic acid and chromic oxide. Global supply/demand balances are a significant driver of margins in the chromium chemicals market and Elementis Chromium seeks to produce stable earnings by serving higher value markets and by utilising its flexible manufacturing base to adjust to changes in demand. In 2009 the business decided to close its UK facility in Eaglescliffe, which produced less differentiated products than its US facilities, was more exposed to Chinese competition and whose profitability had relied heavily on supplying intermediate products to the US business. Closure of the facility is therefore very much in line with the business strategy and concentrates the global production capability of the business in the US where the business has a more flexible manufacturing platform and a more value added product offering to its customers. As a result of the closure the business recorded an exceptional charge in the year of £28.7 million (2008: £20.5 million).

Sales in 2009 were £119.9 million compared to £168.6 million in the previous year which, on a constant currency basis, represents a fall of 42 per cent. The decline was almost entirely due to a drop in sales volumes as the economic decline and customer destocking severely impacted demand, particularly in the first part of 2009. Volumes improved in the second half of the year as the

effects of destocking subsided and consequently sales volumes in the second half were approximately 50 per cent higher than in the first half, although still 26 per cent lower than for the same period last year. For the year as a whole, sales of chromic acid fared relatively better due to steady demand for utility poles in the US, while sales of all products into Europe declined more than other regions due to the closure of the Eaglescliffe facility, which temporarily reduced product availability to the European market. Nevertheless, in conjunction with the closure programme, the business was able to meet market demand for the majority of the year and thereby help to provide a smooth customer transition.

Operating profit for the year, before exceptional items, was £10.5 million compared to £27.7 million in the previous year with the decline in sales volumes being the main driver of the reduction. Average raw material costs were somewhat higher than in the previous year, mainly due to the utilisation of chrome ore stocks that were purchased in the second half of 2008, but this was partly offset by lower energy costs due to the decline in the price of fuel oil and natural gas since the previous year. Fixed costs in the ongoing US business were also lower as a result of management actions to reduce costs taken in the early part of the year, in response to the economic downturn, and currency movements contributed positively approximately £2.6 million to the result. Finally, the business also benefited in 2009 from a one-time gain from the sale of the final products produced at the Eaglescliffe facility during the closure process. The level of fixed costs required to support a plant during a shutdown process is naturally lower than for ongoing operations and so products produced during that short period of time were more profitable than normal. In line with previous guidance, the impact of this in 2009 was to increase operating profit on a one-time basis by approximately £2.5 million.

### Revenue

|                    | Revenue<br>2008<br>£million | Effect of<br>exchange<br>rates<br>£million | (Decrease)/<br>increase<br>2009<br>£million | Revenue<br>2009<br>£million |
|--------------------|-----------------------------|--------------------------------------------|---------------------------------------------|-----------------------------|
| Specialty Products | 181.5                       | 28.9                                       | (15.8)                                      | 194.6                       |
| Surfactants        | 51.1                        | 5.5                                        | (7.4)                                       | 49.2                        |
| Chromium           | 168.6                       | 22.5                                       | (71.2)                                      | 119.9                       |
| Inter-segment      | (0.7)                       | –                                          | 0.7                                         | –                           |
|                    | 400.5                       | 56.9                                       | (93.7)                                      | 363.7                       |

### Operating profit

|                    | Operating<br>profit*<br>2008<br>£million | Effect of<br>exchange<br>rates<br>£million | (Decrease)/<br>increase<br>2009<br>£million | Operating<br>profit*<br>2009<br>£million |
|--------------------|------------------------------------------|--------------------------------------------|---------------------------------------------|------------------------------------------|
| Specialty Products | 29.1                                     | 3.1                                        | (13.8)                                      | 18.4                                     |
| Surfactants        | 0.5                                      | (1.0)                                      | 0.6                                         | 0.1                                      |
| Chromium           | 27.7                                     | 2.6                                        | (19.8)                                      | 10.5                                     |
| Central costs      | (5.3)                                    | –                                          | (0.3)                                       | (5.6)                                    |
|                    | 52.0                                     | 4.7                                        | (33.3)                                      | 23.4                                     |

\* Before exceptional items

\* Before exceptional items

## FINANCE REPORT

### Group results

Group revenue was £363.7 million in 2009 compared to £400.5 million in the previous year which, after adjusting for 2008 acquisitions, represents a year on year decline of 28 per cent on a constant currency basis. The sharp global economic downturn that occurred towards the end of 2008, particularly affecting the first half of 2009 when customer destocking was prominent, was the main cause of this decline and impacted all three of the Group's businesses, albeit by differing amounts. From a geographical viewpoint, Group sales to Asia Pacific performed better than other regions of the world on a year on year basis. In particular, annualised sales volumes into the region by Specialty Products were at a similar level to the previous year in spite of the general downturn. This encouraging result was supported by the Group's acquisition of Deuchem in 2008, which has a strong position in the Chinese coatings market, and therefore gave the business greater leverage to the faster growing Chinese market.

| Revenue            |                  |                  |
|--------------------|------------------|------------------|
|                    | 2009<br>£million | 2008<br>£million |
| Specialty Products | 194.6            | 181.5            |
| Surfactants        | 49.2             | 51.1             |
| Chromium           | 119.9            | 168.6            |
| Inter-segment      | –                | (0.7)            |
|                    | 363.7            | 400.5            |

| Operating profit   |                                 |                                  |                                                     |                                 |                                  |                                                     |
|--------------------|---------------------------------|----------------------------------|-----------------------------------------------------|---------------------------------|----------------------------------|-----------------------------------------------------|
|                    | Operating<br>profit<br>£million | Exceptional<br>items<br>£million | 2009<br>Adjusted<br>operating<br>profit<br>£million | Operating<br>profit<br>£million | Exceptional<br>items<br>£million | 2008<br>Adjusted<br>operating<br>profit<br>£million |
| Specialty Products | 18.4                            | –                                | 18.4                                                | 29.1                            | –                                | 29.1                                                |
| Surfactants        | 0.1                             | –                                | 0.1                                                 | 0.5                             | –                                | 0.5                                                 |
| Chromium           | (18.2)                          | 28.7                             | 10.5                                                | 7.2                             | 20.5                             | 27.7                                                |
| Central costs      | (26.4)                          | 20.8                             | (5.6)                                               | (5.3)                           | –                                | (5.3)                                               |
|                    | (26.1)                          | 49.5                             | 23.4                                                | 31.5                            | 20.5                             | 52.0                                                |

**Brian Taylorson**  
Finance Director

**2.8p**

Earnings per share  
before exceptional  
items

**£66m**

Net debt at  
31 December 2009

Group operating profit, before exceptional items, was £23.4 million compared to £52.0 million in the previous year and lower sales volumes were the main cause of the decline. The Group result benefited from management actions taken at the start of the year to reduce fixed costs in response to the sharp downturn in demand. These actions were estimated to reduce annualised costs by £16 million, of which approximately £10 million were considered to be of a permanent nature. Based on the fact that most of these actions were implemented during the second quarter of 2009, there remains approximately £3 million of the savings that will benefit 2010. The result was also positively influenced by currency movements, in particular from the strengthening of the US dollar and euro against sterling, which improved operating profit by approximately £1.8 million. The Group continued to hedge its currency exposures during 2009 by selling currencies forward and, excluding amounts treated as exceptional items, this also had a positive year on year impact on operating profit in the year of £2.4 million. In addition, as a result of the hedging programme, currency gains of approximately £6 million have been effectively deferred into 2010 at current exchange rates.

Diluted earnings per share, before exceptional items, was 2.8 pence compared to 9.1 pence in the previous year, primarily due to the changes in operating profit noted above. Reported earnings per share, after taking account of exceptional items noted below, was a loss of 8.3 pence (2008: gain of 4.5 pence) and the operating result on the same basis was a loss of £26.1 million (2008: profit of £31.5 million).

#### Central costs

Central costs are costs that are not identifiable as expenses of a particular business, and are comprised of expenditures of the Board of directors and the corporate office.

#### Exceptional items

Total exceptional costs of £49.5 million consist of £28.7 million charged to the Chromium business and £20.8 million charged to central costs.

#### Chromium

Following a strategic review at the beginning of the year, the Eaglescliffe chromium plant in the UK was closed with production ceasing in July 2009 and an exceptional charge of £28.7 million recorded in the period. Included within the charge is £16.3 million related to the anticipated site remediation costs, being the current estimate calculated in conjunction with external consultants on the basis of an ongoing full site survey. The bulk of these costs will be incurred over the next two years. Employee costs of £6.0 million relate to severance payments and employee operating costs associated with the shutdown of the plant. Exceptional hedging costs of £4.5 million relate to the cost of reversing forward exchange contracts that were taken out in 2008 in anticipation of foreign currency cash flows arising from sales made from Eaglescliffe in the second half of 2009. A £1.9 million charge has been incurred in respect of adjustments to the net realisable value of engineering stores and other site assets.

#### Central costs

The Group hedges its currency exposure in any year by entering into forward contracts during the second half of the previous year for up to 50 per cent of the estimated exposure. The significant downturn in sales volumes that took place towards the end of 2008 caused the Group to have more forward contracts than underlying exposure during the first half of the year. The cost of cancelling these excess contracts was £4.7 million and has been recorded in central costs as an exceptional item.

Following an investigation by the EU Commission into heat stabilisers, the Company was notified of a fine of Euro 14.3 million on Elementis and a further fine of Euro 18.3 million served jointly and severally on Elementis, Akcros Chemicals Ltd and other companies owned by Akzo Nobel. Elementis no longer manufactures such products and has not done so since 1998, when the Company disposed of its 50 per cent joint venture interest in Akcros Chemicals to Akzo Nobel, the other 50 per cent joint venture owner. The Company is appealing the decision of the Commission to impose the fines. An exceptional charge of £21.6 million has been recorded consisting of the full value of the Euro 14.3 million fine and 50 per cent of the Euro 18.3 million joint fine along with legal costs incurred to date in defending the Company's position. The Euro 14.3 million fine was paid on 19 February 2010.

In 2009 a one-time gain of £5.5 million was recorded in respect of past service credits relating to bridging pensions between retirement and the state pension age.

## FINANCE REPORT

continued

**£4.7m**

Free cash flow  
from operations

### Interest

|                             | 2009<br>£million | 2008<br>£million |
|-----------------------------|------------------|------------------|
| Finance income              | 0.8              | 1.8              |
| Finance cost of borrowings  | (2.0)            | (4.4)            |
|                             | (1.2)            | (2.6)            |
| Net pension finance expense | (3.9)            | (0.1)            |
| Discount on provisions      | –                | (0.8)            |
|                             | (5.1)            | (3.5)            |

Net interest increased by £1.6 million in 2009 to £5.1 million. Net finance interest costs decreased by £1.4 million to £1.2 million due to lower global interest rates and an interest refund relating to a tax repayment.

There was net finance cost of £3.9 million associated with pension schemes (2008: £0.1 million) with the increase driven mainly by a reduction in pension scheme assets during 2008. Discount on provisions relates to environmental provisions which are evaluated on a discounted basis. The discount amount was adjusted to zero in 2009 as part of a provision rebalancing exercise.

### Taxation

#### Tax charge

|                   | £million | 2009<br>Effective<br>rate<br>per cent | £million | 2008<br>Effective<br>rate<br>per cent |
|-------------------|----------|---------------------------------------|----------|---------------------------------------|
| Before            |          |                                       |          |                                       |
| exceptional items | 6.0      | 32.8                                  | 8.2      | 16.9                                  |
| Exceptional items | (0.2)    | (1.1)                                 | –        | –                                     |
| Total             | 5.8      | 31.7                                  | 8.2      | 16.9                                  |

In 2009 there was a tax charge of £5.8 million (2008: £8.2 million), representing an effective pre-exceptional tax rate of 32.8 per cent (2008: 16.9 per cent). The increased tax rate reflects both the greater proportion of Group profit being earned in higher tax paying jurisdictions following the Deuchem acquisition in 2008 and the reduced availability of tax credits in the US to offset deferred tax.

### Earnings per share

Note 9 sets out a number of calculations of earnings per share. To better understand the underlying performance of the Group, earnings per share reported under IFRS is adjusted for items classified as exceptional. Diluted earnings per share, before exceptional items, decreased to 2.8 pence (2008: 9.1 pence).

Diluted earnings per share including exceptional items (referred to as "reported earnings per share" in other parts of this report) was a loss of 8.3 pence (2008: profit of 4.5 pence). Exceptional items in 2009 reduced reported earnings per share by 11.1 pence (2008: 4.6 pence).

### Distribution to shareholders

During 2009 the Group paid a final dividend in respect of the year ended 31 December 2008 of 1.4 pence per share. An interim dividend of 1.5 pence per share was paid on 9 October 2009 and the Board is recommending a final dividend of 1.4 pence per share which will be paid on 28 May 2010.

### Cash flow

The cash flow is summarised below.

|                                 | 2009<br>£million | 2008<br>£million |
|---------------------------------|------------------|------------------|
| EBITDA <sup>1</sup>             | 36.6             | 64.4             |
| Change in working capital       | 5.2              | (4.5)            |
| Capital expenditure             | (8.7)            | (12.8)           |
| Other                           | (1.1)            | 2.1              |
| Operating cash flow             | 32.0             | 49.2             |
| Pension deficit                 | (6.9)            | (7.1)            |
| Interest and tax                | (5.6)            | (4.0)            |
| Exceptional items               | (14.7)           | –                |
| Other                           | (0.1)            | (1.5)            |
| Free cash flow                  | 4.7              | 36.6             |
| Dividends                       | (12.9)           | (12.8)           |
| Acquisitions and disposals      | (5.5)            | (46.3)           |
| Currency fluctuations           | 11.6             | (25.2)           |
| Movement in net borrowings      | (2.1)            | (47.7)           |
| Net borrowings at start of year | (63.9)           | (16.2)           |
| Net borrowings at end of year   | (66.0)           | (63.9)           |

<sup>1</sup> EBITDA – earnings before interest, tax, exceptional items, depreciation and amortisation.

The Group's net debt increased by only £2.1 million in 2009 to £66.0 million, despite EBITDA falling from £64.4 million in 2008 to £36.6 million in 2009 as a result of the economic downturn. This was achieved through sensible reductions in capital spending during the downturn, and by the businesses adjusting their working capital levels in line with the lower demand patterns. Changes in working capital generated a positive cash flow of £5.2 million in the year, which included £7.0 million from the liquidation of working capital at Chromium's UK site as part of the closure programme. In the first half of the year changes in working capital generated a cash outflow of £17.7 million, due to the timing of chrome ore purchases and a build up of inventory at Chromium's UK plant as part of the closure programme. But this was successfully reversed in the second half of the year.

Inventory days at the end of 2009 were 85 (2008: 91) reflecting a planned reduction in chrome ore stocks during the year and business initiatives to reduce inventory levels generally. Debtor days were 50 at the end of the year (2008: 48) with the small increase being driven mainly by changes in sales mix. Creditor days returned to more normal levels (51 in 2009 compared to 78 in 2008) having increased at the end of 2008 due to a strategic increase in chrome ore purchases towards the end of 2008 and the timing of some large payments close to the end of the year. Spending on exceptional items was £14.7 million in the year, consisting of £7.6 million on one-time hedging.

costs announced previously and £7.1 million relating to the Chromium plant closure. In 2010 it is anticipated that a further £10.4 million will be spent on this programme. Spending on acquisitions in 2009 of £5.6 million relates to the acquisition of Fancor and currency movements in the year reduced net debt by £11.6 million. The ratio of net debt to EBITDA at the end of 2009 was 1.8 (2008: 1.0) and increased primarily because of the lower operating profit.

#### Balance sheet

|                         | 2009<br>£million | 2008<br>£million |
|-------------------------|------------------|------------------|
| Intangible fixed assets | 210.2            | 227.3            |
| Other net assets        | 33.8             | 104.9            |
|                         | 244.0            | 332.2            |
| Equity                  | 178.0            | 268.3            |
| Net borrowings          | 66.0             | 63.9             |
|                         | 244.0            | 332.2            |
| Gearing <sup>2</sup>    | 27%              | 19%              |

2 The ratio of net borrowings to equity plus net borrowings

Equity decreased by £90.3 million during the year (2008: increase of £38.4 million) with currency fluctuations, as both the dollar and euro weakened against sterling, accounting for £25.1 million of the decline (2008: £65.8 million increase). Other significant factors that impacted the net assets of the Group were the increase in provisions, relating to the Eaglescliffe closure and the EU commission fines, and the increase in the pension deficit.

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

|           | 2009<br>Year end | 2009<br>Average | 2008<br>Year end | 2008<br>Average |
|-----------|------------------|-----------------|------------------|-----------------|
| US Dollar | 1.61             | 1.55            | 1.44             | 1.89            |
| Euro      | 1.13             | 1.12            | 1.03             | 1.28            |

#### Provisions

A provision is recognised in the balance sheet when the Group has a present obligation as a result of past events which is expected to result in an outflow of economic benefits in order to settle the obligation. At the end of 2009 the Group held provisions of £56.4 million (2008: £21.8 million).

The Group had a provision for environmental costs of £17.4 million at 31 December 2009 (2008: £20.0 million) of which £7.2 million relates to ongoing businesses (2008: £8.3 million) and the remainder to sites no longer controlled by the Group. These balances have been derived using the estimates provided by external consultants during 2008 which have been adjusted for actual costs incurred in 2009, with the same consultants reviewing the potential development of liabilities with management during 2009. Following the closure of the Eaglescliffe facility, a separate provision was created for anticipated site remediation costs and employee costs. £16.6 million of the provision remained at the year end.

and it is anticipated that £10.4 million will be spent in 2010. Also included within provisions at the year end is £20.8 million relating to the EU Commission fines.

#### Pensions and other post retirement benefits

|                 | 2009<br>£million | 2008<br>£million |
|-----------------|------------------|------------------|
| Net liabilities |                  |                  |
| UK              | (43.1)           | (12.7)           |
| US              | (19.5)           | (29.0)           |
| Netherlands     | (1.1)            | (1.0)            |
| Other           | (5.7)            | (6.6)            |
|                 | (69.4)           | (49.3)           |

The Group operates several pension plans in different countries and a retirement medical scheme in the US. The largest of these is the UK defined benefit pension scheme ("UK scheme") which had a deficit under IAS 19 of £43.1 million at the end of 2009, an increase of £30.4 million over the previous year. Gross liabilities under the scheme increased by £67.7 million during the year, principally due to a decrease in corporate bond yields and an increase in market inflation expectations. The scheme assets also increased in the year to £386.4 million (2008: £349.1 million), partially offsetting the increase in liabilities. The increase was mainly driven by a positive investment return of 16 per cent (2008: negative four per cent), as markets recovered from the sharp downturn experienced towards the end of 2008. Total contributions made to the scheme in the year, including deficit payments and service costs, were £7.7 million (2008: £7.7 million). Discussions with the UK trustees are ongoing regarding the triennial valuation and funding plan, based on a valuation date of 30 September 2008. Financial markets were extremely volatile around that time which made it a particularly difficult period to carry out a valuation. It is likely that the triennial valuation will arrive at a deficit value of £100-125 million, which is higher than the deficit shown in the Group accounts on an IAS 19 basis at the end of 2008. There were two main reasons for this difference. The triennial funding valuation uses a discount rate based on a prudent estimate of the expected return on the scheme's assets, whereas IAS 19 uses a discount rate based on high quality corporate bond yields. In previous years the discount rates under these two approaches have been broadly similar, but during 2008 changes in corporate bond yields increased the gap between the two rates, which has placed a relatively lower assessed value on the scheme's liabilities under IAS 19. Also, in the months leading up to the triennial valuation date of 30 September 2008, the financial market expectation for future price inflation was higher than it was towards the end of the 2008, further reducing the IAS 19 valuation relative to the triennial valuation.

The previous triennial valuation was carried out as of 30 September 2005, at which time the Company and trustees agreed upon a deficit value of £49.5 million and the Company agreed to make deficit contributions of £6.2 million per annum until September 2015. Based on the latest triennial valuation, the Company has indicated to the trustees that it is willing to increase the deficit contribution to £8.0 million from 2010 until such time as the deficit is eliminated.

**1.4p**

Final recommended dividend for 2009

## FINANCE REPORT

### continued

As mentioned under "Exceptional items" the Group recorded a one-time gain of £5.5 million in 2009 relating to pensions bridging between retirement and state pension age.

The US pension plan is smaller than the UK scheme, with assets of \$74.5 million (2008: \$64.8 million). The deficit in the plan decreased by \$10.2 million, largely due to a 28 per cent gain on the assets in the year (2008: 32 per cent loss) as equity markets in the US

recovered from the 2008 downturn. This gain is greater than for the UK scheme because the US plan has a larger percentage of its assets in equities. Plan liabilities were similar to the previous year because assumptions for US inflation, corporate bond yields and mortality rates remained unchanged.

The other schemes are smaller than the UK and US pension plans and showed only modest changes in deficit values.

### Key performance indicators

The Group's key performance indicators are a standard set of measures against which each business reports on a monthly basis. Incentive plans include targets against the annual operating plan for operating profit and average trade working capital to sales ratio.

#### 1 Operating profit/operating margin

Operating profit is the profit derived from the normal operations of the business. Operating margin is the ratio of operating profit or loss, before exceptional items, to sales. The Group achieved an operating profit, before exceptional items, of £23.4 million for the year ended 31 December 2009 (2008: £52.0 million). The Group's operating margin was 6.4 per cent compared to 13.0 per cent in 2008.

#### 2 Trade working capital to sales ratio

The trade working capital to sales ratio is defined as trade working capital divided by sales, expressed as a percentage. Trade working capital comprises inventories, trade and other receivables and trade and other payables. It specifically excludes prepayments, capital or interest related receivables or payables, working capital related to acquisitions made in the year, changes due to currency movements and items classified as other receivables and other payables. The Group's trade working capital to sales ratio at 31 December 2009 was 27.7 per cent (2008: 19.6 per cent).

#### 3. Return on operating capital employed

The return on operating capital employed is defined as operating profit before exceptional items divided by operating capital employed, expressed as a percentage. Operating capital employed comprises fixed assets (excluding goodwill), working capital and operating provisions. Operating provisions include self insurance and environmental provisions but exclude restructuring provisions and retirement benefit obligations. The Group's return on operating capital employed was 13.0 per cent for the year ended 31 December 2009 (2008: 31.9 per cent).

#### 4 Lost time accidents

A lost time accident ("LTA") is any work related injury or illness sustained by an employee or directly employed contractor whilst working at the Group's premises that results in greater than three days lost, excluding the day of accident. There were two LTAs in 2009 (2008: three).

#### 5 Contribution margin

Contribution, which is defined as sales less all variable costs, divided by sales and expressed as a percentage is the definition of contribution margin. The Group's contribution margin in 2009 was 31.6 per cent (2008: 33.7 per cent).

#### 6 Operating cash flow

The operating cash flow is defined as the net cash flow from operating activities less net capital expenditure but excluding income taxes paid or received, interest paid or received, pension contributions net of current service cost and exceptional items. In 2009 the operating cash flow was £32.0 million (2008: £49.2 million).

● Operating profit (£m) — Operating margin (%)

## Principal risks and uncertainties

### Risk management framework and review

The Board is ultimately responsible for the management of risk in the Group. With guidance from management and advisers, where appropriate, it sets the tone for the Group's policies on risk, appetite for risk and levels of risk tolerance and specifically approves the Group's insurance programme and risk management policies and plans, significant insurance and/or legal claims and/or settlements, major acquisitions, disposals and capital expenditures, and the Group's Annual Operating and Three Year Plans. The day to day management of risk is delegated to the executive directors and the management team, who have specific responsibility for ensuring compliance with and implementing policies at corporate, divisional and business unit level. The Board retains an oversight role and has a schedule of matters specifically reserved to it for decision, with strict delegation of authority limits that have been communicated throughout the businesses and are well understood by the management team and business leaders.

During 2009, the Chief Executive, Finance Director and the rest of the senior management team (comprising the business managing directors and other functional heads) met formally 11 times to review business strategy and performance, including matters concerning risk management, where appropriate. Management reports key risk management activities to the Board at least four times a year, with further reports on an ad hoc basis as appropriate. The first report was in June to present the Group's insurance renewal proposals and highlight any significant change in insurance underwriters' perception of the organisation from a risk transference standpoint. The second briefing in October involved presentations from the businesses on health, safety, environmental and legal risks. In December, a summary of the Group's risk management processes, including a summary of the key risks identified by management during its formal annual review of risk and risk management activities, was presented to the Board for approval. At the December Board review, business and corporate risk maps prepared by management were discussed and approved. These risk maps summarise key risks from a list of risks identified by the businesses and are categorised and ranked according to severity and likelihood, along with actions recommended or implemented to reduce or eliminate the risk. The Board then reviewed and approved the disclosures on principal risks and uncertainties and the description of risk management activities in each Annual Report, as well as the statement on internal control, at its meeting in February.

At its other meetings during 2009, the Board discussed other risks related to the triennial valuation of the UK pension fund, the economic downturn and the Group's borrowing facility and associated covenants. In addition to the presentation of legal risks at its meeting in October, the Board receives legal reports at its February and July meetings, as part of the general review and approval of the respective preliminary results announcement and

Annual Report and the interim management report and half year results. The Board is kept appropriately advised throughout the year of any material legal issues or developments that may arise.

Another important part of the Board's approach to risk management concerns the Company's system of internal control and the processes that have been put in place to manage the associated financial, operational and compliance risks and keep them under review. A key aspect of the internal control framework is the internal audit service and the role of the Audit Committee. The report of the Audit Committee, including a description of its role, and the statement on internal control are set out in the Corporate governance report on pages 27 and 28.

The Group carried out a benchmarking exercise of its risk management processes last year, comparing its processes and standards with the UK Risk Management Standard ("Standard"), issued by the Association of Insurance and Risk Managers and the Institute of Risk Management. One or two areas of improvement were identified, which have since been addressed, but otherwise the Group is considered to have met most of the requirements of the Standard which are that the Group is aware of the need for sound risk management procedures and demonstrates strong risk awareness and a culture built around mitigation wherever possible. In 2009 the Group continued to invest time and resource across a range of risk management strategies. These included actions to reduce the severity and likelihood of some risks and working closely with the Group's insurance broker and major insurer to transfer other risks. However, despite best efforts, it is recognised that there remains the possibility that an identified risk may turn into a reality, or that a previously unidentified risk manifests itself, causing loss to the Company. Elementis has an established Business Continuity Plan ("BCP") to help ensure that the business can continue to operate in the event of a major incident or crisis. The BCP is embedded throughout the organisation and is periodically tested, audited and subject to continual improvement.

### Commercial risk

The main risk and uncertainty currently facing the Group's businesses is the extent to which the economy can recover from the recent economic recession and the threat of a double-dip recession in 2010. However, the actions taken by management in 2009 have lowered the business's cost base, thereby making it more resilient against the effects of a further deterioration in economic conditions. The geographical spread of customers and the breadth of product applications help to reduce the Group's exposure to local economic downturns. The closure of the UK chromium facility in 2009 has reduced the exposure of the Chromium business to economic downturn as the remaining US business manufacturing base is better able to maintain margins because of its more flexible production facilities and more differentiated products.

## FINANCE REPORT

continued

### Principal risks and uncertainties

continued

#### Regulatory risk

Regulations such as REACH (the EU's regulations concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals) could affect sales of some chemicals. The Group mitigates this risk by ensuring that all of its products are fully compliant with the REACH regulations. There is also a risk that new regulations could restrict the Group's sales of some of its products or cause customers to look for alternative products. The Group mitigates this risk by continually seeking to diversify its product range and to develop products that meet or anticipate its customers' needs, including any regulatory concerns.

#### Raw materials and energy risks

A significant part of the Specialty Products business depends on hectorite clay from the Group's own open pit mine in California. While this provides a secure source of clay, there remains a risk from the exposure to flash flooding and earthquake, which are known to have occurred in the past in that region and so may recur in the future. Sufficient inventory of mined clay is held at the surface level to minimise the impact and disruption that such an event might cause.

The Chromium business is particularly sensitive to energy pricing. Climate change regulations designed to reduce carbon dioxide emissions from fossil fuels as well as global supply/demand trends for energy could make energy more expensive in the future. To mitigate this, the Group works continually on improving energy efficiency and to secure stable energy supplies through hedging contracts and by investing in a capability to use multiple sources of fuel.

#### IT risk

The Group is highly dependent on IT systems for managing its businesses. There is the ever present threat of a security breach and disruption to voice and data infrastructure, which is a risk common to many organisations. The Group has an ongoing review programme in place to ensure that systems are updated and maintained adequately and in a timely manner. Overall Elementis is confident that it has a high level of resilience in its IT systems and infrastructure, and that IT management has adopted good industry practices for protecting against malicious attacks and operational downtime from other non-malicious problems including fire, natural perils and staff unavailability.

#### Legal, governance, compliance and insurance risk

Other risks faced by the Company include governance and compliance risk. Lack of Board oversight and processes or ineffective management teams can lead to significant financial loss or loss of strategic direction. These risks are mitigated by regular Board meetings with a comprehensive agenda, regular evaluations of Board and management team members and regular Board reviews of strategy, business plans and compliance programmes. Like many companies, the Company's UK pension fund has seen the size of its deficit increase

over the past few years, largely as a result of changes in assumptions that are used in the valuation of pension liabilities, such as the rate of mortality, as well as depressed equity prices and bond yields. Changes to these assumptions or to pensions legislation could have a material impact on the size of the pension fund deficit and the Company's ongoing funding liability.

Breach of anti-trust, HSE or other laws or regulations from historical or ongoing operations can lead to a major financial loss, public censure or both, thereby damaging the creditworthiness and/or reputation of the Company, either of which can damage the Company's long and short term market value. These risks are mitigated by our risk management programmes, including web-based compliance training for employees, regular HSE compliance audits, supported by external advisers and the internal audit service, and insurance.

In terms of the key legal risks, there is a risk of material toxic tort, environmental and other claims from historical and ongoing operations. Some of these risks, in the case of previously owned operations, may be mitigated or reduced as a result of continuing warranties or indemnity provisions negotiated when such operations were disposed of. Despite having insurance in place there is always the possibility of an under-insured or uninsured claim and, in the extreme, an insured limit might be exceeded. However, Elementis has a robust programme in place to actively manage and defend against legal action or claims relating to its operations, products and manufacturing facilities. The programme is led by the Group General Counsel, who is supported by an in-house team and professional advisers. Litigation reports are reviewed regularly by the Board.

In connection with the EU investigation into competition issues relating to heat stabilisers, the outcome of that investigation and the Company's response to it is described in the Chairman's statement.

#### Treasury policies and objectives

Treasury activities are governed by policies and procedures approved and monitored by the Board. The Group operates a central treasury function which manages and monitors external and internal funding requirements and the following treasury risks:

- Credit risk,
- Liquidity risk,
- Market risk

These risks and the Group's policies to manage them are set out in Note 22 to the Financial Statements.

**Brian Taylorson**  
Finance Director  
23 February 2010

## CORPORATE SOCIAL RESPONSIBILITY

Elementis places great emphasis on protecting people and the environment from harm. The Board considers that compliance with all applicable laws and regulations, and the effective management of health, safety and environmental ("HSE") issues, are critical to the long term success of the Group. In addition to legal and regulatory compliance, and a moral duty to maintain high standards in HSE and ethical performance, attention to these aspects of our business, including stewardship of our products through their life-cycle, also makes good business sense to minimise the costs associated with poor performance and the risk of damage to reputation and brand. It is the policy of Elementis to promote honest, ethical and lawful conduct by all employees, officers and directors of the Group in all aspects of the business.

### Business conduct and ethics

The Board has adopted and disseminated throughout the Group an Elementis Code of Business Conduct and Ethics (the "Code") and an Anti-corruption Policy (the "Anti-corruption Policy"). The aim is to help employees understand the Group's standards of ethical business practices and to stimulate awareness of ethical and legal issues that may be encountered in carrying out their responsibilities. In addition, Group businesses are expected to require independent contractors, consultants, agents and sales representatives who represent the Group to agree to the same high standards as the Group's employees while working on Group business.

The Code requires all employees to comply with applicable laws, governmental rules and regulations, including making full, accurate and timely disclosures in the periodic reports required to be filed by the Group with regulators and in other public communications made by the Group. The Anti-corruption Policy prohibits the giving of anything of value to any person in government or state-owned companies, a political party or persons holding public office, including candidates, or performing public duties in order to obtain or retain business or secure an improper advantage with respect to any aspect of the Group's business.

Employees are required to adhere strictly to the Code and to report any violations of the Code or the Anti-corruption Policy promptly to a responsible supervisor, the Group General Counsel or other appropriate internal authority. In order to help employees comply with the Code and Anti-corruption Policy, clear guidance is given on matters such as competition law, bribery, political donations,

the giving and receiving of gifts, conflicts of interests and Group whistleblowing procedures. In addition, the Code is supported by a non-retaliation policy to protect employees who communicate bona fide concerns relating to lawful or ethical business conduct, and audit or accounting procedures or other related matters.

As well as policies and guidance, the Group recognises the importance of providing training. Web-based, modular training courses, designed in conjunction with the Integrity Interactive Corporation, are offered to employees across the Group. Some of these courses are mandatory for all employees, such as training on the Code, and others are only mandatory depending on the job role or position. These courses include topics such as Mutual respect in the workplace, Human rights, Environmental stewardship, Anti-trust, Privacy and data protection and Financial integrity. On-site training, for example on health and safety, is also provided.

The Group General Counsel is responsible for ensuring adherence to the Code, Anti-corruption Policy and all matters related to business conduct and ethics, and legal and regulatory compliance.

### HSE leadership

The Group Chief Executive takes leadership of HSE matters at Board level with direct lines of reporting from the operational facilities. This includes formal monthly reports on HSE performance and rapid notification of HSE incidents wherever they may occur throughout the world. A manufacturing council, comprising senior manufacturing and HSE managers, reviews performance monthly, sets standards and initiates improvements.

Elementis joined the FTSE4Good Index in September 2009

## CORPORATE SOCIAL RESPONSIBILITY

continued

### Elementis policy on HSE

Elementis conducts business globally with the highest concern for the health and safety of our employees, contractors, customers, neighbours and the general public and for the environment in which we operate

Elementis seeks to identify and eliminate occupational health hazards, is committed to providing a safe workplace for all employees and strives for zero injuries as part of our continual improvement process

Elementis operates facilities to minimise impact on the environment. We view compliance with all applicable legal requirements and other codes of practice as our minimum standard. Our sustainable development strategy requires that we work proactively to reduce emissions, minimise waste from our processes, conserve valuable natural resources and ensure responsible product stewardship up and down the supply chain

Elementis recognises the importance of communication with all interested parties and is committed to open dialogue with our neighbours, contractors, customers and the general public about our operations

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

### Working towards an injury free work environment

Our principal measure of performance is recordable incidents<sup>1</sup>. Recordable incidents are work related injuries and illnesses that require medical treatment beyond first aid. An important sub-set of recordable injuries is lost time accidents ("LTAs"), which generally reflect on the severity of such injuries and illnesses. Given the low frequency of LTAs we use recordable incidents as our standard measure

In 2009, as a result of effective design of working practices, good leadership from management and safe behaviours, we were able to limit recordable incidents to just nine globally. Of these one was in the UK, four were in the US, two were in the Netherlands and two were in China. While all recordable injuries are regrettable, it is encouraging to note that the level of severity was at the low end of the spectrum, with no injuries with longer term effects on the employees involved

The recordable incident rate for 2009 was 0.69 per 200,000 hours worked (2008 0.73). Given the low number of incidents, the slight improvement in rate, while welcome, shows consistency rather than statistical significance. Based on American Chemistry Council statistics, our recordable incident rate continues to rank amongst companies that are generally viewed as "best in industry"

The chart below illustrates our performance over the last five years. This clearly demonstrates that the Elementis culture has the right discipline and focus on safety as we continue to work towards an injury free workplace

Using the UK Health & Safety Executive's definition of LTAs (greater than three days lost, not including day of incident), two of the recordable incidents were classed as LTAs in 2009 (2008 three<sup>2</sup>), giving a rate of 0.08 LTAs per 100,000 hours worked (2008 0.12)

We have contractors working at our sites and place great emphasis on their safety. Through effective control of contractors, ensuring they comply with Elementis safe systems of work and their own efforts, performance is comparable to that for Elementis employees. The contractor recordable incident rate in 2009 was 0.63 per 200,000 hours worked (2008 1.01)

### Safety goal

Our goal remains zero recordable incidents, with continual improvement in the health and safety of our employees leading to year on year improvement in safety performance

### Commitment to the environment

As stated in our HSE policy we are committed to minimising the impact of our facilities on the environment. We believe that we have achieved a high level of environmental performance, with a corresponding low level of environmental incidents

As well as complying with environmental regulatory reporting requirements, Elementis records and categorises incidents into tiers based on the severity of the incident on the environment or actions taken by regulatory authorities. Tier 3 incidents are those that have an impact on the environment and require reporting to an external authority, who are likely to take action. Tier 2 incidents have a minor impact and require notification but are likely to result in minimal or no action by the authorities. Tier 1 incidents require no external reporting and are recorded internally and investigated so that continual improvements can be made to reduce the likelihood of future Tier 2 and Tier 3 incidents

---

**0.69**

Recordable incident  
rate per 200,00 hours

1 As defined by the Occupational Safety & Health Administration ("OSHA") in the US

2 Reported last year as two in error

In 2009 Elementis had excellent success in preventing environmental incidents: there were no Tier 2 or Tier 3 incidents (2008: zero Tier 2, one Tier 3). As noted above we do not report Tier 1 incidents externally as these are treated as operational learning opportunities rather than non-compliances.

#### Environmental performance

Emissions to air, discharges to water and waste disposal are regulated by external authorities and controlled carefully within Elementis. The table below shows our performance in this area as well as our water and energy usage over the past three years.

It should be noted that the data presented in the table below is, in part, a function of production output. In 2009 the closure of the Eaglescliffe facility, in addition to generally reduced production levels elsewhere in the Group, had a major one-time impact on emissions, waste, and water and energy consumption. The columns showing per tonne of production are affected by changes in the product mix and plant efficiencies. In 2009 there were significant changes in these variables due to the closure of Eaglescliffe and temporary plant shutdowns in response to the economic downturn. Furthermore, as is standard practice in the chemical industry, some emission values may be calculated from energy use or based on samples rather than continuous monitoring. However, environmental emissions, discharges and solid waste data are subject to periodic internal audits to ensure accuracy and consistency of reporting.

#### Emissions to air

Elementis is aware of the global need to reduce greenhouse gas ("GHG") emissions, such as carbon dioxide ("CO<sub>2</sub>"), because of its link to global warming, and is committed to reducing, wherever it can, its emissions of GHGs. The Group complies with relevant national CO<sub>2</sub> reduction schemes and is preparing for new schemes, such as the Carbon Reduction Commitment cap and trade scheme in the UK, and the Greenhouse Gas Reduction Rule, which will apply to some of our facilities in the US. The closure of the chromium chemicals site at Eaglescliffe, UK, will reduce significantly the Group's CO<sub>2</sub> emissions going forward.

The Group's operations also result in some emissions of the oxides of sulphur and nitrogen, which can cause acid rain. Volatile organic compounds, where emitted, can damage soil and ground water or combine with nitrogen oxide to cause smog. However, all these emissions are controlled to comply with regulatory permits and, as the volumes are not considered to be significant, they are not reported here.

#### Discharges to water

Maintaining the water quality of the areas in which we operate is a regulatory issue and vital to protect the ecosystems and communities in which we operate. The Group's production activity generates process effluent with low concentrations of organic material that is discharged to water. This is measured as chemical and biological oxygen demand. These are regulated by external authorities and managed carefully by Elementis. However, the volumes of these discharges are not considered to be significant and are not reported here.

In 2009, the plant in Charleston, West Virginia, completed major capital improvements to the wastewater treatment plant, allowing the process effluent to discontinue flow to the Charleston publicly owned treatment works ("POTW") and be discharged directly to the Kanawha River. This work was completed as part of a consent order with the City of Charleston to resolve treatment issues that the POTW had experienced with its treatment plant (as reported last year).

Any emissions to air or discharges to water above regulatory permitted levels will continue to be reported each year under environmental incidents.

#### Water consumption

With the exception of the Hectorite mine in California, the Company does not operate in areas of extreme water shortage. Nevertheless, water is a valuable resource and the Company recognises the global need to conserve water. Water consumption is minimised where possible by treatment and recycling.

# 0.08

Lost time accident rate per 100,000 hours

#### Environmental performance

|                                        | 2009          |                                | 2008          |                                | 2007          |                                |
|----------------------------------------|---------------|--------------------------------|---------------|--------------------------------|---------------|--------------------------------|
|                                        | Absolute '000 | Per tonne of production        | Absolute '000 | Per tonne of production        | Absolute '000 | Per tonne of production        |
| CO <sub>2</sub> emissions (tonnes)     | 206           | 1.01                           | 408           | 1.06                           | 361           | 1.01                           |
| Water consumed (m <sup>3</sup> )       | 1,263         | 6.21                           | 2,202         | 5.90                           | 1,997         | 7.15                           |
| Energy consumed (GJ)                   | 4,306         | 13.5                           | 6,964         | 13.6                           | 6,676         | 12.8                           |
|                                        | Absolute '000 | Per 1,000 tonnes of production | Absolute '000 | Per 1,000 tonnes of production | Absolute '000 | Per 1,000 tonnes of production |
| Hazardous waste disposed (tonnes)      | 3.02          | 14.86                          | 1.23          | 3.18                           | 1.04          | 2.99                           |
| Non-hazardous waste disposed (tonnes)* | 87            | 426                            | 180           | 465                            | 155           | 444                            |

\* The data for 2007 and 2008 have been restated because of an omission made in error last year.

## CORPORATE SOCIAL RESPONSIBILITY

continued

### Energy consumption

Conserving energy is important for sustainable development. The use of fossil fuels in energy production results in GHGs, which may contribute to global warming. There is also the added incentive that energy is an expensive resource and its efficient use has a significant effect on the cost of production. As the Group uses a range of fuel sources purchased conventionally in a variety of units, we report usage in gigajoules ("GJ") to provide consistent energy units. Energy consumption in the Chromium business reduced by 40 per cent compared to 2008, partly due to the closure during the year of the Eaglescliffe plant in the UK and partly due to reduced working in the US in response to the economic downturn. In the Specialty Products and Surfactants businesses, energy consumption reduced by 30 per cent, partly due to temporary site closures in periods of low demand. The production of chromium chemicals accounts for just over 70 per cent of the energy consumption in the Group (2008 just under 80 per cent). This figure is expected to reduce further as a result of the closure of the Eaglescliffe facility.

### Solid waste

The Company is committed to minimising the quantity of all types of waste. The quantity of hazardous waste resulting from operations in Elementis has reduced significantly over the last decade. The increase in 2009 is due to some specific site remediation projects: the dismantling of a rotary hearth at the Corpus Christi facility and removal of contaminated soil at the Charleston facility that occurred under a previous owner of the site. The low level that remains from Elementis operations is highly controlled and subject to licensed disposal. Non-hazardous waste is minimised and recycled as far as possible. Non-hazardous waste is predominantly the inert residue from the chromate kiln operations, which is deposited in our own licensed landfill sites adjacent to the manufacturing facilities. Alternative or recycled uses have been explored but to date there is no technically viable commercial alternative to landfill. However, the cessation of chromate kiln operations at the Eaglescliffe facility will reduce significantly the volume of non-hazardous waste going to landfill.

The Group encourages the re-using, reduction and recycling of general office waste and recycling schemes are in place at various office locations. The amounts of general office waste is not reported separately from non-hazardous waste as the volumes are not considered to be significant.

### Environmental target

Our target is to comply with all environmental regulations and permits, with zero environmental incidents classed as Elementis Tiers 2 and 3. Beyond that we will strive for continual improvement in standards to reduce our impact on the environment.

### HSE hazards and risks

Elementis is committed to identifying hazards and reducing risk to people and the environment.

New equipment and plant modifications are subject to HSE review including, where appropriate, hazard and operability studies. A formal modification control system is employed to ensure that changes to plant and equipment are approved with due consideration of risk as well as financial cost. To provide assurance that equipment is installed and maintained in a safe condition, process safety auditing has been added to the corporate HSE audit programme.

The Group has a set of policies to cover life critical activities such as working at heights and in confined spaces. Many sites are certified to external standards such as ISO 14001, OHSAS 18001 and OSHA VPP. Maintenance is conducted under permits to work, which require risk assessments that are either documented or based on the knowledge and experience of the operations supervisor.

A well established, mandatory incident reporting system records HSE incidents (including near misses) worldwide throughout Elementis. A structured investigation process is then adopted to establish root causes and implement effective corrective actions. Learning from these incidents is then shared across the Group through conference calls and safety alert bulletins. The aim is to help prevent similar incidents occurring elsewhere and, in the case of repeat occurrences, to identify trends for further action.

Major hazards and risks (including those from natural perils) are identified and included in the section on Principal risks and uncertainties.

### Continual improvement in HSE

Each site has an annual plan including HSE objectives that is intended to have a positive impact on safety. These plans are drawn up in conjunction with the manufacturing council who then monitors performance and provides guidance to achieve the desired results.

### Social responsibility

The Group Chief Executive has Board level responsibility for social and community matters, although day to day responsibility is delegated to the business managing directors.

Elementis recognises the international standards for human rights and strives to ensure equality of opportunity and fair rewards for expertise and knowledge at all its locations globally. Details of our employment policies and information about employee communication are summarised in the Directors' report on page 22. The Company also recognises that its employees and contractors, customers and suppliers (where relevant), have a right to expect the Group to respect their wider fundamental human rights and is supportive of this view. The Group's Code of Business Conduct and Ethics sets standards and provides guidance to ensure that, wherever relevant or practicable, consideration is taken in business decisions of the wider fundamental human rights of all employees, contractors, customers and suppliers.

The Company undertakes regular customer satisfaction surveys and also has a customer service policy with key account management operated to ensure that the views of our customers can be taken on board with regard to HSE matters. The Group is open to collaborating with customers to develop new products and is currently undertaking collaborative research to develop "greener" alternatives for use in the products we manufacture. This kind of research is still at a very early stage but it demonstrates our commitment to reduce the impact of our operations on the environment.

Our global procurement team is primarily responsible for engaging with and encouraging suppliers to promote social responsibility within their supply chains. A groupwide employee training programme is in place which includes courses on Mutual Respect, Environmental Awareness in Manufacturing and Environmental Stewardship.

Elementis also takes care to ensure that its activities do not cause long term damage to the biodiversity in the areas where it has operations. In this regard, the Group has policies and systems in place to ensure full compliance with environmental requirements.

In September 2009 Elementis was recognised as having met the corporate responsibility criteria for inclusion in the FTSE4Good index – a leading global responsible investment index.

#### Product stewardship

Elementis recognises its responsibility to ensure that its products are safe for intended use, transport and the environment throughout the product life cycle. Safe use is guided by long experience of many of our products in conjunction with third party studies and regulatory requirements. Information is provided via technical bulletins, safety data sheets and labelling – supported by discussion with our customers and suppliers, and participation in studies by industry associations.

We continuously adopt a consistent and coordinated approach to regulatory matters concerning our products at global, national and regional levels which complement industry voluntary efforts. Where new regulations are required, we believe they should be based on established scientific risk assessment and risk management principles. They should be predictable, flexible and capable of responsibly addressing society's economic, environmental and safety requirements.

The Group is fully engaged in the new European REACH programme with more than 700 substances pre-registered to cover products manufactured in Europe, imported products and required raw materials. To support our global customers and markets, we implemented a structure to enable us to provide "Only Representative" services under REACH to cover imports into Europe by Group entities and key customers, and

we created a framework to cover "re-imports" into Europe. The Product Stewardship team is involved in many consortia coordinating the REACH registration of our most important product categories. We will continue providing active support to consortia and organisations such as CEFIC (European Chemical Industry Council) and SIEF (Substance Information Exchange Forum) as appropriate. Elementis expects to meet all its REACH registration requirements by the deadline set for the current phase in REACH, which is November 2010.

In addition to complying with the REACH regulatory requirements for its products, Elementis is implementing new systems, assessments and documents to comply with the United Nations Globally Harmonised System ("UN GHS") for classification and labelling rules in many countries around the world. Specifically in the European Union, Elementis is putting in place the structure and IT tools to accommodate compliance with the European Regulation on the Classification, Labelling and Packaging of Substances and Mixtures (CLP Regulation), which is the EU implementation of the UN GHS criteria required by December 2010.

#### Community involvement

Elementis works with local communities to provide information on its activities and be a responsible neighbour. The Company provides focussed support for children and disadvantaged groups, and encourages employees to be active in their communities through volunteer work or fundraising.

Including donations made in the UK, which are disclosed on page 24, the Group made charitable donations worth more than £23,693 in 2009 (2008: £15,400) to 35 (2008: 34) different organisations supporting various causes in and around the locality of our offices and plants in the US and UK. Organisations and groups supported last year include local youth and sports clubs, schools, arts groups, hospice and other welfare related groups, and medical research and health related charities. In addition to the above amount, our business donated a further £9,752 to charities in Taiwan including to the Red Cross relief effort for victims of the Typhoon Morakot floods.

The Company also operated a payroll giving programme in the UK and, for over ten years, the Eaglescliffe operations in Stockton-on-Tees have leased at peppercorn rent 1.16 acres of land to a local ecology and conservation study group which is used by schools to conduct environmental studies and as a calming, learning environment for children with emotional and behavioural difficulties. Some of our employees act voluntarily as officers of the group. The conservation group has in recent years set up partnerships with two local schools who use the site as Forest School classrooms where children can learn about ecology and the natural environment.

**£33,445**

Group charitable donations made in 2009

**BOARD OF DIRECTORS**

1

2

3

4

5

6

7

**BUSINESS MANAGING DIRECTORS**

8

9

## Board of directors

### 1 Robert Beeston, age 68

Chairman<sup>N</sup>

Robert Beeston was appointed non-executive Chairman of Elementis and Chairman of the Nomination Committee in September 2006. He is non-executive chairman of Cookson Group plc and non-executive director and chairman of the remuneration committee of D S Smith plc, where he was the senior independent director from 2003 to 2009. From 1992 until 2002 he was chief executive officer of FKI plc. He spent 18 years with Dowty Group before joining John Brown Plastics Machinery (UK) Ltd as managing director. In 1985, he was appointed managing director of BTR Valve Group a position he held for six years before joining FKI plc.

### 3 Brian Taylorson, age 54

Finance Director

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

### 5 Andrew Christie, age 53

Non-executive Director<sup>A, N, R</sup>

Andrew Christie was appointed a non-executive director in August 2008 and has 25 years of investment banking and international corporate finance experience. He was until March 2008 a UK managing director in the European Investment Banking Group at Credit Suisse. In his prior role at Credit Suisse he was head of Investment Banking, Asia Pacific based in Hong Kong and, before that, held the same position with Barclays de Zoete Wedd. He is also non-executive chairman of Ark Therapeutics Group plc and holds an MBA and a Bachelor of Science degree in engineering.

### 7 Kevin Matthews, age 26

Non-executive Director<sup>A, N, R</sup>

Kevin Matthews was appointed a non-executive director in February 2005 and Chairman of the Remuneration Committee in April 2008. He is chief executive officer of Isogenica Limited, a private biotechnology business based in the UK and established in 2000. Prior to that, he was CEO of Oxonica plc, a UK-based nanotechnology company, a role he held from April 2001 to September 2009 and previous to that he held roles in Rhodia Consumer Specialties Limited, Albright & Wilson UK Limited and ICI Chemicals and Polymers. He holds a DPhil in chemistry.

### 2. David Dutro, age 54

Group Chief Executive

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

### 4. Ian Brindle, age 66

Senior Independent Director<sup>A, N</sup>

Ian Brindle was appointed a non-executive director and Chairman of the Audit Committee in June 2005. He retired as Chairman of the Audit Committee in April 2008 and was appointed Senior Independent Director. He was until 2001 UK chairman of PricewaterhouseCoopers, was a member of the Accounting Standards Board between 1992 and 2001 and the deputy chairman of the Financial Reporting Review Panel between 2001 and 2008. He is a non-executive director and chairman of the audit committee of Spirent Communications plc, the senior independent director on the board of 4imprint Group plc and non-executive chairman of Sherborne Investors (Guernsey) A Limited.

### 6 Chris Girling, age 56

Non-executive Director<sup>A, N, R</sup>

Chris Girling was appointed a non-executive director in April 2005 and Chairman of the Audit Committee in April 2008. He was group finance director of Carillion plc, a construction and support service group, from 1999 to 2007, and previous to that he was finance director of Vosper Thornycroft plc for ten years. He holds an MBA and is a fellow of the Institute of Chartered Accountants in England and Wales. He is an independent trustee for a city law firm's pension fund and a non-executive director of ARCO Limited.

#### Key to membership of committees

A Audit Committee

N Nomination Committee

R Remuneration Committee

## Business managing directors<sup>1</sup>

### 8 Greg McClatchy, age 45

President of Elementis Specialty Products and Elementis Surfactants

Greg McClatchy was appointed President of Elementis Specialties<sup>2</sup> in January 2007. He joined Elementis Pigments in 1999, served as Managing Director of its Durham UK operations, was appointed President of Specialty Rubber in 2002, and President of Chromium in 2005. He was previously with Universal Foods (now Sensient Technologies Corp) and ICI's polymer additives business. Greg McClatchy completed his undergraduate studies in chemistry and economics at the University of Delaware.

### 9. Dennis Valentino, age 57

President of Elementis Chromium

Dennis Valentino re-joined Elementis as President of Elementis Chromium in April 2009. His previous positions at Elementis included Managing Director of Asia Pacific and President of Elementis Pigments until it was sold in August 2007 when he left the Group. Prior to Elementis, he joined Pfizer Pigments in 1975 and held various positions there including director of research and development, vice president of manufacturing and vice president of its North America coatings business. Dennis Valentino completed his undergraduate study in chemical engineering at the University of Missouri - Rolla, and received his Master's in Business Administration from St. Louis University.

<sup>1</sup> Not members of the Board of directors

<sup>2</sup> Comprised of the Specialty Products and Surfactants businesses

(The terms "President" and "Managing Director" are used interchangeably although the actual title currently held is "President")

## DIRECTORS' REPORT

### Report and financial statements

The directors submit their report and the audited financial statements for the year ended 31 December 2009

### Principal activities, business review and future development

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

The main activities of the Group are the manufacture and sale of specialty chemicals. The Chairman's statement and the Business review both form part of this report. The Business review, on pages 4 to 19, contains a fair review of, and likely future trends and factors that might affect, the development, performance and position of the Group. A review of the Group's risk management framework as well as principal risks and uncertainties is set out on pages 13 and 14, and policies on financial risk can be found in Note 22 to the Financial Statements on pages 61 to 68. The Corporate social responsibility report on pages 15 to 19 summarises the Group's policy on business conduct and ethics, and sets out its approach to health and safety, the environment, social responsibility and community matters.

The Group undertakes, on a continuing basis, research and development activities for new products and to improve existing products.

### Results

The Group loss for the year attributable to equity holders of the parent amounted to £37.0 million (2008 profit of £19.8 million).

### Dividend

Details about the final dividend for the year are disclosed in the Chairman's statement on page 3.

### Directors

The directors of the Company are Robert Beeston, Ian Brindle, Andrew Christie, David Dutro, Chris Girling, Kevin Matthews and Brian Taylorson. All these directors served on the Board throughout the financial year. Robert Beeston, whose term of appointment as Chairman was due for renewal in September 2009, was re-appointed to that role for a second three year term. More information about the directors is provided in the Corporate governance report.

The interests of directors in the share capital of the Company are set out in the Directors' remuneration report.

At the 2010 Annual General Meeting ("AGM"), Robert Beeston and David Dutro will retire in accordance with the Company's Articles of Association and offer themselves for re-election by shareholders.

All directors took part in a formal performance evaluation and their performance continues to be effective and demonstrates commitment to their roles. The Board recommends the re-election of Robert Beeston and David Dutro. Biographical information on these two directors, as well as on the other directors, is shown on page 21.

### Employment policies

The Group Chief Executive is the Board member responsible for employee matters and he is assisted by a Vice President of Global Human Resources. The Group employs HR specialists throughout its worldwide locations to advise on all HR matters including training and development, and various HR performance indicators are maintained in order to monitor and evaluate the effectiveness of employment policies.

Elementis values the diverse backgrounds of all its people and works to create an open atmosphere of trust, honesty and respect. Harassment or discrimination of any kind – including that involving race, colour, religion, gender, age, national origin, citizenship, mental or physical disabilities, sexual orientation, veteran status, or any other similarly protected status – is unacceptable. This principle applies to all aspects of employment, including recruitment, hiring, placement, transfer, promotion, layoff, recall, termination and other terms and conditions of employment. The Group is committed to providing equal employment opportunities for all Elementis people and all applicants for employment, based on individual qualifications and without regard to the factors mentioned above. It is Group policy to comply with all applicable laws governing employment practices and not to discriminate on the basis of any unlawful criteria, and its practices include the prohibition on the use of child or forced labour. Employment policies are fair and equitable and consistent with the skills and abilities of the employee and the needs of the business. Elementis respects the rights of its employees to join a trade union or participate in collective bargaining arrangements and, out of its global workforce, approximately one third of all employees are represented by a trade union or collective agreements.

In terms of how our employment policies are applied to employees who have or acquire a disability, the Group's policy is, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

The Board expects the Group to conduct its operations based on sound ethical practices which are open and free from discrimination and harassment. Further information about the Group's policy on business conduct and ethics is set out in the Corporate social responsibility report.

### Employee communications and involvement

It is Group policy to communicate with all employees on major matters to encourage them to take a wider interest in the affairs of their employing company and the Group and to make them aware of the financial and economic factors affecting the Company's performance. This is done in a variety of ways including informal consultations, bulletins and briefing sessions. There are well established procedures, including regular meetings with recognised unions, to ensure that the views of employees are taken into account in making decisions likely to affect their interests. Managers throughout the Group have a responsibility to keep their staff informed of developments and matters of interest. The Company operates savings-related share option schemes allowing UK and US employees an opportunity to become shareholders, details of which are set out in Note 25 to the Financial Statements on pages 74 and 75.

### Going concern

The Group's business activities, together with the factors likely to affect its future performance and development are set out in the Business review on pages 4 to 19. The financial position of the Group and description of the principal risks and uncertainties are set out above in the Finance report on pages 13 and 14. Note 22 details the Group's exposure to credit, liquidity and market risk and its mechanisms for dealing with these risks.

The Group's primary source of funding is a syndicated £150 million revolving credit facility which is not due for renewal before July 2011, although the intention is to renew the facility during 2010. At the year end, the Group's net debt was £66.0 million. Compliance with covenants is reported half yearly to the syndicate of banks and involves tests for net debt/EBITDA ratio, interest cover and net worth. No breaches in covenants were reported during the year. Additionally, the Group uses various short and medium term forecasts to monitor anticipated future compliance and has modified the modelling to include worst case scenario planning in order to stress test the assumptions and identify the headroom on the covenant tests.

After evaluating the covenant compliance modelling and the ongoing trading of the businesses, the directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future as going concerns. For this reason they continue to adopt the going concern basis in preparing these financial statements.

### Share capital

The Company's share capital consists of ordinary shares, as set out in Note 7 to the Financial Statements of the Company on page 82. All of the Company's issued ordinary shares are fully paid up and rank equally in all respects. The rights attached to them, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association ("the Articles"). Other than those specific provisions set out in the articles, there are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them. From time to time the Elementis Employee Share Ownership Trust ("Trust") holds shares in the Company for the purposes of various share incentive plans and the rights attaching to them are exercised by independent trustees, who may take into account any recommendation by the Company. As at 31 December 2009 the Trust held 4,741,243 ordinary shares of five pence each in the Company. A dividend waiver is in place in respect of all shares held by the Trust.

### Directors, Articles and purchase of shares

Rules about the appointment and replacement of directors are set out in the Articles. Changes to the Articles must be approved by shareholders passing a special resolution. The directors' powers are conferred on them by UK legislation and by the Articles. The Board has the power conferred on it by shareholders to purchase its own shares and is seeking renewal of that power at the forthcoming AGM within the limits set out in the Notice of Meeting.

### Significant agreements – change of control

Other than as set out in this paragraph, there are no significant agreements to which the Company is a party which take effect, alter or terminate in the event of change of control of the Company. The Company is a guarantor under the Group's £150 million revolving credit facility which runs until July 2011. Under the terms of that facility, in the event of a change of control, any lender among the facility syndicate, of which there are eight with commitments ranging from £10 million to £27 million, may withdraw from the facility and that lender's participation in any loans drawn down are required to be repaid.

Under David Dutro's service contract with the Company, compensation is payable to him equivalent to one year's basic salary if he terminates his contract upon a change of control provided that the Company has not first obtained a written agreement to be bound by his service contract from any successor in a change of control. There is no specific change of control provision in Brian Taylorson's service contract with the Company but the provisions on early termination set out on pages 30 and 31 of the Directors' remuneration report apply and compensation equivalent to one year's basic salary and benefits would be payable if less than 12 months' notice of termination by the Company is given.

The rules of the Company's various share incentive schemes set out the consequences of a change of control of the Company on the rights of the participants under those schemes. Under the rules of the respective schemes, participants will generally be able to exercise their options on a change of control, provided that the relevant performance conditions have been satisfied and, where relevant, options are not exchanged for new options granted by an acquiring company.

### Significant relationships

The Group has in place a number of supply contracts for key raw materials that are essential to the business. In Specialty Products, supply contracts are for clays, quaternary amines and other chemical intermediates. The suppliers of these contracts are important and, although we have sought to develop a strategic long term relationship with them, we have taken steps to maintain a sufficiently broad base of suppliers to mitigate any supply chain risks. Specialty Products also owns and operates a hectorite clay mine in California which reduces our reliance on third party suppliers for raw materials. The Surfactants business sources a number of products from a reasonably wide base of third party suppliers for use in the manufacturing of its products. These include supplies for ethylene oxide, propylene oxide, nonylphenol ethoxylate and fatty alcohols. The Chromium division's key raw materials are chrome ore, soda ash and sulphuric acid. Chrome ore is sourced from a number of South African mining companies, while soda ash is sourced from suppliers in the UK and US. Sulphuric acid is sourced from suppliers in the US. The business is continually looking for new sources of supplies to broaden its base of suppliers. All businesses purchase energy in the form of natural gas, fuel oil or electricity. It is the Group's practice to enter into agreements with suppliers to lock in the price of at least 50 per cent of its energy costs for each year. Information about individual suppliers is not disclosed as the Board considers that disclosure would be seriously prejudicial to the Group.

## DIRECTORS' REPORT

continued

As its businesses are reasonably diverse in terms of the customers and sectors they serve, the Group is not dependent on any particular customer and therefore no further information is given. The Group supplies some of its products through approved distributors, who are able to provide or access technical support services, and has a joint venture in China at an organoclay plant and, whilst these relationships are an important part of our business, the Board does not consider any individual relationship to be essential to the Group. The Group values all of its employees and, although some perform roles that are more important to the business than others, the Board does not consider that the Group's success is materially dependent on any single individual. Additionally, the Board has reviewed its management succession plans and is satisfied that the Company's incentive arrangements are appropriate to attract, retain and motivate key people within the organisation.

### Substantial shareholders

As at 23 February 2010 the Company had been notified, in accordance with Rule 5 of the Disclosure and Transparency Rules, of the following interests in its issued ordinary capital

|                                          | Ordinary shares | Percentage of issued ordinary share capital |
|------------------------------------------|-----------------|---------------------------------------------|
| Schroder plc                             | 49,436,817      | 11.03                                       |
| Lloyds Banking Group plc                 | 26,215,243      | 5.85                                        |
| Ameriprise Financial, Inc. and its group | 24,578,041      | 5.49                                        |
| Cazenove Capital Management Limited      | 22,435,277      | 5.01                                        |
| AXA S.A. and its group of companies      | 22,396,799      | 5.00                                        |
| Prudential plc group of companies        | 22,404,561      | 5.00                                        |
| Artemis Investment Management Limited    | 22,265,526      | 4.97                                        |
| JPMorgan Asset Management Holding Inc.   | 20,565,772      | 4.59                                        |
| Norges Bank                              | 18,501,214      | 4.13                                        |
| Legal & General Group plc                | 17,440,905      | 3.89                                        |

### Auditors

A resolution to re-appoint KPMG Audit Plc as auditors of the Company will be proposed at the forthcoming AGM to be held on 22 April 2010.

Each director in office at the date of this Directors' report confirms that (a) so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and (b) he has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Political and charitable donations

During the year the Group donated £7,200 for charitable purposes in the UK (2008: £2,240). The Company made no political donations during the year (2008: £nil).

### Policy on payment of suppliers

The Company's and the Group's policies concerning the payment to suppliers is to agree terms of payment at the start of business with each supplier and to adhere to these, subject to satisfactory performance by the suppliers. The Company and the Group do not follow any code or statement on payment practice. Trade creditors for the Group at 31 December 2009 represented 51 days (2008: 78 days) of annual purchases, adjusted for currency and acquisitions and disposals. The Company has no trade creditors.

### Directors' and officers' liability insurance

The Company maintains liability insurance for the directors and officers of the Company and its subsidiaries and, towards the end of 2008, granted indemnities in favour of the directors against any liability or loss that may arise out of or in connection with the execution of their powers, duties and responsibilities as directors of the Company, or of any subsidiary, to the extent permitted under the Companies Act 2006. Copies of these indemnities, which continue to remain in place, are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the AGM.

### Directors' conflict of interest

During the year the conflict authorisation that was put in place in October 2008 for Brian Taylorson was reviewed and renewed by the Board to enable him to continue to act as a Trustee of the Group's UK defined benefit pension scheme ("UK pension scheme"), notwithstanding that this role could give rise to a situation in which there is a conflict of interest. The Board considers that it is appropriate for the Trustees of the UK pension scheme to benefit from the financial expertise of the Finance Director and that his contribution at Trustees' meetings demonstrates the Board's commitment to supporting the UK pension scheme. The Board's conflict authorisation is subject to annual review and, under the terms of the conflict resolution, reciprocal provisions have been put in place with a view to safeguarding information that is confidential to the Group as well as to the Trustees. Were a conflict of interest to arise, Brian Taylorson is required to excuse himself from reading the relevant pension papers and absent himself from participating in relevant Trustee discussions. No other director was in receipt of a conflict authorisation from the Board during the year.

### Post balance sheet events

There are no post balance sheet events.

### Annual General Meeting

The thirteenth Annual General Meeting of the Company will be held on 22 April 2010. The Notice of Meeting is included in a separate document sent to shareholders.

By order of the Board



Wai Wong  
Company Secretary  
23 February 2010

## DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations

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

The directors, all of whom are shown on page 20, confirm that to the best of their knowledge

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

The Directors' responsibility statement has been approved by the Board and signed on its behalf by

**Brian Taylorson**  
Finance Director  
23 February 2010

## CORPORATE GOVERNANCE REPORT

### Corporate governance statement

The Board is committed to maintaining high standards of corporate governance

The Company has throughout the year ended 31 December 2009 applied fully all the provisions of Section 1 of the Combined Code of Corporate Governance (June 2008) as issued by the Financial Reporting Council (the "Combined Code")

### The Board

#### Composition

The Board currently consists of a non-executive Chairman, Group Chief Executive, Finance Director and four non-executive directors. The directors and biographical information about them are shown on pages 20 and 21. The roles of the Chairman and Group Chief Executive are separate and clearly defined. Non-executive directors are appointed for an initial term of three years, and all directors are required under the articles to retire and offer themselves for re-election at least every three years.

The directors consider that the structure and composition of the Board is appropriate to take the Company through to the next stage of its development and there are no further plans for the time being to increase the number of directors on the Board.

#### Board independence

The Board considers all the non-executive directors to be independent in character and judgement. The Board is satisfied that each director exercises independent judgement and believes no individual or group dominates decision making.

#### Board operation

The Board operates within a framework of controls used to minimise risks and has a formal schedule of matters specifically reserved to it for decision. These include strategic and annual operating plans, the approval of financial statements, acquisitions and disposals, risk management and compliance programmes including insurance arrangements, major non-recurring projects and major capital expenditures. The Board regularly reviews management performance and sets values and standards to ensure that its obligations to shareholders and others are understood and met. It also delegates specific responsibilities with written terms of reference to the Board Committees detailed later in this report.

Information of an appropriate quality is issued in a timely manner to assist the Board in performing its duties. New directors receive appropriate induction tailored to their needs. This includes visits to manufacturing facilities and meetings with senior management to assist them in building an understanding of how the Group operates and the issues that it faces. New directors are advised of their legal and other duties and other obligations as directors of a listed company. All members of the Board have access to the advice and services of the Company Secretary and may take independent professional advice, as appropriate, at the expense of the Company.

Traditionally, at least one meeting of the Board each year is held at one of the Group's overseas locations and directors are encouraged to undertake such activities and training as is appropriate, or may be required or desirable, in order to carry out their duties. The average number of days' training undertaken by non-executive directors in 2009 was 1.7 and the range of topics covered included accounting, pensions, remuneration, investor relations and risk management.

Last year, owing to the economic downturn and the freeze on non-essential expenditures, the Board cancelled its overseas Board meeting which instead was held in London. The Board is planning to resume holding one of its meetings at an overseas location in 2010, which will involve touring local manufacturing facilities, as it considers that non-executive directors benefit from interacting with operational management and gaining a broader understanding of the risks and opportunities faced by the businesses, which, in addition to operational, commercial and regulatory risks, include environmental, social and governance risks.

#### Board performance evaluation

The Board is supportive of the principles and provisions of the Combined Code on Board performance evaluation and towards the end of last year carried out an evaluation of its performance, including that of its committees and individual directors, using comprehensive assessment questionnaires that were designed internally. The results of the questionnaires were reviewed by the Board, which believes that the performance of each director continues to be effective and demonstrates commitment to the role. The evaluation did not raise any particular issue as a matter of concern to the directors, but a number of actions were taken following the review. These included formalising succession plans at business unit level, maintaining a register of training undertaken by non-executive directors and changes to the way investor and research information is disseminated to the Board.

The evaluation focussed on the following areas:

- Number, length, format and conduct of meetings (including quality of discussion)
- Quality, conciseness, relevance and structure of Board papers (including accuracy of minutes)
- Access to and support from the Chairman and the Secretary
- Skills and experience of, and training provision to, all directors
- Board interaction and information flows with senior management and shareholders
- Strategy and strategic priorities, succession planning, governance and Board accountability and audit, and internal control and risk management
- Delegation of responsibilities to management and committees
- Monitoring management performance against strategic priorities
- Consideration of employees, environment, community, business relationships and reputation
- Leadership of the Chairman and the Group Chief Executive
- Contribution of individual directors
- Performance of committees and the Secretary

During the year the Senior Independent Director chaired a meeting of the directors to review the performance of the Chairman without him being present, and it was concluded that the Chairman was very effective in his role.

**Attendance at Board and Committee meetings during 2009:**

|                                          | Board | Audit Committee | Nomination Committee | Remuneration Committee |
|------------------------------------------|-------|-----------------|----------------------|------------------------|
| <b>Directors as at 31 December 2009.</b> |       |                 |                      |                        |
| Robert Beeston, Chairman                 | 9/9   | –               | 2/2*                 | –                      |
| David Dutro, Group Chief Executive       | 9/9   | –               | –                    | –                      |
| Brian Taylorson, Finance Director        | 9/9   | –               | –                    | –                      |
| Ian Brindle, Senior Independent Director | 8/9   | 4/4             | 2/2                  | –                      |
| Andrew Christie                          | 9/9   | 4/4             | 2/2                  | 7/7                    |
| Chris Girling                            | 9/9   | 4/4*            | 2/2                  | 7/7                    |
| Kevin Matthews                           | 9/9   | 4/4             | 2/2                  | 7/7*                   |

\* Denotes chairman of the Committee

**Communication with shareholders**

The Board has developed a comprehensive programme to ensure that effective communication with shareholders, analysts and the financial press is maintained throughout the year. Through the annual and interim reports, results and other announcements, as well as through presentations to institutional shareholders and the dissemination of information via the Group's website at [www.elementis.com](http://www.elementis.com), the Board seeks to present the Company's strategy and performance in an objective and balanced manner.

Shareholders attending the AGM are invited to ask questions during the meeting and also to meet the directors after the formal business of the meeting has concluded. The chairmen of the Audit and Remuneration Committees are also available to answer questions from any shareholder at the meeting. Full details of proxy votes cast on each resolution are made available to shareholders at the meeting and are made available on the Company's website after the meeting.

The Board receives regular reports from management on meetings held with shareholders and analysts, feedback from investors on both corporate and management's performance from results roadshows and copies of research notes published by analysts. The Chairman and Senior Independent Director are also available for contact by shareholders at any time.

Towards the end of last year, the Chairman and the chairman of the Remuneration Committee attended meetings with eleven of the Company's major shareholders to consult them over proposals on executive remuneration (see Remuneration report), as well as to discuss other relevant matters, such as governance and strategy.

**Share capital**

The information on the structure of the Company's share capital, including any rights or restrictions of shares, required to be made in this Corporate governance report under the Financial Services Authority's Disclosure and Transparency Rules can be found in the Directors' report under the heading "Share capital".

**Board Committees**

The Board has established Audit, Nomination and Remuneration Committees, all with defined terms of reference, modelled closely on those set out in the Combined Code, which are available from the Company Secretary or can be found on the Company's website at [www.elementis.com](http://www.elementis.com).

**Audit Committee**

The chairman and members of the Audit Committee (the "Committee") during 2009 and their attendance records are shown in the table above.

The Committee has two members with "recent and relevant financial experience" as recommended by the Combined Code. Chris Girling is a chartered accountant and was until April 2007 group finance director of Carillion plc which is a FTSE 250 listed company. Ian Brindle's experience is based on his career with PricewaterhouseCoopers LLP ("PwC") and his previous roles at the Accounting Standards Board and the Financial Reporting Review Panel.

**A description of the remit and work of the Audit Committee**

The Committee has delegated authority from the Board for

- monitoring the integrity of the financial statements and associated press announcements, and reviewing significant accounting policies, judgements and estimates contained within them,
- reviewing the effectiveness of internal control and risk management systems, including control over financial reporting,
- reviewing the effectiveness of the internal audit function, including the risk management programme,
- reviewing the Group's policies and practices concerning business conduct, ethics and integrity and on whistleblowing, and
- overseeing all aspects of the relationship with the external auditors, including their appointment, the audit process, the supply of non-audit services and monitoring their effectiveness and independence.

## CORPORATE GOVERNANCE REPORT

continued

The Audit Committee met four times during 2009. Findings and recommendations at each of its meetings are given to the Board. The Committee met to review the annual and interim reports and financial statements and also to receive half yearly reports from the internal audit providers, PwC, as well as representations from management. During the year it reviewed the effectiveness of the internal and external audit activities through meetings and interviews with management and key finance staff, approved the scope of work of and fees for both internal and external auditors, and concluded that, owing to the complexity and international nature of the Group's businesses, the internal audit function was best served by continuing to be outsourced to PwC, given their global expertise and resources. The Committee also reviewed the Group's risk management programme as part of the full Board's review of risk management at meetings held in October and December.

The Committee keeps under review the objectivity and independence of the external auditors ("KPMG") and the nature and extent of non-audit services they provide. The Company's policy is that any appointment of the external auditors to undertake non-audit work is subject to the approval of the Audit Committee unless it falls below a threshold, in which case the Finance Director has delegated authority from the Committee to approve such appointments. The threshold is that any individual non-audit engagement fee is no greater than 15 per cent of the annual Group audit fee and the total cost of non-audit engagements in the same financial year does not exceed 50 per cent of the annual Group audit fee.

The external auditors were appointed during the year to undertake tax work on behalf of the Group, which included work on transfer pricing, US debt structure, tax compliance and planning, the latter in connection with the closure of the UK chromium plant. It was concluded that their knowledge of the Group's business processes and controls made them best placed to undertake this work cost-effectively on the Group's behalf. The Committee considers that, notwithstanding these non-audit services they provided during the year, the external auditors' objectivity was not impaired. In coming to its decision to recommend the re-appointment of the external auditors, the Committee considered and discussed many factors including the following: KPMG's independence and quality control procedures, the risk of KPMG withdrawing from the audit market, KPMG's policy on rotating its audit partners (the senior audit partners in the UK and US were rotated in 2009), and the extent of non-audit services provided by KPMG.

The Committee reviewed its policy on whistleblowing during the year as well as reports on its operation. In addition to having internal procedures for reporting any suspected cases of wrongdoing, the Group has appointed an independent third party through whom issues may be raised and toll-free "Alert Line" numbers are provided in all the jurisdictions where it operates. Management reports all incidents that have been raised to the Audit Committee together with the outcome of the investigation and steps taken to ensure lessons are learned to prevent their recurrence. Treasury and banking policies were also reviewed and updated during the year.

Following the receipt of the EU Commission's Statement of Objections relating to its investigation into heat stabilisers in March 2009, the Committee carried out a review of the Group's policies and practices on complying with competition laws and is satisfied that the Group conducts its businesses in full compliance with all applicable competition laws. In addition, refresher training programmes on competition law awareness and compliance were implemented at all business unit levels across the Group.

### Nomination Committee

The chairman and members of the Nomination Committee (the "Committee") and their attendance records are shown on page 27. The Committee is responsible for

- reviewing the size and composition of the Board, together with the skills, knowledge and experience of its members and making recommendations for change as necessary,
- carrying out an annual performance evaluation of the Board, its committees and members, and
- succession planning for the Board and leadership team.

The Committee met twice last year to review the results of the Board performance evaluation ("BPE") exercise and consider succession planning matters. Both of these meetings were attended by both executive directors for part of the meeting, allowing the non-executive directors to meet without the executives present, in compliance with the Combined Code. There were no issues of significant concern raised in the BPE exercise, and a description of the areas evaluated and further commentary can be found on page 26. There are no current plans to make any changes to the Board's composition.

During the year, the Committee recommended to the Board the re-appointment of Robert Beeston as Chairman of the Board and Company, to hold office until September 2012 when it will be reviewed again.

### Remuneration Committee

Details about the Remuneration Committee are set out in the Directors' remuneration report on page 30.

### 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, which includes financial, operational and compliance risks and controls. 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 mis-statement 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 the financial year under review and up to the date that this Annual Report was approved. This process is regularly reviewed by the Board and accords with the Financial Reporting Council's "Turnbull" and "Smith" guidance, as amended, on internal control.

The key features of the Group's internal control system are

#### **Control environment**

A key factor in the Group's approach to internal control is the recognition of the need for risk awareness and the ownership of risk management by executives at all levels

The Group has policies and procedures that set out the responsibilities of divisional management, including authority levels, reporting disciplines and responsibility for risk management and internal control. Certain activities, including treasury, taxation, insurance, pension and legal matters are controlled centrally with reports reviewed by the Board as appropriate. Site level policies and procedures are set by divisional management as appropriate to the needs of each business unit.

#### **Risk identification and review**

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

The management team, which comprises the executive directors, divisional managing directors and functional business leaders, meets on a regular basis to review each division's and the Group's performance, strategy and risk management. Their work is supported by a central risk management unit whose terms of reference include supporting corporate governance requirements, recommending business risk strategy and developing policies and procedures for risk management and internal controls. PwC's work covers the monitoring of the effectiveness of internal controls and the design of processes to test the effectiveness of controls.

At operating level, all divisions are required to have processes to identify risks and, so far as possible, take action to reduce those risks. In addition annual compliance statements on internal control are certified by each operating division.

#### **Financial reporting**

There is a comprehensive groupwide system of financial reporting. Figures reported include profit, cash flows, capital expenditure, balance sheet and relevant performance indicators. Each operating division prepares an annual and a three year operating plan which is approved by the Board. Thereafter a formal re-forecasting exercise is undertaken three times a year. Actual monthly results are monitored against budget, forecasts and the previous year's results. Any significant variances are investigated and acted upon as appropriate.

#### **Investment appraisal**

There are clearly defined investment guidelines for capital expenditure. All investment expenditure is subject to formal authorisation procedures, with major proposals being considered by the Board.

#### **Audit Committee**

The Audit Committee plays a critical role within the Company's system of internal control and risk management and a full description of its work is given on pages 27 and 28.

By order of the Board

**Wai Wong**

**Company Secretary**

23 February 2010

## DIRECTORS' REMUNERATION REPORT

### Remuneration Committee

The Remuneration Committee (the "Committee") is chaired by Kevin Matthews. The Committee determines the remuneration of the Chairman and the executive directors and recommends and monitors the structure and level of remuneration for senior executives.

The Committee met seven times last year and its members and their attendance records are shown on page 27. Members of the Committee have no personal financial interest other than as shareholders in the matters to be decided and no day-to-day involvement in the running of the business of the Group.

### Advisers to the Committee

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

The Committee's external advisers are Hewitt New Bridge Street ("HNBS") who were appointed after a tender in 2008. HNBS provided guidance to the Committee in its review of the short and long term incentive plans, particularly in relation to current market trends in structure and performance metrics. However, the changes outlined later in this report are being made by the Committee after due consideration of all relevant factors including the advice of HNBS, the Group's strategy to grow the business and create sustainable shareholder value, risk management policy and processes, the Group's historical financial performance, and the guidelines on executive remuneration issued by investors and investor bodies, such as the Association of British Insurers ("ABI") and the National Association of Pension Funds ("NAPF"). Accordingly, the Committee is satisfied that there is no over-reliance on HNBS, who have no connection with the Company other than as remuneration advisers.

### Annual General Meeting

A resolution to approve this report will be tabled at the AGM and the chairman of the Committee will be available to answer questions from shareholders on the decisions of the Committee.

### Remuneration policy and practice

The policy of the Committee is to set remuneration at a level which is competitive with that of comparable businesses, enabling the Company to attract and retain people with relevant ability, experience and skills. To ensure that executive directors align their interests with those of shareholders, a substantial proportion of the overall remuneration package is linked to corporate performance through participation in short term and long term incentive schemes. Details of how these schemes were operated during 2009 and how they will operate in 2010 are described later in this report.

The Committee does not include targets for corporate performance on environmental, social and corporate governance issues when considering the remuneration of executive directors. The safety and environmental performance of Group businesses is accorded high importance and the Committee considers that management should aspire to achieving high standards in both safety and environmental performance without the need for incentives. Corporate governance standards are set by the Board as a whole.

### Salaries, fees and benefits

Salaries for executive directors are determined by the Committee and are reviewed annually by it, taking into account the following factors which conform to the ABI's latest guidelines on executive remuneration ("Guidelines"): individual performance over the previous 12 months, the responsibilities and challenges of the role and the complexities of the business, external benchmark salary data (which is used to provide a point of reference only), and pay and employment conditions elsewhere in the Group. The basic salaries of the executive directors were frozen at their 2008 levels in 2009 and increased by three per cent from 1 January 2010.

Benefits relate to the provision of a car, life assurance and medical cover. Additionally, as is standard in the US, David Dutro receives benefits covering dental costs, accidental death and disablement, and long term disability. Information about pension benefits and share incentive schemes is provided further below.

Fees for non-executive directors are determined by the Chairman and the executive directors, having regard to fees paid to non-executive directors in other UK quoted companies, the time commitment and responsibilities of the role. The level of fees has not been increased since 2005 and will be reviewed again at the end of this year, with any changes becoming effective from 2011. Thereafter, fees will be reviewed every three years. The Chairman's fee was also reviewed during the year and it was maintained at its 2006 level. No share options are held by non-executive directors and individuals cannot vote on their own remuneration.

### Service contracts

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

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

The total amount that would be payable to David Dutro for early termination by the Company of his service agreement is between 50 per cent and 100 per cent of the aggregate of (i) his basic annual salary and (ii) any bonus which he may be eligible to receive

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

The non-executive directors during the year held letters of appointment with the Company as follows

| Name       | Date of appointment | Date of re appointment | Date of expiry |
|------------|---------------------|------------------------|----------------|
| R Beeston  | 21/09/06            | 21/09/09               | 20/09/12       |
| I Brindle  | 06/06/05            | 06/06/08               | 05/06/11       |
| A Christie | 11/08/08            | n/a                    | 10/08/11       |
| C Girling  | 29/04/05            | 29/04/08               | 28/04/11       |
| K Matthews | 16/02/05            | 16/02/08               | 15/02/11       |

Each letter provides that the director's appointment can be terminated by the Company on six months' notice on any grounds without claim for compensation. Copies of all letters of appointment of non-executive directors, as well as the executive directors' service contracts, are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the AGM.

### Short term incentive arrangements

#### 2008 Annual Bonus Scheme

For completeness and in keeping with the ABI's Guidelines, the following earnings per share ("EPS") targets for 2008 are disclosed retrospectively: 7.2p (threshold), 7.8p (target) and 8.3p (upper). At threshold, target and upper level, the percentage of base salary that was payable, in the case of the executive directors, in bonus payments was 7.5 per cent, 70 per cent and 100 per cent respectively. In addition, an over-performance bonus was defined such that with every 0.1p of EPS above 8.3p and capped at 9.0p, certain participants were entitled to a share of an over-performance bonus pool. The Company's EPS (before exceptional items, which is the definition used) in 2008 was 9.1p and, under the over-performance component, the executive directors and business managing directors all had an equal share in the bonus pool, equivalent to £140,000 each.

#### 2009 Annual Bonus Scheme

As described in last year's Remuneration report, the 2009 Annual Bonus Scheme for David Dutro and Brian Taylorson was modified from the scheme that had been operated since 2006. The maximum amount of bonus in 2009 was reduced to 150 per cent of basic salary and EPS conditions were set at threshold, target and upper levels, with straight line accrual in between these points. At the threshold level, a bonus equivalent to 0 per cent of basic salary could be earned, rising to 100 per cent of salary for achieving target performance and 150 per cent for achieving the upper target. The EPS conditions at threshold, target and upper level were 6.6p, 8.2p and 9.0p respectively. These targets were set in January 2009 before the full extent of the economic downturn and its impact on trading were known. The Committee decided not to modify these targets even when the severity of the recession became apparent and, as a consequence, the executive directors and business managing directors will receive no bonus for 2009. Were bonus payments to be payable, two thirds would have been paid in cash and one third in the form of deferred shares, vesting after two years.

After the end of the financial year, a discretionary one-off special bonus payment of £33,000 was made to the two business managing directors for achieving separate performance objectives related to the Chromium UK closure programme, the successful integration of the Deuchem acquisition and for achieving certain business working capital targets. Notwithstanding the difficult year the businesses experienced in 2009, there were exceptional circumstances which justified these special payments. In Chromium, the closure programme was managed successfully and to tight time-scales and cost budgets, involving the smooth transitioning of customers, carrying-out various environmental studies and managing the liquidation of working capital at the site. In Specialty Products, the integration process was a great success and involved reorganising the Asia Pacific management team, integrating the sales, commercial, finance, and procurement and supply chain teams, as well as the R&D and IT functions, and introducing a common financial reporting platform. The economic downturn in the first half of 2009 made this process all the more challenging, but the integration programme was executed effectively and enabled the Asia Pacific business to perform strongly in 2009. Both programmes made a significant contribution to the strategic direction of the Group.

## DIRECTORS' REMUNERATION REPORT

continued

### 2010 Annual Bonus Scheme

Following a review of short and long term incentive schemes, in which major shareholders representing over 50 per cent of the Company's issued capital were consulted, the Committee has made some structural changes to the Annual Bonus Scheme for 2010. The maximum bonus opportunity has been reduced to 100 per cent of base salary, all of which would be paid in cash. The additional 50 per cent in the 2009 bonus scheme that would have been paid out in the form of deferred shares is to be replaced by a grant of options, under the long term incentive plan, subject to performance conditions. These are discussed later in the report. The Committee considers that transferring part of the bonus opportunity into the long term incentive programme obviates the need to introduce bonus deferral or claw-back mechanisms advocated by investor bodies, such as the ABI and NAPF.

The performance conditions attaching to the 2010 Annual Bonus Scheme are split 50/50 between EPS and the average trade working capital to sales ratio expressed as a percentage for the Group ("AWC"). Both EPS and AWC conditions have been selected because they are considered to be the most appropriate measures of the Group's strategic and financial performance, and these have been set at threshold, target and upper level. Under each component of EPS and AWC the following percentages of basic salary can be earned in bonus payments, with straight line accrual in between the points, 0 per cent at threshold, 25 per cent at target and 50 per cent at upper level. To achieve the maximum of 100 per cent of base pay, EPS and AWC performance would both have to be at the upper level.

The Committee considers that the target range set for the EPS performance condition is commercially sensitive and therefore this is not disclosed in this report, although the Committee undertakes to disclose this target range in next year's Remuneration report. The Committee can report that the EPS target range, which is more than a 50 per cent increase on the 2009 result, is considered to be sufficiently challenging and was arrived at having taken the following factors into consideration: analysts' consensus forecast for 2010, the Group's annualised EPS growth rate between 2005 and 2008, and the likelihood that trading volumes are anticipated to recover as global economic conditions improve. In addition, the Committee has agreed that the EPS target range will be adjusted for any corporate action or transaction, if appropriate.

The AWC target range is also considered to be commercially sensitive because it could prejudice negotiations with suppliers and customers. The Committee considers that the range set is appropriately challenging, having taken into account the Group's historical performance in this area, and gives management an additional incentive to focus on operating cash flow and working capital, as the business emerges from the economic downturn. The 2010 AWC target range (and the 2009 AWC target comparative) will be published in next year's Remuneration report.

The bonus scheme for the other senior executives, such as the business managing directors, follows a similar design and structure, except that the performance metrics are based on divisional performance where appropriate. The maximum bonus opportunity for the business managing directors is also restricted to 100 per cent of their base salaries. All bonuses, as in previous years, are not pensionable.

### Long term incentive arrangements

#### 1998 Executive Share Option Schemes

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

#### 2003 Executive Share Option Schemes

The 2003 Approved and Unapproved Schemes (the "2003 Schemes") replaced the 1998 Schemes. The key features of the 2003 Schemes are as follows:

- Options are granted with an exercise price per share based on the Company's mid-market closing share price on the dealing day preceding the date of grant,
- The value of options valued at the date of grant will not normally exceed 1.5 times basic salary in any financial year, and
- Performance conditions attached to the exercise of options granted between 2003 and 2007 to executive directors and other senior managers were based partly on the Company's EPS growth relative to inflation and partly on the Company's total shareholder return ("TSR") relative to an index of comparator companies, the performance conditions attached to the options granted to executives in 2008 were based on EPS targets only and in 2009 on TSR only, relative to the comparator companies listed on page 33.

The comparator companies for the purposes of grants made between 2003 to 2007 and in 2009 were as follows

|                                 |                                                                                                       |
|---------------------------------|-------------------------------------------------------------------------------------------------------|
| FTSE All Share Chemicals        | Croda International Plc<br>Porvair plc<br>Yule Catto & Co plc                                         |
| FTSE Eurotop 300 Chemicals      | Akzo Nobel NV<br>DSM NV                                                                               |
| S&P 500 Chemicals               | Rohm & Haas Company                                                                                   |
| Switzerland Specialty Chemicals | Lonza Group AG                                                                                        |
| S&P 400 Specialty Chemicals     | Ferro Corp<br>HB Fuller Co<br>Minerals Technologies Inc<br>Arch Chemicals Inc<br>Quaker Chemical Corp |
| France Chemicals                | Rhodia SA                                                                                             |

The following targets applied to options granted to executive directors and other senior managers prior to 2008

| Proportion of option grant as a percentage of base salary | EPS/TSR split | Performance criteria to be met for options to be exercisable                                       |
|-----------------------------------------------------------|---------------|----------------------------------------------------------------------------------------------------|
| 0% to 70%                                                 | 50% EPS       | – Annual average EPS growth of 4% + RPI                                                            |
|                                                           | 50% TSR       | – TSR at median                                                                                    |
| 70.1% to 150%                                             | 50% EPS       | – Annual average EPS growth of between 4.1% + RPI and 10% + RPI (straight line vesting in between) |
|                                                           | 50% TSR       | – Median to upper quartile (straight line vesting in between)                                      |

The EPS performance condition and TSR condition apply separately to options granted under the 2003 Schemes. Options granted since 2006 are not permitted any re-test and lapse immediately if the performance conditions attaching are not satisfied

The Company's policy on granting options is that no individual has an absolute right of participation and that all grants are made at the discretion of the Committee under delegated authority from the Board. Participants are nominated by business and functional heads and recommended to the Committee for approval by the Chief Executive. The level of grants are relative to the base salary of the participants, set at 20 per cent, 35 per cent and 60 per cent, commensurate with seniority in terms of managerial grade and the individual's ability to influence corporate performance. Three senior executives received grants in 2009 at the level of 60 per cent of their base salary. Some 48 employees throughout the Group received a grant of options in 2009 (2008: 43). This number excludes both executive directors and one business managing director.

In 2008 the executive directors and two business managing directors received awards under the 2008 LTIP instead of executive options. None of these individuals received any LTIP awards or grants of executive options in 2009. However, during the early part of 2009 the managing director of Chromium was replaced by Dennis Valentino who was granted options under the 2003 Schemes over 100,000 shares at the time he took up his role.

The following targets applied to options granted to executives and other senior managers (excluding the executive directors and business managing directors\*) in 2008 and 2009

| Proportion of option grant as a percentage of base salary | EPS/TSR split | Performance criteria to be met for options to be exercisable                                                                                |
|-----------------------------------------------------------|---------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| 2008<br>0% to 60%                                         | 100% EPS      | – 50% vesting if annual average EPS growth is 4% + RPI and another 50% if 5% + RPI (straight line vesting in between 4% + RPI and 5% + RPI) |
|                                                           | 0% TSR        | – No TSR condition                                                                                                                          |
| 2009<br>0% to 60%                                         | 0% EPS        | – No EPS condition                                                                                                                          |
|                                                           | 100% TSR      | – 25% vesting for TSR at median and 100% for upper quartile performance (straight line vesting in between)                                  |

\* With the exception of Dennis Valentino in 2009 noted earlier

Minor amendments to the 2003 Schemes are being made this year to take into account of recent age discrimination legislation and update references for the Companies Act 2006. However, as these are not considered to fall under the category of changes that would require prior shareholder approval, no resolution to approve these is being proposed at the AGM.

#### 2008 Long Term Incentive Plan ("2008 LTIP")

The 2008 LTIP was adopted by shareholders at the 2008 AGM and the following awards were made in that year: David Dutro 25 per cent of the LTIP pool, Brian Taylorson 20 per cent of LTIP pool, Greg McClatchy, Managing Director of Specialty Products and Surfactants, 20 per cent and Eric Haaijer, then Managing Director of Chromium, 12 per cent, leaving 23 per cent of the LTIP pool unawarded. The value of the 2008 LTIP pool (in £'millions) is calculated by taking 2.15 per cent of the increase in the value of the Company (measured by share price growth over the three year performance period plus all dividends paid or declared during that period) less 9.3 per cent per annum (representing the cost of equity which is the minimum growth threshold). The 2008 LTIP awards are in the form of nil cost options over shares in the Company equal to the value of each participant's share of the LTIP pool. These awards were granted on 28 April 2008 when the market value of a share was 66.5 pence. The awards vest after three years from the date of grant and are subject to the cost of equity performance condition described above. Eric Haaijer's award lapsed when he left the Group in March 2009.

The Committee decided that no change would be made to the terms and conditions relating to the LTIP awards made in 2008 and, accordingly, the performance condition will be tested in April 2011 and, if it is not met, the awards will lapse.

## DIRECTORS' REMUNERATION REPORT

continued

### 2010 Long Term Incentive Plan ("2010 LTIP")

As mentioned earlier, the Committee carried out an extensive review of the Group's incentive schemes during the year which involved consulting with the Company's major shareholders. The outcome of that process is that the Committee is proposing changes to the manner in which the LTIP is operated, together with a number of consequential changes to the LTIP rules adopted in 2008. Details of the key operational changes being proposed are set out below. In addition, a summary of the principal features of the rules of the LTIP as proposed to be amended is set out in the Notice of Meeting accompanying this Annual Report. If the proposed changes are approved by shareholders, it is intended that awards be granted in 2010 to the Chief Executive, Finance Director and both business managing directors. Copies of the rules of the LTIP as proposed to be amended are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the AGM.

The proposal is that the grant of nil cost options to each of these four individuals would comprise two parts. The first part is based on a number of options equal in value to one times base salary (using the mid-market closing price on the dealing day immediately preceding the date of grant) and the second part is a further grant of options equal in value to a maximum of 50 per cent of the Chief Executive's base salary as at the date of grant. Under this formula, the maximum number of options that can be granted to any single individual would be restricted to a value equivalent to 100 per cent of the individual's annual base salary plus 50 per cent of the Chief Executive's annual base salary at the date of grant. Shareholders are asked to approve these 2010 LTIP proposals by approving and adopting the amended LTIP rules at the AGM.

The second component of the above grant of LTIP options has been designed to replicate and replace the over-performance bonus pool in the old annual bonus scheme, which took the bonus opportunity to more than 100 per cent of base salary. The Committee considers that, as the executive directors and two business managing directors had an equal share of the over-performance bonus pool under the old annual bonus schemes (which, at the maximum level, was equivalent to about 50 per cent of the Chief Executive's base salary), setting the second part of the LTIP grant at this level, rather than relative to each individual's base salary, would achieve the twin objectives of ensuring that the interests of the four individuals concerned are closely aligned and that the Committee's policy of having a significant proportion of total remuneration linked to performance is maintained.

All nil cost options to be granted under the amended LTIP in 2010 will be subject to a 50/50 EPS and TSR performance condition. The EPS condition will be based on the Group's Three Year Plan targets at threshold, plan and upper level, with 0 per cent vesting at threshold, 100 per cent at the upper level and straight line vesting in between. Due to commercial sensitivity, these targets are not disclosed but the Committee considers that they are appropriately challenging, having also taken into consideration in determining these targets those factors listed in the description of how the EPS targets in the Annual Bonus Scheme were set.

The TSR condition will be measured against the FTSE All Share Index (excluding investment trusts) as it was considered that this broad equity index, which is more transparent and less exposed to cyclical returns, would provide a better measure of relative performance than the comparator group used in the past. Using this index should ensure greater alignment with shareholders who, when investing, generally make decisions to invest in the Company by reference to the broader UK listed market, rather than to a specific list of international chemical companies. In addition, TSR is a metric that broadly reflects a company's relative price earnings ratio, which in turn reflects the premium or risk that an investor perceives attaching to the shares held, and so is a performance metric that takes risk into account. The Committee considers that the TSR condition will encourage management to focus on a broad range of factors that influence shareholder value.

In terms of the vesting scale, at median performance against the FTSE All Share Index 3.85 per cent of that part of a grant which is subject to the TSR condition would vest, with 100 per cent vesting for upper quartile performance (straight line in between). The Committee considers that this vesting scale provides management with an appropriate incentive to out-perform the FTSE All Share Index.

It is the Committee's intention that, subject to shareholder approval at the AGM, nil cost options would be granted under the amended LTIP rules each year on a materially similar basis to that proposed for 2010. The four senior executives who will participate in the amended LTIP will not also participate in any other discretionary share option programme.

The costs of operating all of the Company's share incentive schemes and the total number of options outstanding as at the year end are disclosed in Notes 25 to the Financial Statements on pages 74 and 75. Grants to be made under the amended LTIP rules will not take the total number of share options outstanding over the ABI's Guidelines on anti-dilution limits in respect of the allotment of shares for discretionary and all employee share schemes.

### Share ownership guidelines

Shareholding guidelines introduced previously required executive directors to build up a stake in the Company over a period of time that is equal in value to one times their basic annual salaries. Brian Taylorson, who has been Finance Director since 2002, is considered to have met this requirement. David Dutro, who was appointed to the Board as Group Chief Executive in January 2007, is also expected to build up a shareholding equal to his annual basic salary. The 2008 LTIP award contained a requirement that a proportion of the awards which vest must be retained as shares by the executive directors in order to build up the required shareholding under the Share ownership guidelines.

### Savings-Related Share Option Schemes

Under the 2008 UK savings-related share option scheme ("UK SAYE Scheme"), all eligible UK employees, including executive directors, can enter into savings contracts with a bank or building society for a period of three or five years and use the proceeds from their savings accounts to acquire shares in the Company on the exercise of their options. The option price at which options may be exercised is the average market price over the five working days preceding the invitation date discounted by a maximum of 20 per cent.

Options granted to executive directors under the UK SAYE Scheme are not subject to performance conditions, as it is a HM Revenue & Customs' approved all-employee scheme, which does not allow for the imposition of performance conditions on the exercise of options. A similar scheme was also adopted in 2008 for the benefit of US based employees, including executive directors, and the savings period is typically 24 months, with an option price discounted by a maximum of 15 per cent ("US Scheme").

The 2008 UK SAYE and US Schemes replaced previous schemes, which have expired, that contained substantially the same provisions as the current schemes. However, subject to the rules of the now expired schemes, certain awards continue to remain exercisable.

A number of changes are being proposed at the AGM to the 2008 US Scheme, principally to increase the amount that individual participants may save each year from \$500 per month to \$2,000 per month and to double the total number of shares that may be allocated to options under the US Scheme. These changes are considered necessary in order for the Company to be able to provide a competitive share incentive programme to its US based employees. The changes being proposed are standard features of a typical US savings-based share option plan. The US Scheme was adopted in 2008 by the Board under the authority granted to it by a resolution passed by shareholders at the 2008 AGM and is modelled closely on the UK SAYE Scheme.

The Committee considers that, based on the relative size of the Group's UK and US workforce (under 100 in the UK versus over 700 in the US), restricting the monthly savings of US employees to an amount equivalent to the UK permitted amount is no longer appropriate, particularly since US tax law allows the Group's US employees to save towards options having a maximum value of \$25,000 in any 12 month period across all US tax qualifying option schemes. The Committee considers that this increase in the savings limit is not excessive given that the US Scheme is operative for a ten year period. Additionally, the Company will continue to follow and adhere to ABI Guidelines on anti-dilution limits on all employee and discretionary share schemes by managing its options programmes in conjunction with its Employee Share Ownership Trust, which holds some 4.7 million shares in trust at present.

The Notice of Meeting accompanying this annual report sets out the details of changes being proposed. Copies of the rules of the 2008 US Scheme annotated to show the proposed changes are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the AGM.

### Total shareholder return performance

The following graph illustrates the Company's total shareholder return for the five years ending 31 December 2009, relative to the FTSE All Share Index.

This graph looks at the value, to the end of 2009, of £100 invested in Elementis on 31 December 2004 compared with that of £100 invested in the FTSE All Share Index.

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

## DIRECTORS' REMUNERATION REPORT

continued

### Directors' remuneration table

Directors' emoluments for the year ended 31 December 2009 were

|                                   | Date of appointment <sup>(1)</sup> | Salary/fees   |               | Benefits <sup>(2)</sup> |               | Bonus         |               | Total excluding pensions |               |
|-----------------------------------|------------------------------------|---------------|---------------|-------------------------|---------------|---------------|---------------|--------------------------|---------------|
|                                   |                                    | 2009<br>£'000 | 2008<br>£'000 | 2009<br>£'000           | 2008<br>£'000 | 2009<br>£'000 | 2008<br>£'000 | 2009<br>£'000            | 2008<br>£'000 |
| <b>Chairman</b>                   |                                    |               |               |                         |               |               |               |                          |               |
| Robert Beeston                    | 21 09 09                           | 120           | 120           | –                       | –             | –             | –             | 120                      | 120           |
| <b>Executive directors</b>        |                                    |               |               |                         |               |               |               |                          |               |
| David Dutro <sup>(3)</sup>        | 17 01 07                           | 419           | 344           | 24                      | 18            | –             | 485           | 443                      | 847           |
| Brian Taylorson <sup>(4)(5)</sup> | 02 04 02                           | 283           | 283           | 16                      | 16            | –             | 424           | 299                      | 723           |
| <b>Non-executive directors</b>    |                                    |               |               |                         |               |               |               |                          |               |
| Ian Brindle                       | 16 04 09                           | 40            | 40            | –                       | –             | –             | –             | 40                       | 40            |
| Andrew Christie                   | 16 04 09                           | 35            | 14            | –                       | –             | –             | –             | 35                       | 14            |
| Chris Girling                     | 16 04 09                           | 40            | 38            | –                       | –             | –             | –             | 40                       | 38            |
| Kevin Matthews                    | 24 04 08                           | 40            | 38            | –                       | –             | –             | –             | 40                       | 38            |
|                                   |                                    | 977           | 877           | 40                      | 34            | –             | 909           | 1,017                    | 1,820         |

Each non-executive director receives a fee of £35,000 per annum plus an additional £5,000 should he chair a Board committee. Ian Brindle as Senior Independent Director receives an additional £5,000 per annum.

#### Notes

- For executive directors, this is their date of appointment, and for non-executive directors, the later of the date of appointment, re-appointment or latest date of re-election to the Board.
- The benefit package mainly comprises of a car allowance or company car, life assurance and medical cover.
- David Dutro as Group Chief Executive received a salary of \$650,000 per annum (2008: \$650,000 per annum). His emoluments exclude salary supplements paid as compensation for the closing to future accruals of the US defined benefit scheme – see below. His basic salary in 2010 was increased by three per cent.
- Emoluments for Brian Taylorson also exclude salary supplements paid as compensation for the limitation of pension rights to the former HM Revenue & Customs' earnings cap. These are shown in the Directors' retirement benefits table below. His basic salary in 2010 was also increased by three per cent.
- The Company has released Brian Taylorson to serve on the Board of Fiberweb plc and fees of £32,000 (2008: £32,000) were paid to him during the year.

#### Retirement benefits

David Dutro, as a US salaried executive director, participated in the Elementis Career Reward Retirement Plan ("ECRRP") for US employees until the plan was closed to future accruals in May 2006. The ECRRP is a cash balance retirement plan, which falls under the category of defined benefit pension plans in the US. As the plan is closed to future accruals, participants' account balances are no longer credited with contributions, however, interest is credited each year at the US Treasury 30 year bond rate. David Dutro's accrued benefits under this plan are shown in the table below. The normal pensionable retirement age for David Dutro under the ECRRP is 65.

The ECRRP was replaced by a US 401(k) Plan, which is similar to a money purchase scheme, and a Non-Qualified Deferred Compensation Plan. Employer contributions in respect of David Dutro under these plans in 2009 were £49,316 (2008: £35,070) in total. The amount paid can vary from year to year as it is based on matching employee contributions up to about six per cent of their total remuneration each year.

Brian Taylorson, as a UK salaried executive director, participates in the Company's HM Revenue & Customs' approved funded occupational pension scheme, and he is subject to the former HM Revenue & Customs' earnings cap on the amount of salary which may be treated as pensionable.

The main benefits under this scheme to him as a UK salaried executive director, who contributes a percentage of his salary to the scheme each year, are

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

The normal pensionable retirement age for Brian Taylorson is 60.

Transfer values for David Dutro and Brian Taylorson in the table below have been calculated on the basis of actuarial advice in accordance with the UK Institute of Actuaries' guidance note GN11. The transfer value of the increase in accrued benefits discloses the current value of the increase in accrued benefits that the director has earned in the year, whereas the increase in transfer value less directors' contributions discloses the absolute change in transfer value and includes the change in value of the accrued benefits resulting from market volatility affecting the transfer value at the start of the year as well as the additional value earned in the year.

Non-executive directors are not entitled to retirement benefits.

#### Directors' retirement benefits table

|                  | Salary<br>supplements<br>2009<br>£'000 | Salary<br>supplements<br>2008<br>£'000 | Accrued<br>benefits<br>31.12.09<br>£'000 | Increase in<br>accrued<br>benefits<br>2009<br>£'000 | Transfer<br>value of<br>increases in<br>accrued<br>benefits<br>2009<br>£'000 | Total transfer<br>value at<br>01.01.09<br>£'000 | Total transfer<br>value at<br>31.12.09<br>£'000 | Increase in<br>transfer value<br>less directors'<br>contributions<br>2009<br>£'000 | Increase in<br>accrued<br>benefits<br>(including<br>inflation)<br>2009<br>£'000 |
|------------------|----------------------------------------|----------------------------------------|------------------------------------------|-----------------------------------------------------|------------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| <b>Executive</b> |                                        |                                        |                                          |                                                     |                                                                              |                                                 |                                                 |                                                                                    |                                                                                 |
| David Dutro      | 103                                    | 53                                     | 9                                        | –                                                   | –                                                                            | 60                                              | 61                                              | 2                                                                                  | –                                                                               |
| Brian Taylorson  | 104                                    | 107                                    | 33                                       | 6                                                   | 124                                                                          | 631                                             | 850                                             | 213                                                                                | 6                                                                               |

The amount of salary supplement shown for David Dutro in 2009 includes £19,344 that was accrued in 2008, following changes to his entitlement, which was only paid in 2009. Excluding this amount, his salary supplement in 2009 was £83,822.

#### Directors' shareholdings

As at 31 December 2009 the interests of the persons who were then directors in the issued shares of the Company (excluding any interests under the Group's employee share schemes) were:

|                 | Ordinary<br>shares<br>31.12.09 | Ordinary<br>shares<br>31.12.08 |
|-----------------|--------------------------------|--------------------------------|
| Robert Beeston  | 50,000                         | 50,000                         |
| Ian Brindle     | 31,172                         | 31,172                         |
| Andrew Christie | 10,000                         | 10,000                         |
| David Dutro     | 35,845                         | 35,845                         |
| Chris Girling   | 5,000                          | 5,000                          |
| Kevin Matthews  | 11,633                         | 3,532                          |
| Brian Taylorson | 456,597                        | 456,597                        |

As at 23 February 2010 the Trustee of the Company's Employee Share Ownership Trust ("ESOT") held 4,741,243 (2008: 4,736,829) shares and, as executive directors, David Dutro and Brian Taylorson, as potential beneficiaries under the ESOT, are deemed to have an interest in any shares that become held in the ESOT.

As at 23 February 2010 no person who was then a director had any interest in any derivative or other financial instrument relating to the Company's shares and, so far as the Company is aware, none of their connected persons had such an interest. Between 31 December 2009 and 23 February 2010 there was no change in the relevant interests of any such directors nor, so far as the Company is aware, in the relevant interests of any of their connected persons.

**DIRECTORS' REMUNERATION REPORT**  
continued

**Directors' share options**

|                 | Option type | 01 01 09 | Granted during 2009 | Exercised during 2009 | Lapsed during 2009 | 31 12 09 | Option price (p) | Earliest exercise date | Expiry date | Price on exercise (p) | Gain on exercise (£) |
|-----------------|-------------|----------|---------------------|-----------------------|--------------------|----------|------------------|------------------------|-------------|-----------------------|----------------------|
| David Dutro     | A           | 6,505    | –                   | –                     | 6,505              | –        | 75.7             | 28 03 2009             | 28 06 2009  | –                     | –                    |
|                 | A           | 1,850    | –                   | –                     | –                  | 1,850    | 72.3             | 26 08 2010             | 26 11 2010  | –                     | –                    |
|                 | A           | –        | 13,942              | –                     | –                  | 13,942   | 42.5             | 27 08 2011             | 27 11 2011  | –                     | –                    |
|                 | B           | 197,133  | –                   | –                     | –                  | 197,133  | 51.3             | 30 03 2008             | 30 03 2015  | –                     | –                    |
|                 | B           | 250,000  | –                   | –                     | –                  | 250,000  | 64.5             | 02 11 2008             | 02 11 2015  | –                     | –                    |
|                 | B           | 220,277  | –                   | –                     | 26,433             | 193,844  | 85.5             | 04 04 2009             | 04 04 2016  | –                     | –                    |
| Brian Taylorson | B           | 434,673  | –                   | –                     | –                  | 434,673  | 88.0             | 15 05 2010             | 15 05 2017  | –                     | –                    |
|                 | A           | 13,631   | –                   | –                     | 13,631             | –        | 69.0             | 01 10 2011             | 01 04 2012  | –                     | –                    |
|                 | A           | –        | 43,778              | –                     | –                  | 43,778   | 35.5             | 01 10 2012             | 01 04 2013  | –                     | –                    |
|                 | B           | 468,293  | –                   | –                     | –                  | 468,293  | 51.3             | 30 03 2008             | 30 03 2015  | –                     | –                    |
|                 | B           | 482,456  | –                   | –                     | 102,924            | 379,532  | 85.5             | 04 04 2009             | 04 04 2016  | –                     | –                    |
|                 | C           | 34,090   | –                   | –                     | –                  | 34,090   | 88.0             | 15 05 2010             | 15 05 2017  | –                     | –                    |
|                 | B           | 278,410  | –                   | –                     | –                  | 278,410  | 88.0             | 15 05 2010             | 15 05 2017  | –                     | –                    |

A Savings-related share option scheme

B Executive Share Option Schemes 2003 (Unapproved)

C Executive Share Option Schemes 2003 (Approved)

The number of executive options that are shown to have lapsed during 2009 are in respect of the part of the grant subject to TSR conditions at above median to upper quartile performance

Note 25 to the Financial Statements contains a detailed schedule of all options granted to directors and employees as at 31 December 2009. All of the share options were granted for nil consideration.

The market price of ordinary shares at 31 December 2009 was 53.0 pence and the range during 2009 was 22.75 pence to 63.5 pence.

Both David Dutro and Brian Taylorson were recipients of LTIP awards in 2008, the details of which are described on page 33.

Other than their service contract with the Company, none of the directors had an interest in any contract of significance in relation to the business of the Company or its subsidiaries at any time during the financial year.

**Auditable section of the report on remuneration**

The following sections and tables constitute the auditable part of this report as defined in the Companies Act 2006: Sections relating to "Short term incentive arrangements", "Long term incentive arrangements", "Savings-Related Share Option Schemes", tables headed "Directors' remuneration", "Directors' retirement benefits", "Directors' shareholdings" and "Directors' share options".

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



**Kevin Matthews**  
Chairman, Remuneration Committee  
23 February 2010

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELEMENTIS PLC

We have audited the financial statements of Elementis plc for the year ended 31 December 2009 set out on pages 40 to 82. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKP](http://www.frc.org.uk/apb/scope/UKP).

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice,
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the information given in the Corporate Governance Statement set out on pages 28 and 29 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a Corporate Governance Statement has not been prepared by the Company.

### Under the Listing Rules we are required to review:

- the directors' statement, set out on page 23, in relation to going concern, and
- the part of the Corporate Governance Statement on pages 26 to 29 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

### M H Thompson (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
8 Salisbury Square  
London EC4Y 8BB

23 February 2010

## CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

|                                 | Note | Before<br>exceptional<br>items<br>£million | Exceptional<br>items<br>(note 5)<br>£million | 2009<br>After<br>exceptional<br>items<br>£million | Before<br>exceptional<br>items<br>£million | Exceptional<br>items<br>(note 5)<br>£million | 2008<br>After<br>exceptional<br>items<br>£million |
|---------------------------------|------|--------------------------------------------|----------------------------------------------|---------------------------------------------------|--------------------------------------------|----------------------------------------------|---------------------------------------------------|
| Revenue                         | 2    | 363 7                                      | –                                            | 363 7                                             | 400 5                                      | –                                            | 400 5                                             |
| Cost of sales                   |      | (248 6)                                    | (1 9)                                        | (250 5)                                           | (265 6)                                    | (20 5)                                       | (286 1)                                           |
| Gross profit                    |      | 115 1                                      | (1 9)                                        | 113 2                                             | 134 9                                      | (20 5)                                       | 114 4                                             |
| Distribution costs              |      | (48.6)                                     | –                                            | (48 6)                                            | (43 5)                                     | –                                            | (43 5)                                            |
| Administrative expenses         |      | (43.1)                                     | (47 6)                                       | (90 7)                                            | (39 4)                                     | –                                            | (39 4)                                            |
| Operating profit/(loss)         | 2    | 23 4                                       | (49 5)                                       | (26 1)                                            | 52 0                                       | (20 5)                                       | 31 5                                              |
| Finance income                  | 3    | 0 8                                        | –                                            | 0 8                                               | 1 8                                        | –                                            | 1 8                                               |
| Finance costs                   | 4    | (5 9)                                      | –                                            | (5 9)                                             | (5 3)                                      | –                                            | (5 3)                                             |
| Profit/(loss) before income tax |      | 18 3                                       | (49 5)                                       | (31 2)                                            | 48 5                                       | (20 5)                                       | 28 0                                              |
| Tax                             | 6    | (6 0)                                      | 0.2                                          | (5 8)                                             | (8 2)                                      | –                                            | (8 2)                                             |
| Profit/(loss) for the year      | 2    | 12 3                                       | (49 3)                                       | (37 0)                                            | 40 3                                       | (20 5)                                       | 19 8                                              |
| Attributable to                 |      |                                            |                                              |                                                   |                                            |                                              |                                                   |
| Equity holders of the parent    |      | 12 3                                       | (49 3)                                       | (37 0)                                            | 40 3                                       | (20 5)                                       | 19 8                                              |
| Minority interests              |      | –                                          | –                                            | –                                                 | –                                          | –                                            | –                                                 |
|                                 |      | 12 3                                       | (49 3)                                       | (37 0)                                            | 40 3                                       | (20 5)                                       | 19 8                                              |
| <b>Earnings per share</b>       |      |                                            |                                              |                                                   |                                            |                                              |                                                   |
| Basic (pence)                   | 9    |                                            |                                              | (8.3)                                             |                                            |                                              | 4 5                                               |
| Diluted (pence)                 | 9    |                                            |                                              | (8 3)                                             |                                            |                                              | 4 5                                               |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

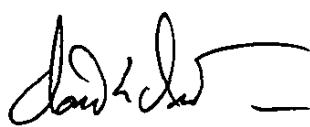
|                                                                        | 2009<br>£million | 2008<br>£million |
|------------------------------------------------------------------------|------------------|------------------|
| <b>(Loss)/profit for the year</b>                                      | <b>(37 0)</b>    | <b>19 8</b>      |
| <b>Other comprehensive income</b>                                      |                  |                  |
| Exchange differences on translation of foreign operations              | (25.1)           | 65 8             |
| Actuarial loss on pension and other post-retirement schemes            | (33 0)           | (25 5)           |
| Deferred tax associated with pension and other post-retirement schemes | (1 4)            | 8 4              |
| Effective portion of changes in fair value of cash flow hedges         | (0 3)            | (18 8)           |
| Fair value of cash flow hedges transferred to income statement         | 18 8             | 2 0              |
| Other comprehensive income, net of tax                                 | (41 0)           | 31 9             |
| Total comprehensive income for the year                                | (78.0)           | 51 7             |
| Attributable to                                                        |                  |                  |
| Equity holders of the parent                                           | (78 0)           | 51 7             |
| Minority interests                                                     | –                | –                |
| Total comprehensive income for the year                                | (78 0)           | 51 7             |

**CONSOLIDATED BALANCE SHEET**

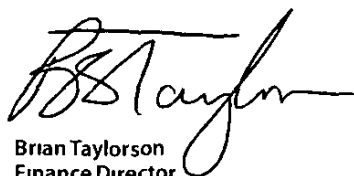
AT 31 DECEMBER 2009

|                                                                  | Note | 2009<br>31 December<br>£million | 2008<br>31 December<br>£million |
|------------------------------------------------------------------|------|---------------------------------|---------------------------------|
| <b>Non-current assets</b>                                        |      |                                 |                                 |
| Goodwill and other intangible assets                             | 10   | 210.2                           | 227.3                           |
| Property, plant and equipment                                    | 11   | 104.8                           | 121.2                           |
| Interests in associates                                          | 12   | -                               | 0.1                             |
| <b>Total non-current assets</b>                                  |      | <b>315.0</b>                    | <b>348.6</b>                    |
| <b>Current assets</b>                                            |      |                                 |                                 |
| Inventories                                                      | 13   | 65.2                            | 100.6                           |
| Trade and other receivables                                      | 14   | 63.6                            | 78.2                            |
| Cash and cash equivalents                                        | 21   | 17.9                            | 33.6                            |
| <b>Total current assets</b>                                      |      | <b>146.7</b>                    | <b>212.4</b>                    |
| <b>Total assets</b>                                              |      | <b>461.7</b>                    | <b>561.0</b>                    |
| <b>Current liabilities</b>                                       |      |                                 |                                 |
| Bank overdrafts and loans                                        | 20   | (11.1)                          | (15.7)                          |
| Trade and other payables                                         | 15   | (51.1)                          | (82.9)                          |
| Derivatives                                                      |      | (2.8)                           | (22.4)                          |
| Current tax liabilities                                          |      | (4.0)                           | (5.7)                           |
| Provisions                                                       | 16   | (32.2)                          | -                               |
| <b>Total current liabilities</b>                                 |      | <b>(101.2)</b>                  | <b>(126.7)</b>                  |
| <b>Non-current liabilities</b>                                   |      |                                 |                                 |
| Loans and borrowings                                             | 20   | (72.8)                          | (81.8)                          |
| Retirement benefit obligations                                   | 24   | (69.4)                          | (49.3)                          |
| Deferred tax liabilities                                         | 17   | (14.1)                          | (10.3)                          |
| Provisions                                                       | 16   | (24.2)                          | (21.8)                          |
| Government grants                                                |      | (1.2)                           | (1.6)                           |
| <b>Total non-current liabilities</b>                             |      | <b>(181.7)</b>                  | <b>(164.8)</b>                  |
| <b>Total liabilities</b>                                         |      | <b>(282.9)</b>                  | <b>(291.5)</b>                  |
| <b>Net assets</b>                                                |      | <b>178.8</b>                    | <b>269.5</b>                    |
| <b>Equity</b>                                                    |      |                                 |                                 |
| Share capital                                                    | 18   | 22.4                            | 22.4                            |
| Share premium                                                    | 19   | 5.8                             | 5.8                             |
| Other reserves                                                   | 19   | 109.1                           | 115.6                           |
| Retained earnings                                                | 19   | 40.7                            | 124.5                           |
| <b>Total equity attributable to equity holders of the parent</b> |      | <b>178.0</b>                    | <b>268.3</b>                    |
| Minority equity interests                                        |      | 0.8                             | 1.2                             |
| <b>Total equity</b>                                              |      | <b>178.8</b>                    | <b>269.5</b>                    |

The financial statements on pages 40 to 78 were approved by the Board on 23 February 2010 and signed on its behalf by



David Dutro  
Group Chief Executive



Brian Taylorson  
Finance Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|                                                                                        | Share capital<br>£million | Share premium<br>£million | Translation reserve<br>£million | Hedging reserve<br>£million | Other reserves<br>£million | Retained earnings<br>£million | Total<br>£million | Minority interest<br>£million | Total equity<br>£million |
|----------------------------------------------------------------------------------------|---------------------------|---------------------------|---------------------------------|-----------------------------|----------------------------|-------------------------------|-------------------|-------------------------------|--------------------------|
| Balance at 1 January 2008                                                              | 22.3                      | 5.2                       | (16.6)                          | (2.0)                       | 85.0                       | 136.0                         | 229.9             | 0.7                           | 230.6                    |
| Comprehensive income                                                                   |                           |                           |                                 |                             |                            |                               |                   |                               |                          |
| Profit for the year                                                                    | -                         | -                         | -                               | -                           | -                          | 19.8                          | 19.8              | -                             | 19.8                     |
| Other comprehensive income                                                             |                           |                           |                                 |                             |                            |                               |                   |                               |                          |
| Exchange differences                                                                   | -                         | -                         | 65.8                            | -                           | -                          | -                             | 65.8              | -                             | 65.8                     |
| Decrease in fair value of derivatives                                                  | -                         | -                         | -                               | (16.8)                      | -                          | -                             | (16.8)            | -                             | (16.8)                   |
| Actuarial loss on pension scheme                                                       | -                         | -                         | -                               | -                           | -                          | (25.5)                        | (25.5)            | -                             | (25.5)                   |
| Tax credit on actuarial loss on pension scheme                                         | -                         | -                         | -                               | -                           | -                          | 8.4                           | 8.4               | -                             | 8.4                      |
| Transfer                                                                               | -                         | -                         | -                               | -                           | (0.6)                      | 0.6                           | -                 | -                             | -                        |
| Total other comprehensive income                                                       | -                         | -                         | 65.8                            | (16.8)                      | (0.6)                      | (16.5)                        | 31.9              | -                             | 31.9                     |
| Total comprehensive income                                                             | -                         | -                         | 65.8                            | (16.8)                      | (0.6)                      | 3.3                           | 51.7              | -                             | 51.7                     |
| Transactions with owners                                                               |                           |                           |                                 |                             |                            |                               |                   |                               |                          |
| Issue of shares                                                                        | 0.1                       | 0.6                       | -                               | -                           | -                          | -                             | 0.7               | -                             | 0.7                      |
| Share based payments                                                                   | -                         | -                         | -                               | -                           | 0.8                        | -                             | 0.8               | -                             | 0.8                      |
| Dividends paid                                                                         | -                         | -                         | -                               | -                           | -                          | (12.8)                        | (12.8)            | -                             | (12.8)                   |
| Purchase of own shares                                                                 | -                         | -                         | -                               | -                           | -                          | (2.0)                         | (2.0)             | -                             | (2.0)                    |
| Total contributions by and distributions to owners                                     | 0.1                       | 0.6                       | -                               | -                           | 0.8                        | (14.8)                        | (13.3)            | -                             | (13.3)                   |
| Changes in ownership interests in subsidiaries that do not result in a loss of control |                           |                           |                                 |                             |                            |                               |                   |                               |                          |
| Acquisition of minority interests                                                      | -                         | -                         | -                               | -                           | -                          | -                             | -                 | 0.5                           | 0.5                      |
| Total transactions with owners                                                         | 0.1                       | 0.6                       | -                               | -                           | 0.8                        | (14.8)                        | (13.3)            | 0.5                           | (12.8)                   |
| Balance at 31 December 2008                                                            | 22.4                      | 5.8                       | 49.2                            | (18.8)                      | 85.2                       | 124.5                         | 268.3             | 1.2                           | 269.5                    |
| <b>Balance at 1 January 2009</b>                                                       | <b>22.4</b>               | <b>5.8</b>                | <b>49.2</b>                     | <b>(18.8)</b>               | <b>85.2</b>                | <b>124.5</b>                  | <b>268.3</b>      | <b>1.2</b>                    | <b>269.5</b>             |
| Comprehensive income                                                                   |                           |                           |                                 |                             |                            |                               |                   |                               |                          |
| Loss for the year                                                                      | -                         | -                         | -                               | -                           | -                          | (37.0)                        | (37.0)            | -                             | (37.0)                   |
| Other comprehensive income                                                             |                           |                           |                                 |                             |                            |                               |                   |                               |                          |
| Exchange differences                                                                   | -                         | -                         | (25.1)                          | -                           | -                          | -                             | (25.1)            | -                             | (25.1)                   |
| Increase in fair value of derivatives                                                  | -                         | -                         | -                               | 18.5                        | -                          | -                             | 18.5              | -                             | 18.5                     |
| Actuarial loss on pension scheme                                                       | -                         | -                         | -                               | -                           | -                          | (33.0)                        | (33.0)            | -                             | (33.0)                   |
| Tax credit on actuarial loss on pension scheme                                         | -                         | -                         | -                               | -                           | -                          | (1.4)                         | (1.4)             | -                             | (1.4)                    |
| Transfer                                                                               | -                         | -                         | -                               | -                           | (0.5)                      | 0.5                           | -                 | -                             | -                        |
| Total other comprehensive income                                                       | -                         | -                         | (25.1)                          | 18.5                        | (0.5)                      | (33.9)                        | (41.0)            | -                             | (41.0)                   |
| Total comprehensive income                                                             | -                         | -                         | (25.1)                          | 18.5                        | (0.5)                      | (70.9)                        | (78.0)            | -                             | (78.0)                   |
| Transactions with owners                                                               |                           |                           |                                 |                             |                            |                               |                   |                               |                          |
| Issue of shares                                                                        | -                         | -                         | -                               | -                           | -                          | -                             | -                 | -                             | -                        |
| Share based payments                                                                   | -                         | -                         | -                               | -                           | 0.6                        | -                             | 0.6               | -                             | 0.6                      |
| Dividends paid                                                                         | -                         | -                         | -                               | -                           | -                          | (12.9)                        | (12.9)            | -                             | (12.9)                   |
| Total contributions by and distributions to owners                                     | -                         | -                         | -                               | -                           | 0.6                        | (12.9)                        | (12.3)            | -                             | (12.3)                   |
| Changes in ownership interests in subsidiaries that do not result in a loss of control |                           |                           |                                 |                             |                            |                               |                   |                               |                          |
| Liquidation of minority interests                                                      | -                         | -                         | -                               | -                           | -                          | -                             | -                 | (0.4)                         | (0.4)                    |
| Total transactions with owners                                                         | -                         | -                         | -                               | -                           | 0.6                        | (12.9)                        | (12.3)            | (0.4)                         | (12.7)                   |
| <b>Balance at 31 December 2009</b>                                                     | <b>22.4</b>               | <b>5.8</b>                | <b>24.1</b>                     | <b>(0.3)</b>                | <b>85.3</b>                | <b>40.7</b>                   | <b>178.0</b>      | <b>0.8</b>                    | <b>178.8</b>             |

## CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

|                                                             | Note | 2009<br>£million | 2008<br>£million |
|-------------------------------------------------------------|------|------------------|------------------|
| <b>Operating activities:</b>                                |      |                  |                  |
| (Loss)/profit for the year                                  |      | (37 0)           | 19 8             |
| Adjustments for                                             |      |                  |                  |
| Finance income                                              |      | (0 8)            | (1 7)            |
| Finance costs                                               |      | 5 9              | 5 2              |
| Tax charge                                                  |      | 5 8              | 8 2              |
| Depreciation and amortisation                               |      | 13 2             | 12 4             |
| (Decrease)/increase in provisions                           |      | (1 6)            | 1 3              |
| Pension contributions net of current service cost           |      | (6 9)            | (7 1)            |
| Share based payments                                        |      | 0 6              | 0 8              |
| Exceptional items                                           |      | 49 5             | 20 5             |
| Cash flow in respect of exceptional items                   |      | (14 7)           | –                |
| Operating cash flow before movement in working capital      |      | 14 0             | 59 4             |
| Decrease/(increase) in inventories                          |      | 28 4             | (27 7)           |
| Decrease in trade and other receivables                     |      | 4 7              | 9 5              |
| (Decrease)/increase in trade and other payables             |      | (27 9)           | 13 7             |
| Cash generated by operations                                |      | 19 2             | 54 9             |
| Income taxes paid                                           |      | (4 0)            | (1 3)            |
| Interest paid                                               |      | (2 6)            | (5 0)            |
| <b>Net cash flow from operating activities</b>              |      | <b>12 6</b>      | <b>48 6</b>      |
| <b>Investing activities</b>                                 |      |                  |                  |
| Interest received                                           |      | 1 0              | 2 3              |
| Disposal of property, plant and equipment                   |      | –                | 0 3              |
| Purchase of property, plant and equipment                   |      | (8 7)            | (13 1)           |
| Purchase of business                                        | 30   | (5 6)            | (32 1)           |
| Disposal of investment in associate                         |      | 0 1              | –                |
| Acquisition of intangibles                                  |      | (0 2)            | –                |
| <b>Net cash flow from investing activities</b>              |      | <b>(13 4)</b>    | <b>(42 6)</b>    |
| <b>Financing activities</b>                                 |      |                  |                  |
| Issue of shares                                             |      | –                | 0 7              |
| Dividends paid                                              |      | (12 9)           | (12 8)           |
| Purchase of own shares                                      |      | –                | (2 0)            |
| (Decrease)/increase in borrowings                           |      | (0 9)            | 29 2             |
| <b>Net cash (used in)/from financing activities</b>         |      | <b>(13 8)</b>    | <b>15 1</b>      |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |      | <b>(14 6)</b>    | <b>21 1</b>      |
| Cash and cash equivalents at 1 January                      |      | 33 6             | 8 4              |
| Foreign exchange on cash and cash equivalents               |      | (1 1)            | 4 1              |
| <b>Cash and cash equivalents at 31 December</b>             | 21   | <b>17 9</b>      | <b>33 6</b>      |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2009

#### 1 Accounting policies

Elementis plc is a company incorporated in the UK. The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS"). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP. These are presented on pages 79 to 82.

**Basis of preparation** The financial statements have been prepared using the going concern basis and further details on this are set out in the Directors' report on page 23. The financial statements have been prepared on the historical cost basis except that derivative financial instruments and financial instruments held for trading or available for sale are stated at their fair value. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. The preparation of financial statements requires the application of estimates and judgements that affect the reported amounts of assets and liabilities, revenues and costs and related disclosures at the balance sheet date. The accounting policies set out below have been consistently applied across Group companies to all periods presented in these consolidated financial statements.

**Critical accounting policies** Critical accounting policies are those that require significant judgements or estimates and potentially result in materially different results under different assumptions or conditions. When preparing consolidated financial statements under IFRS management must make assumptions and estimates about the future which have an impact on the assets, liabilities, income and expenditure at the balance sheet date. These assumptions and estimates are based upon factors such as historical experience, industry knowledge and the use of external advisers, and are reviewed on an ongoing basis. The Group's critical accounting policies, and information on the key areas where critical judgements are used, are described in the paragraphs below. The development of the estimates and disclosures related to each of these matters have been discussed by the Audit Committee.

**(a) Provisions** (Note 16) A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated. Provisions for environmental issues are judgemental by their nature and more difficult to estimate when they relate to sites no longer directly controlled by the Group. Elementis has taken a consistent approach to estimating environmental provisions.

**(b) Pension and other post-retirement benefits** (Note 24) In respect of the Group's defined benefit schemes, the Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. Pension and post-retirement liabilities are calculated by qualified actuaries using the projected unit credit method. The expected increase in the present value of scheme liabilities and the long term expected return on assets, based on the fair value of the scheme assets at the start of the period, are included in the income statement under finance income. Any difference between the expected return on assets and that achieved is recognised in the statement of comprehensive income together with the difference from experience or assumption changes. The Group recognises all such actuarial gains and losses in the period in which they occur through the statement of comprehensive income. The Group also operates a small number of defined contribution schemes and the contributions payable during the year are recognised as incurred. Due to the size of the pension scheme assets and liabilities, relatively small changes in the assumptions can have a significant impact on the expense recorded in the income statement and on the pension liability recorded in the balance sheet.

#### (c) Intangible assets (Note 10)

(i) **Goodwill** All business combinations since the transition to IFRS on 1 January 2004 are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since the transition date, goodwill represents the difference between the cost of the consideration given and the fair value of net identifiable assets, liabilities and contingent liabilities acquired. In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. Goodwill is allocated to cash-generating units and tested annually for impairment. Changes to the assumptions used in impairment testing could have a material impact on the financial position of the Group and of the result for the year.

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

(iii) Other intangible assets Other intangible assets are stated at cost or when arising in a business combination, estimated fair value, less accumulated amortisation

(iv) Amortisation Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite. On this basis there is no amortisation of intangible assets relating to brand. Goodwill is systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows

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

- (d) **Derivative financial instruments** (Note 22) The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks. The Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Due to the requirement to measure the effectiveness of hedging instruments, changes in market conditions can result in the recognition of unrealised gains or losses on hedging instruments in the income statement

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

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

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

- (e) **Exceptional items** (Note 5) The Group presents certain items separately as “exceptional”. These are items which in management’s judgement, need to be disclosed by virtue of their size and incidence in order for the user to obtain a proper understanding of the financial information. The determination of which items are separately disclosed as exceptional items requires a significant degree of judgement.

- (f) **Income tax** (Note 17) Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Group is required to estimate the income tax in each of the jurisdictions in which it operates. This requires an estimation of current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. The Group operates in a number of countries in the world and is subject to many tax jurisdictions and rules. As a consequence the Group is subject to tax audits, which by their nature are often complex and can require several years to conclude. Management’s judgement is required to determine the total provision for income tax. Amounts are accrued based on management’s interpretation of country specific tax law and likelihood of settlement. However, the actual tax liabilities could differ from the position and in such events an adjustment would be required in the subsequent period which could have a material impact. Tax benefits are not recognised unless it is probable that the tax positions are sustainable. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation. This evaluation requires judgements to be made including the forecast of future taxable income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**1 Accounting policies (continued)**

**(g) Property, plant and equipment** (Note 1 i) Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Freehold land is not depreciated. Leasehold property is depreciated over the period of the lease. Freehold buildings, plant and machinery, vehicles, fixtures, fittings and equipment are depreciated over their estimated useful lives on a straight line basis. Depreciation methods, useful lives and residual values are assessed at the reporting date. No depreciation is charged on assets under construction until the asset is brought into use.

Estimates of useful lives of these assets are

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

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

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

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

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

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

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

**Foreign currency**

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

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

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

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

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

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

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

**Trade payables** Trade payables are non-interest bearing borrowings and are initially measured at fair value and subsequently carried at amortised cost.

**Share capital** Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity. When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**1 Accounting policies (continued)**

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

**Own shares held by Employee Share Ownership Trust ("ESOT")** Transactions of the Group sponsored ESOT are included in the consolidated financial statements. In particular, the trust's purchases of shares in the Company are charged directly to equity.

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

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

**Non-current assets held for sale and discontinued operations**

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

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

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

**New standards and interpretations not yet adopted** New standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements, but that become mandatory for the Group's 2010 financial statements are as follows:

**IFRS 3 Business Combinations (revised 2008)**

The revised standard amends the definition of a business, the method by which an acquisition is accounted for and the recognition of deferred tax assets acquired in a business combination.

**IAS 27 Consolidated and Separate Financial Statements (amended 2008)**

This sets out changes to the accounting for non-controlling (minority) interests.

**Amendments to IAS 39 – Eligible Hedged Items**

This clarifies how the principles that determine whether a hedged risk or portion of cashflows is eligible for designation should be applied in particular circumstances.

**IFRIC 17 Distributions of Non-cash Assets to Owners**

This interpretation provides guidance in respect of distributions of non-cash assets to owners acting in their capacity as owners.

**Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**

**Amendments to IFRS 2 Share-based Payments**

**Amendments to IAS 38 Intangible Assets**

**Amendments to IFRIC 9 Reassessment of Embedded Derivatives**

**Amendments to IFRIC 16 Hedges of a Net Investment in a Foreign Operation**

The Group has not yet determined the potential impact of these interpretations on the 2010 financial statements.

## 2 Operating segments

The Group has determined its operating segments on the basis of those used for management, internal reporting purposes and the allocation of strategic resources. The three reportable segments, Specialty Products, Surfactants and Chromium each have distinct product groupings and, with the exception of Surfactants which shares a common management structure and Specialty Products, separate management structures. There is no material inter-segmental trading. Segment results, assets and liabilities include items directly attributable to a segment and those that may be reasonably allocated from corporate activities. Presentation of the segmental results is on a basis consistent with those used for reporting Group results. Principal activities of the reportable segments are as follows:

Specialty Products – production of rheological additives, compounded products and colourants  
 Surfactants – production of surface active ingredients  
 Chromium – production of chromium chemicals

Unallocated items and those relating to corporate functions such as tax and treasury are presented in the tables below as Central costs.

Segmental analysis for the year ended 31 December 2009

|                                      | 2009                           |                         |                      |                            |                           |                   |
|--------------------------------------|--------------------------------|-------------------------|----------------------|----------------------------|---------------------------|-------------------|
|                                      | Specialty Products<br>£million | Surfactants<br>£million | Chromium<br>£million | Segment totals<br>£million | Central costs<br>£million | Total<br>£million |
| Revenue                              | 194.6                          | 49.2                    | 119.9                | 363.7                      | –                         | 363.7             |
| Internal revenue                     | –                              | –                       | –                    | –                          | –                         | –                 |
| Revenue from external customers      | 194.6                          | 49.2                    | 119.9                | 363.7                      | –                         | 363.7             |
| Operating profit before exceptionals | 22.6                           | 0.3                     | 14.4                 | 37.3                       | (13.9)                    | 23.4              |
| Head office cost allocations         | (4.2)                          | (0.2)                   | (3.9)                | (8.3)                      | 8.3                       | –                 |
| Exceptionals                         | –                              | –                       | (28.7)               | (28.7)                     | (20.8)                    | (49.5)            |
| Profit/(loss) before interest        | 18.4                           | 0.1                     | (18.2)               | 0.3                        | (26.4)                    | (26.1)            |
| Finance income                       | –                              | –                       | –                    | –                          | 0.8                       | 0.8               |
| Finance expense                      | –                              | –                       | –                    | –                          | (5.9)                     | (5.9)             |
| Taxation                             | –                              | –                       | –                    | –                          | (5.8)                     | (5.8)             |
| <b>Profit/(loss) for the period</b>  | <b>18.4</b>                    | <b>0.1</b>              | <b>(18.2)</b>        | <b>0.3</b>                 | <b>(37.3)</b>             | <b>(37.0)</b>     |
| Fixed assets                         | 269.3                          | 14.7                    | 40.0                 | 324.0                      | (9.0)                     | 315.0             |
| Investments in associates            | –                              | –                       | –                    | –                          | –                         | –                 |
| Inventories                          | 35.7                           | 6.0                     | 23.5                 | 65.2                       | –                         | 65.2              |
| Trade and other receivables          | 35.9                           | 7.3                     | 14.7                 | 57.9                       | 5.7                       | 63.6              |
| Cash and cash equivalents            | –                              | –                       | –                    | –                          | 17.9                      | 17.9              |
| <b>Segment assets</b>                | <b>340.9</b>                   | <b>28.0</b>             | <b>78.2</b>          | <b>447.1</b>               | <b>14.6</b>               | <b>461.7</b>      |
| Trade and other payables             | (24.1)                         | (7.3)                   | (10.2)               | (41.6)                     | (9.5)                     | (51.1)            |
| Operating provisions                 | (0.3)                          | (1.4)                   | (6.3)                | (8.0)                      | (31.8)                    | (39.8)            |
| Restructuring provisions             | –                              | –                       | (16.6)               | (16.6)                     | –                         | (16.6)            |
| Bank overdrafts and loans            | –                              | –                       | –                    | –                          | (83.9)                    | (83.9)            |
| Derivatives                          | –                              | –                       | –                    | –                          | (2.8)                     | (2.8)             |
| Current tax liabilities              | –                              | –                       | –                    | –                          | (4.0)                     | (4.0)             |
| Retirement benefit obligations       | –                              | –                       | –                    | –                          | (69.4)                    | (69.4)            |
| Deferred tax liabilities             | –                              | –                       | –                    | –                          | (14.1)                    | (14.1)            |
| Government grants                    | –                              | –                       | –                    | –                          | (1.2)                     | (1.2)             |
| <b>Segment liabilities</b>           | <b>(24.4)</b>                  | <b>(8.7)</b>            | <b>(33.1)</b>        | <b>(66.2)</b>              | <b>(216.7)</b>            | <b>(282.9)</b>    |
| <b>Net assets</b>                    | <b>316.5</b>                   | <b>19.3</b>             | <b>45.1</b>          | <b>380.9</b>               | <b>(202.1)</b>            | <b>178.8</b>      |
| Capital additions                    | 5.8                            | 0.6                     | 2.4                  | 8.8                        | (0.1)                     | 8.7               |
| Depreciation and amortisation        | (7.5)                          | (1.8)                   | (3.7)                | (13.0)                     | (0.2)                     | (13.2)            |

|                                         | North America | United Kingdom | Rest of Europe | Rest of the World | Total  |
|-----------------------------------------|---------------|----------------|----------------|-------------------|--------|
| <b>Information by geographical area</b> |               |                |                |                   |        |
| Revenue from external customers         | 107.7         | 18.1           | 117.1          | 120.8             | 363.7  |
| Non-current assets                      | 230.8         | 26.8           | 25.4           | 32.0              | 315.0  |
| Capital additions                       | 6.4           | 0.5            | 0.8            | 1.0               | 8.7    |
| Depreciation and amortisation           | (7.7)         | (0.7)          | (2.6)          | (2.2)             | (13.2) |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**2 Operating segments (continued)**

Segmental analysis for the year ended 31 December 2008

|                                      | 2008                              |                         |                      |                               |                              |                   |
|--------------------------------------|-----------------------------------|-------------------------|----------------------|-------------------------------|------------------------------|-------------------|
|                                      | Specialty<br>Products<br>£million | Surfactants<br>£million | Chromium<br>£million | Segment<br>totals<br>£million | Central<br>costs<br>£million | Total<br>£million |
| Revenue                              | 181.5                             | 51.1                    | 168.6                | 401.2                         | –                            | 401.2             |
| Internal revenue                     | –                                 | –                       | (0.7)                | (0.7)                         | –                            | (0.7)             |
| Revenue from external customers      | 181.5                             | 51.1                    | 167.9                | 400.5                         | –                            | 400.5             |
| Operating profit before exceptionals | 34.2                              | 0.7                     | 32.8                 | 67.7                          | (15.7)                       | 52.0              |
| Head office cost allocations         | (5.1)                             | (0.2)                   | (5.1)                | (10.4)                        | 10.4                         | –                 |
| Exceptionals                         | –                                 | –                       | (20.5)               | (20.5)                        | –                            | (20.5)            |
| Profit/(loss) before interest        | 29.1                              | 0.5                     | 7.2                  | 36.8                          | (5.3)                        | 31.5              |
| Finance income                       | –                                 | –                       | –                    | –                             | 1.8                          | 1.8               |
| Finance expense                      | –                                 | –                       | –                    | –                             | (5.3)                        | (5.3)             |
| Taxation                             | –                                 | –                       | –                    | –                             | (8.2)                        | (8.2)             |
| <b>Profit/(loss) for the period</b>  | <b>29.1</b>                       | <b>0.5</b>              | <b>7.2</b>           | <b>36.8</b>                   | <b>(17.0)</b>                | <b>19.8</b>       |
| Fixed assets                         | 296.1                             | 17.5                    | 46.3                 | 359.9                         | (11.4)                       | 348.5             |
| Investments in associates            | –                                 | –                       | 0.1                  | 0.1                           | –                            | 0.1               |
| Inventories                          | 43.8                              | 7.2                     | 49.6                 | 100.6                         | –                            | 100.6             |
| Trade and other receivables          | 38.2                              | 8.1                     | 22.8                 | 69.1                          | 9.1                          | 78.2              |
| Cash and cash equivalents            | –                                 | –                       | –                    | –                             | 33.6                         | 33.6              |
| <b>Segment assets</b>                | <b>378.1</b>                      | <b>32.8</b>             | <b>118.8</b>         | <b>529.7</b>                  | <b>31.3</b>                  | <b>561.0</b>      |
| Trade and other payables             | (29.4)                            | (10.0)                  | (30.3)               | (69.7)                        | (13.2)                       | (82.9)            |
| Operating provisions                 | (0.4)                             | (1.4)                   | (7.5)                | (9.3)                         | (12.5)                       | (21.8)            |
| Restructuring provisions             | –                                 | –                       | –                    | –                             | –                            | –                 |
| Bank overdrafts and loans            | –                                 | –                       | –                    | –                             | (97.5)                       | (97.5)            |
| Derivatives                          | –                                 | –                       | –                    | –                             | (22.4)                       | (22.4)            |
| Current tax liabilities              | –                                 | –                       | –                    | –                             | (5.7)                        | (5.7)             |
| Retirement benefit obligations       | –                                 | –                       | –                    | –                             | (49.3)                       | (49.3)            |
| Deferred tax liabilities             | –                                 | –                       | –                    | –                             | (10.3)                       | (10.3)            |
| Government grants                    | –                                 | –                       | –                    | –                             | (1.6)                        | (1.6)             |
| <b>Segment liabilities</b>           | <b>(29.8)</b>                     | <b>(11.4)</b>           | <b>(37.8)</b>        | <b>(79.0)</b>                 | <b>(212.5)</b>               | <b>(291.5)</b>    |
| <b>Net assets</b>                    | <b>348.3</b>                      | <b>21.4</b>             | <b>81.0</b>          | <b>450.7</b>                  | <b>(181.2)</b>               | <b>269.5</b>      |
| Capital additions                    | 7.3                               | 0.7                     | 5.1                  | 13.1                          | –                            | 13.1              |
| Depreciation and amortisation        | (5.4)                             | (1.9)                   | (5.0)                | (12.3)                        | (0.1)                        | (12.4)            |

|                                         | North<br>America | United<br>Kingdom | Rest of<br>Europe | Rest of<br>the World | Total  |
|-----------------------------------------|------------------|-------------------|-------------------|----------------------|--------|
| <b>Information by geographical area</b> |                  |                   |                   |                      |        |
| Revenue from external customers         | 120.6            | 22.2              | 149.0             | 108.7                | 400.5  |
| Non-current assets                      | 255.5            | 26.8              | 29.7              | 36.6                 | 348.6  |
| Capital additions                       | 8.8              | 2.8               | 1.0               | 0.5                  | 13.1   |
| Depreciation and amortisation           | (6.1)            | (2.9)             | (2.5)             | (0.9)                | (12.4) |

### 3 Finance income

|                           | 2009<br>£million | 2008<br>£million |
|---------------------------|------------------|------------------|
| Interest on bank deposits | 0.4              | 1.8              |
| Other                     | 0.4              | –                |
|                           | <b>0.8</b>       | <b>1.8</b>       |

### 4 Finance costs

|                                               | 2009<br>£million | 2008<br>£million |
|-----------------------------------------------|------------------|------------------|
| Interest on bank loans                        | 2.0              | 4.4              |
| Expected return on pension scheme assets      | (24.2)           | (27.9)           |
| Interest on pension scheme liabilities        | 28.1             | 28.0             |
| Pension and other post retirement liabilities | 3.9              | 0.1              |
| Unwind of discount on provisions              | –                | 0.8              |
|                                               | <b>5.9</b>       | <b>5.3</b>       |

### 5 Exceptional items

|                                                                      | 2009<br>£million | 2008<br>£million |
|----------------------------------------------------------------------|------------------|------------------|
| EU Commission fine and associated costs                              | (21.6)           | –                |
| Chromium restructuring – site remediation costs                      | (16.3)           | –                |
| Chromium restructuring – employee costs                              | (6.0)            | –                |
| Chromium restructuring – impairment of property, plant and equipment | (1.9)            | (20.5)           |
| Chromium restructuring – hedging costs                               | (4.5)            | –                |
| Other hedging costs                                                  | (4.7)            | –                |
| Pension adjustment relating to past service cost                     | 5.5              | –                |
|                                                                      | <b>(49.5)</b>    | <b>(20.5)</b>    |
| Tax credit on exceptional items                                      | 0.2              | –                |
|                                                                      | <b>(49.3)</b>    | <b>(20.5)</b>    |

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

Following an investigation by the EU Commission into heat stabilisers, the Company was notified of a fine of Euro 14.3 million on Elementis and a further fine of Euro 18.3 million served jointly and severally on Elementis, Akros Chemicals Ltd and other companies owned by Akzo Nobel. Elementis no longer manufactures such products and has not done so since 1998, when the Company disposed of its 50 per cent joint venture interest in Akros Chemicals to Akzo Nobel, the other 50 per cent joint venture owner. An exceptional charge of £21.6 million has been recorded consisting of the full value of the Euro 14.3 million fine and 50 per cent of the Euro 18.3 million joint fine along with legal costs incurred to date in defending the Company's position.

#### Chromium

Following a strategic review at the beginning of the year, the Eaglescliffe chromium plant in the UK was closed with production ceasing in July 2009 and an exceptional charge of £28.7 million recorded in the period. In 2008 an impairment of £20.5 million had been recorded following a re-assessment of the value in use of property, plant and equipment within the business. Included within the 2009 charge is £16.3 million related to the anticipated site remediation costs, being the current estimate calculated in conjunction with external consultants on the basis of an ongoing full site survey. The bulk of these costs will be incurred over the next two years. Employee costs of £6.0 million relate to severance payments and employee operating costs associated with the shutdown of the plant. Exceptional hedging costs of £4.5 million relate to the cost of reversing forward exchange contracts that were taken out in 2008 in anticipation of foreign currency cash flows arising from sales made from Eaglescliffe in the second half of 2009. A £1.9 million charge has been incurred in respect of adjustments in the net realisable value of engineering stores and other site assets.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**5 Exceptional items (continued)**

**Central costs**

The Group hedges its currency exposure in any year by entering into forward contracts during the second half of the previous year for up to 50 per cent of the estimated exposure. The significant downturn in sales volumes that took place towards the end of 2008 caused the Group to have more forward contracts than underlying exposure during the first half of the year. The cost of cancelling these excess contracts was £4.7 million and has been recorded in central costs as an exceptional item.

In 2009 a one-time gain of £5.5 million was recorded in respect of past service credits relating to bridging pensions between retirement and the state pension age.

**6 Income tax expense**

|                                       | 2009<br>£million | 2008<br>£million |
|---------------------------------------|------------------|------------------|
| <b>Current tax</b>                    |                  |                  |
| Overseas corporation tax              | 3.6              | 2.8              |
| Adjustments in respect of prior years |                  |                  |
| United Kingdom                        | (0.4)            | -                |
| Overseas                              | (0.7)            | (1.2)            |
| Total current tax                     | 2.5              | 1.6              |
| <b>Deferred tax</b>                   |                  |                  |
| Overseas                              | 1.7              | 5.9              |
| Adjustments in respect of prior years | 1.6              | 0.7              |
| Total deferred tax                    | 3.3              | 6.6              |
| Income tax expense for the year       | 5.8              | 8.2              |
| <b>Comprising</b>                     |                  |                  |
| Before exceptional items              | 6.0              | 8.2              |
| Exceptional items                     | (0.2)            | -                |
|                                       | 5.8              | 8.2              |

The tax charge on profit before exceptional items represents an effective tax rate on profit before exceptional items for the year ended 31 December 2009 of 32.8 per cent (2008: 16.9 per cent). The rate is higher than the standard UK corporation tax due to profitability in jurisdictions where the standard rate is higher than the UK rate and where additional taxes on undistributed profits are levied. As a Group involved in overseas operations, the amount of profitability in each jurisdiction, transfer pricing legislation and local tax rate changes, will affect future tax charges.

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

|                                                                   | 2009<br>£million | 2009<br>per cent | 2008<br>£million | 2008<br>per cent |
|-------------------------------------------------------------------|------------------|------------------|------------------|------------------|
| Profit before tax                                                 | 18.3             | -                | 48.5             | -                |
| Tax on ordinary activities at 28.0 per cent (2008: 28.5 per cent) | 5.1              | 28.0             | 13.8             | 28.5             |
| Difference in overseas effective tax rates                        | 0.9              | 4.9              | (1.4)            | (2.9)            |
| Expenses not deductible for tax purposes                          | 0.2              | 1.0              | 1.1              | 2.2              |
| Tax losses and other deductions                                   | (0.9)            | (4.9)            | (4.8)            | (9.9)            |
| Adjustments in respect of prior years                             | 0.5              | 2.7              | (0.5)            | (1.0)            |
| Tax charge and effective tax rate for the year                    | 5.8              | 31.7             | 8.2              | 16.9             |

A deferred tax charge of £1.4 million (2008: £8.4 million benefit) has been recognised in equity in the year in respect of actuarial gains.

## 7 Profit for the year

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

|                                                          | 2009<br>£million | 2008<br>£million |
|----------------------------------------------------------|------------------|------------------|
| Employee costs                                           | 57.5             | 55.6             |
| Net foreign exchange losses                              | 7.0              | 8.8              |
| Research and development costs                           | 5.9              | 4.6              |
| Government grants                                        | (0.3)            | (0.1)            |
| Depreciation of property, plant and equipment            | 12.8             | 12.1             |
| Amortisation of intangible assets                        | 0.7              | 0.4              |
| Total depreciation and amortisation expense              | 13.2             | 12.4             |
| Cost of inventories recognised as expense                | 190.2            | 208.8            |
| Fees payable to the Company's auditor and its associates |                  |                  |
| Audit of the Company's financial statements              | 0.1              | 0.1              |
| Audit of the Company's subsidiaries                      | 0.3              | 0.3              |
| Other services                                           | 0.1              | 0.7              |

Other services in relation to the fees paid to the auditors comprise advisory services relating to taxation

## 8 Employees

|                       | 2009<br>£million | 2008<br>£million |
|-----------------------|------------------|------------------|
| <b>Employee costs</b> |                  |                  |
| Wages and salaries    | 50.2             | 48.8             |
| Social security costs | 4.8              | 4.3              |
| Pension costs         | 2.5              | 2.5              |
|                       | 57.5             | 55.6             |

|                                         | Number       | Number       |
|-----------------------------------------|--------------|--------------|
| <b>Average number of FTE employees*</b> |              |              |
| Specialty Products                      | 889          | 733          |
| Surfactants                             | 164          | 167          |
| Chromium                                | 275          | 318          |
| Central                                 | 13           | 14           |
| <b>Total</b>                            | <b>1,341</b> | <b>1,232</b> |

\* Full-time equivalent

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**9 Earnings per share**

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

|                                                      | 2009<br>£million | 2008<br>£million |
|------------------------------------------------------|------------------|------------------|
| <b>Earnings</b>                                      |                  |                  |
| Earnings for the purpose of basic earnings per share | (37.0)           | 19.8             |
| Exceptional items net of tax                         | 49.3             | 20.5             |
| Adjusted earnings                                    | 12.3             | 40.3             |

|                                                                                  | 2009<br>million | 2008<br>million |
|----------------------------------------------------------------------------------|-----------------|-----------------|
| <b>Number of shares</b>                                                          |                 |                 |
| Weighted average number of shares for the purposes of basic earnings per share   | 443.3           | 442.6           |
| Effect of dilutive share options                                                 | 1.3             | 0.9             |
| Weighted average number of shares for the purposes of diluted earnings per share | 444.6           | 443.5           |

|                                  | 2009<br>pence | 2008<br>pence |
|----------------------------------|---------------|---------------|
| <b>Earnings per share</b>        |               |               |
| Basic                            | (8.3)         | 4.5           |
| Diluted                          | (8.3)         | 4.5           |
| Basic before exceptional items   | 2.8           | 9.1           |
| Diluted before exceptional items | 2.8           | 9.1           |

## 10 Goodwill and other intangible assets

|                                  | Goodwill<br>£million | Other<br>intangible<br>assets<br>£million | Total<br>£million |
|----------------------------------|----------------------|-------------------------------------------|-------------------|
| <b>Cost</b>                      |                      |                                           |                   |
| At 1 January 2008                | 147.4                | 1.3                                       | 148.7             |
| Currency translation differences | 52.4                 | 3.6                                       | 56.0              |
| Acquisition of subsidiary        | 10.6                 | 13.5                                      | 24.1              |
| At 1 January 2009                | 210.4                | 18.4                                      | 228.8             |
| Currency translation differences | (20.4)               | (1.5)                                     | (21.9)            |
| Acquisition of subsidiary        | 5.3                  | -                                         | 5.3               |
| Additions                        | -                    | 0.2                                       | 0.2               |
| <b>At 31 December 2009</b>       | <b>195.3</b>         | <b>17.1</b>                               | <b>212.4</b>      |
| <b>Amortisation</b>              |                      |                                           |                   |
| At 1 January 2008                | -                    | 0.8                                       | 0.8               |
| Charge for the year              | -                    | 0.4                                       | 0.4               |
| Provision for impairment         | -                    | 0.3                                       | 0.3               |
| At 1 January 2009                | -                    | 1.5                                       | 1.5               |
| Charge for the year              | -                    | 0.7                                       | 0.7               |
| <b>At 31 December 2009</b>       | <b>-</b>             | <b>2.2</b>                                | <b>2.2</b>        |
| <b>Carrying amount.</b>          |                      |                                           |                   |
| <b>At 31 December 2009</b>       | <b>195.3</b>         | <b>14.9</b>                               | <b>210.2</b>      |
| At 31 December 2008              | 210.4                | 16.9                                      | 227.3             |
| At 1 January 2008                | 147.4                | 0.5                                       | 147.9             |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying value of goodwill relates to Elementis Specialty Products (£193.0 million) and Elementis Surfactants (£2.3 million).

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The discount rate used in 2009 was 10.3 per cent (2008: 9.2 per cent). The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

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

Other intangible assets comprise mainly the value ascribed to the brand and customer lists acquired as part of the Deuchem acquisition. The customer list is being amortised over a useful economic life of ten years.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**11 Property, plant and equipment**

|                                 | Land & buildings<br>£million | Plant & machinery<br>£million | Fixtures, fittings & equipment<br>£million | Under construction<br>£million | Total<br>£million |
|---------------------------------|------------------------------|-------------------------------|--------------------------------------------|--------------------------------|-------------------|
| <b>Cost</b>                     |                              |                               |                                            |                                |                   |
| At 1 January 2008               | 69.7                         | 257.5                         | 24.2                                       | 4.4                            | 355.8             |
| Additions                       | 0.2                          | 2.7                           | 0.1                                        | 10.1                           | 13.1              |
| Exchange differences            | 19.9                         | 50.0                          | 9.1                                        | 2.9                            | 81.9              |
| Disposal of subsidiaries        | 9.0                          | 2.2                           | 1.2                                        | 2.4                            | 14.8              |
| Disposals                       | (0.1)                        | (2.7)                         | (0.4)                                      | –                              | (3.2)             |
| Reclassifications               | 0.3                          | 6.4                           | 0.9                                        | (7.6)                          | –                 |
| At 1 January 2009               | 99.0                         | 316.1                         | 35.1                                       | 12.2                           | 462.4             |
| Additions                       | –                            | 0.3                           | 0.1                                        | 8.3                            | 8.7               |
| Exchange differences            | (7.9)                        | (19.6)                        | (3.7)                                      | (1.1)                          | (32.3)            |
| Disposals                       | (0.3)                        | (6.4)                         | (0.3)                                      | –                              | (7.0)             |
| Reclassifications               | 0.7                          | 11.1                          | 0.5                                        | (12.3)                         | –                 |
| <b>At 31 December 2009</b>      | <b>91.5</b>                  | <b>301.5</b>                  | <b>31.7</b>                                | <b>7.1</b>                     | <b>431.8</b>      |
| <b>Accumulated depreciation</b> |                              |                               |                                            |                                |                   |
| At 1 January 2008               | 45.8                         | 195.5                         | 18.1                                       | –                              | 259.4             |
| Charge for the year             | 1.8                          | 8.3                           | 2.0                                        | –                              | 12.1              |
| Exchange differences            | 11.2                         | 34.2                          | 7.0                                        | –                              | 52.4              |
| Disposals                       | (0.1)                        | (2.5)                         | (0.3)                                      | –                              | (2.9)             |
| Provision for impairment        | 4.3                          | 13.8                          | 0.1                                        | 2.0                            | 20.2              |
| At 1 January 2009               | 63.0                         | 249.3                         | 26.9                                       | 2.0                            | 341.2             |
| Charge for the year             | 2.0                          | 8.3                           | 2.5                                        | –                              | 12.8              |
| Exchange differences            | (4.6)                        | (13.1)                        | (2.9)                                      | –                              | (20.6)            |
| Disposals                       | (0.2)                        | (5.9)                         | (0.3)                                      | –                              | (6.4)             |
| Reclassifications               | 0.1                          | (0.1)                         | –                                          | –                              | –                 |
| <b>At 31 December 2009</b>      | <b>60.3</b>                  | <b>238.5</b>                  | <b>26.2</b>                                | <b>2.0</b>                     | <b>327.0</b>      |
| <b>Net book value</b>           |                              |                               |                                            |                                |                   |
| <b>At 31 December 2009</b>      | <b>31.2</b>                  | <b>63.0</b>                   | <b>5.5</b>                                 | <b>5.1</b>                     | <b>104.8</b>      |
| At 31 December 2008             | 36.0                         | 66.8                          | 8.2                                        | 10.2                           | 121.2             |
| At 1 January 2008               | 23.9                         | 62.0                          | 6.1                                        | 4.4                            | 96.4              |

Group capital expenditure contracted but not provided for in these financial statements amounted to £nil (2008: £0.5 million). In 2008 the Group wrote down the carrying value of the fixed assets at the Eaglescliffe Chromium plant following an evaluation of likely future profitability after changes in market dynamics.

Bank borrowings are secured on land and buildings in Taiwan for the value of £5.6 million.

Land and buildings at cost comprised the following:

|                            | 2009<br>£million | 2008<br>£million |
|----------------------------|------------------|------------------|
| Freehold property          | 91.3             | 98.8             |
| Short leasehold properties | 0.2              | 0.2              |
|                            | <b>91.5</b>      | <b>99.0</b>      |

**12 Interests in associates**

|                                   | 2009<br>£million | 2008<br>£million |
|-----------------------------------|------------------|------------------|
| Cost of investments in associates | -                | 0.1              |

**13 Inventories**

|                                               | 2009<br>£million | 2008<br>£million |
|-----------------------------------------------|------------------|------------------|
| Raw materials and consumables                 | 20.3             | 35.5             |
| Work in progress                              | 7.8              | 14.8             |
| Finished goods and goods purchased for resale | 37.1             | 50.3             |
|                                               | 65.2             | 100.6            |

Inventories are disclosed net of provisions for obsolescence of £2.2 million (2008: £2.2 million)

**14 Trade and other receivables**

|                                | 2009<br>£million | 2008<br>£million |
|--------------------------------|------------------|------------------|
| Trade receivables              | 57.7             | 69.0             |
| Other receivables              | 3.2              | 5.5              |
| Prepayments and accrued income | 2.7              | 3.7              |
|                                | 63.6             | 78.2             |

**15 Trade and other payables**

|                                 | 2009<br>£million | 2008<br>£million |
|---------------------------------|------------------|------------------|
| Trade payables                  | 25.9             | 39.8             |
| Other taxes and social security | 0.8              | 0.9              |
| Other payables                  | 3.7              | 5.0              |
| Accruals and deferred income    | 20.7             | 37.2             |
|                                 | 51.1             | 82.9             |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**16 Provisions**

|                                  | Environmental<br>£million | Chromium<br>UK closure<br>£million | Self insurance<br>£million | EU commission<br>fines<br>£million | Total<br>£million |
|----------------------------------|---------------------------|------------------------------------|----------------------------|------------------------------------|-------------------|
| At 1 January 2009                | 20.0                      | –                                  | 1.8                        | –                                  | 21.8              |
| Charge to income statement       | 0.3                       | 24.1                               | –                          | 20.8                               | 45.2              |
| Utilised during the year         | (1.9)                     | (7.5)                              | –                          | –                                  | (9.4)             |
| Currency translation differences | (1.0)                     | –                                  | (0.2)                      | –                                  | (1.2)             |
| <b>At 31 December 2009</b>       | <b>17.4</b>               | <b>16.6</b>                        | <b>1.6</b>                 | <b>20.8</b>                        | <b>56.4</b>       |
| Due after one year               | 16.4                      | 6.2                                | 1.6                        | –                                  | 24.2              |

Environmental provisions relate to manufacturing and distribution sites including certain sites no longer owned by the Group. These provisions have been derived using a discounted cash flow methodology and reflect the extent to which it is probable that expenditure will be incurred over the next 20 years.

Included within the closing balance relating to the Chromium UK closure, is £14.3 million of anticipated environmental costs. These have been excluded from the environmental provision category in order to facilitate understanding of the overall cost of the Chromium UK closure.

Self insurance provisions at 31 December 2009 represent the aggregate of outstanding claims plus a projection for losses that may not yet have been reported. The self insurance provisions are expected to be utilised within five years.

**17 Deferred tax**

|                                         | Retirement<br>benefit plans<br>£million | Accelerated<br>tax<br>depreciation<br>£million | Amortisation<br>of US<br>goodwill<br>£million | Temporary<br>differences<br>£million | Unrelieved<br>tax losses<br>£million | Total<br>£million |
|-----------------------------------------|-----------------------------------------|------------------------------------------------|-----------------------------------------------|--------------------------------------|--------------------------------------|-------------------|
| At 1 January 2008                       | 2.7                                     | (6.7)                                          | (24.5)                                        | 2.3                                  | 22.8                                 | (3.4)             |
| Acquisition                             | –                                       | (1.2)                                          | –                                             | (3.8)                                | –                                    | (5.0)             |
| (Charge)/credit to the income statement | (0.6)                                   | (2.7)                                          | (4.5)                                         | 0.4                                  | 0.8                                  | (6.6)             |
| Credit to equity                        | 8.4                                     | –                                              | –                                             | –                                    | –                                    | 8.4               |
| Currency translation differences        | 1.6                                     | (2.8)                                          | (10.5)                                        | 1.2                                  | 6.8                                  | (3.7)             |
| At 1 January 2009                       | 12.1                                    | (13.4)                                         | (39.5)                                        | 0.1                                  | 30.4                                 | (10.3)            |
| (Charge)/credit to the income statement | 0.3                                     | (1.5)                                          | (7.0)                                         | (0.6)                                | 5.5                                  | (3.3)             |
| Debit to equity                         | (1.4)                                   | –                                              | –                                             | –                                    | –                                    | (1.4)             |
| Currency translation differences        | (1.2)                                   | 1.6                                            | 3.4                                           | –                                    | (2.9)                                | 0.9               |
| <b>At 31 December 2009</b>              | <b>9.8</b>                              | <b>(13.3)</b>                                  | <b>(43.1)</b>                                 | <b>(0.5)</b>                         | <b>33.0</b>                          | <b>(14.1)</b>     |

At 31 December 2009 the full amount of ACT previously written-off, available for offset against future UK profits, was £26.5 million (2008: £25.8 million). Additional tax losses for which no deferred tax asset has been recognised were £65.3 million (2008: £47.1 million).

Deferred tax assets have been recognised to the extent that it is considered more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted. Where this is not the case, deferred tax assets have not been recognised. No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future. There are no significant temporary differences arising in connection with interests in subsidiaries and associates.

## 18 Share capital

|                 | 2009<br>£million | 2008<br>£million |
|-----------------|------------------|------------------|
| At 1 January    | 22.4             | 22.3             |
| Issue of shares | –                | 0.1              |
| At 31 December  | 22.4             | 22.4             |

Details of share capital are set out in note 7 to the parent company financial statements

## 19 Share premium, other reserves and retained earnings

|                                                | Share<br>premium<br>£million | Other<br>reserves<br>£million | Retained<br>earnings<br>£million | Total<br>£million |
|------------------------------------------------|------------------------------|-------------------------------|----------------------------------|-------------------|
| Balance at 1 January 2008                      | 5.2                          | 66.4                          | 136.0                            | 207.6             |
| Issue of shares                                | 0.6                          | –                             | –                                | 0.6               |
| Share based payments                           | –                            | 0.8                           | –                                | 0.8               |
| Profit for the year                            | –                            | –                             | 19.8                             | 19.8              |
| Dividends paid                                 | –                            | –                             | (12.8)                           | (12.8)            |
| Purchase of own shares                         | –                            | –                             | (2.0)                            | (2.0)             |
| Actuarial loss on pension scheme               | –                            | –                             | (25.5)                           | (25.5)            |
| Exchange differences                           | –                            | 65.8                          | –                                | 65.8              |
| Tax credit on actuarial loss on pension scheme | –                            | –                             | 8.4                              | 8.4               |
| Decrease in fair value of derivatives          | –                            | (16.8)                        | –                                | (16.8)            |
| Transfer                                       | –                            | (0.6)                         | 0.6                              | –                 |
| Balance at 1 January 2009                      | 5.8                          | 115.6                         | 124.5                            | 245.9             |
| Issue of shares                                | –                            | –                             | –                                | –                 |
| Share based payments                           | –                            | 0.6                           | –                                | 0.6               |
| Loss for the year                              | –                            | –                             | (37.0)                           | (37.0)            |
| Dividends paid                                 | –                            | –                             | (12.9)                           | (12.9)            |
| Actuarial loss on pension scheme               | –                            | –                             | (33.0)                           | (33.0)            |
| Exchange differences                           | –                            | (25.1)                        | –                                | (25.1)            |
| Tax credit on actuarial loss on pension scheme | –                            | –                             | (1.4)                            | (1.4)             |
| Increase in fair value of derivatives          | –                            | 18.5                          | –                                | 18.5              |
| Transfer                                       | –                            | (0.5)                         | 0.5                              | –                 |
| <b>Balance at 31 December 2009</b>             | <b>5.8</b>                   | <b>109.1</b>                  | <b>40.7</b>                      | <b>155.6</b>      |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**19 Share premium, other reserves and retained earnings (continued)**

Other reserves comprise

|                                       | Capital<br>redemption<br>reserve<br>£million | Translation<br>reserve<br>£million | Hedging<br>reserve<br>£million | Share<br>options<br>reserve<br>£million | Total<br>£million |
|---------------------------------------|----------------------------------------------|------------------------------------|--------------------------------|-----------------------------------------|-------------------|
| At 1 January 2008                     | 83.3                                         | (16.6)                             | (2.0)                          | 1.7                                     | 66.4              |
| Share based payments                  | –                                            | –                                  | –                              | 0.8                                     | 0.8               |
| Exchange differences                  | –                                            | 65.8                               | –                              | –                                       | 65.8              |
| Decrease in fair value of derivatives | –                                            | –                                  | (16.8)                         | –                                       | (16.8)            |
| Transfer                              | –                                            | –                                  | –                              | (0.6)                                   | (0.6)             |
| At 1 January 2009                     | 83.3                                         | 49.2                               | (18.8)                         | 1.9                                     | 115.6             |
| Share based payments                  | –                                            | –                                  | –                              | 0.6                                     | 0.6               |
| Exchange differences                  | –                                            | (25.1)                             | –                              | –                                       | (25.1)            |
| Increase in fair value of derivatives | –                                            | –                                  | 18.5                           | –                                       | 18.5              |
| Transfer                              | –                                            | –                                  | –                              | (0.5)                                   | (0.5)             |
| <b>Balance at 31 December 2009</b>    | <b>83.3</b>                                  | <b>24.1</b>                        | <b>(0.3)</b>                   | <b>2.0</b>                              | <b>109.1</b>      |

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

**20 Borrowings**

|                                         | 2009<br>£million | 2008<br>£million |
|-----------------------------------------|------------------|------------------|
| Bank loans                              | 83.9             | 97.5             |
| The borrowings are repayable as follows |                  |                  |
| On demand or within one year            | 11.1             | 15.7             |
| In the second year                      | 71.3             | –                |
| In the third year                       | 0.2              | 79.6             |
| In the fourth year                      | 0.2              | –                |
| After more than five years              | 1.1              | 2.2              |
|                                         | 83.9             | 97.5             |

The weighted average interest rates paid were as follows

|            | 2009<br>per cent | 2008<br>per cent |
|------------|------------------|------------------|
| Bank loans | 2.2              | 6.3              |

All US dollar and Euro denominated borrowings were unsecured and at floating rates for periods of up to six months, bearing interest at the relevant interbank rates plus a margin. The China RMB and Taiwan dollar amounts consisted of unsecured borrowings, those secured by time deposits and those secured by charges over various land and buildings in Taiwan. Group borrowings were denominated as follows

|                         | US Dollar   | China RMB  | Taiwan Dollar | Euro       | Total       |
|-------------------------|-------------|------------|---------------|------------|-------------|
| <b>Bank loans</b>       |             |            |               |            |             |
| 31 December 2008        | 81.1        | 10.5       | 5.9           | –          | 97.5        |
| <b>31 December 2009</b> | <b>79.4</b> | <b>1.8</b> | <b>2.6</b>    | <b>0.1</b> | <b>83.9</b> |

## 21 Cash and cash equivalents

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

|                           | 2009<br>£million | 2008<br>£million |
|---------------------------|------------------|------------------|
| Cash and cash equivalents | 17.9             | 33.6             |

## 22 Financial risk management

The Group has exposure to the following risks from its use of financial instruments

- credit risk,
- liquidity risk,
- market risk

The Board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

### Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. No single customer accounts for a significant proportion of the Group's revenue and geographically there is no concentration of credit risk.

Each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, where available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Board. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar assets.

### Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least A1 from Standard & Poor's and A from Moody's. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**22 Financial risk management (continued)**

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group's funding policy is to have committed borrowings in place to cover at least 125 per cent of the maximum forecast net borrowings for the next 12 month period. At the year end the Group had £79.0 million (2008: £70.4 million) of undrawn committed facilities, which expire after more than one year but within 2 years.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The Group buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board.

**Currency risk**

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a foreign currency other than the respective functional currencies of Group entities, primarily the Euro and the US Dollar. The Group hedges approximately 50 per cent of current and forecast trade receivables and trade payables denominated in a non-sterling currency. The Group's hedging policy will be re-assessed when it adopts the US Dollar as its reporting currency in 2010. The Group uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily US Dollar. This provides an economic hedge and no derivatives are entered into. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances. The Group's investment in overseas subsidiaries is hedged by US Dollar denominated drawdowns under the syndicated facility, which mitigates the currency risk arising from the translation of subsidiary's net assets.

**Interest rate risk**

The Group's policy is to borrow at both fixed and floating interest rates and to use interest rate swaps to generate the required interest profile. The policy does not require that a specific proportion of the Group's borrowings are at fixed rates of interest.

**Other market price risk**

Equity price risk arises from available-for-sale equity securities held within the Group's defined benefit pension obligations. Management monitors the mix of debt and equity securities in its investment portfolio based on market expectations. The primary goal of the Group's investment strategy is to maximise investment returns in order to meet partially the Group's unfunded benefit obligations; management is assisted by external advisers in this regard.

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements, such contracts are not settled net.

### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of directors monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity, excluding minority interests, and the level of dividends to ordinary shareholders.

The Board encourages employees to hold shares in the Company through the Group's savings related share option schemes. At present, employees hold 0.3 per cent of ordinary shares, or 3.1 per cent assuming that all outstanding options vest or are exercised.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group's target is to achieve a return on shareholders' equity of between 10 and 15 per cent; in 2009 the return was negative 14.0 per cent (2008: 11.2 per cent). In comparison the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 2.0 per cent (2008: 3.5 per cent).

|                                                                      | 2009<br>£million | 2008<br>£million |
|----------------------------------------------------------------------|------------------|------------------|
| <b>Recognised in profit or loss</b>                                  |                  |                  |
| Interest income on bank deposits                                     | 0.4              | 1.8              |
| Other                                                                | 0.4              | -                |
| Financial income                                                     | 0.8              | 1.8              |
| Net change in fair value of cash flow hedges transferred from equity | (6.7)            | (9.0)            |
| Net change in fair value of cash flow hedges treated as exceptional  | (9.2)            | -                |
| Interest on bank loans                                               | (2.0)            | (4.4)            |
| Net pension interest                                                 | (3.9)            | (0.1)            |
| Financial costs                                                      | (21.8)           | (13.5)           |
| Net financial costs                                                  | (21.0)           | (11.7)           |

None of the above relates to financial assets or liabilities held at fair value through profit or loss.

### Recognised directly in equity

|                                                                   |        |        |
|-------------------------------------------------------------------|--------|--------|
| Effective portion of changes in fair value of cash flow hedge     | (0.3)  | (18.8) |
| Fair value of cash flow hedges transferred to income statement    | 18.8   | 2.0    |
| Effective portion of change in fair value of net investment hedge | 11.6   | (25.6) |
| Foreign currency translation differences for foreign operations   | (36.7) | 91.4   |
| Recognised in:                                                    |        |        |
| Hedging reserve                                                   | 18.5   | (16.8) |
| Translation reserve                                               | (25.1) | 65.8   |

Derivatives used for hedging included within current liabilities amounted to £2.8 million at 31 December 2009 (2008: £22.4 million).

### Loans and borrowings

|                                | 2009<br>£million | 2008<br>£million |
|--------------------------------|------------------|------------------|
| <b>Current liabilities</b>     |                  |                  |
| Unsecured bank loan            | 10.7             | 13.4             |
| Secured bank loan              | 0.4              | 2.3              |
| <b>Non-current liabilities</b> |                  |                  |
| Unsecured bank loan            | 71.0             | 79.6             |
| Secured bank loan              | 1.8              | 2.2              |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**22 Financial risk management (continued)**

**Terms and debt repayment schedule**

The terms and conditions of outstanding loans were as follows

|                                           | Currency | Year of maturity | Face value<br>£million | 2009<br>Carrying<br>amount<br>£million | Face value<br>£million | 2008<br>Carrying<br>Amount<br>£million |
|-------------------------------------------|----------|------------------|------------------------|----------------------------------------|------------------------|----------------------------------------|
| Unsecured bank loan                       | Multi    | 2011             | 71.2                   | 71.0                                   | 80.0                   | 79.6                                   |
| Unsecured bank loan                       | USD      | 2010             | 8.4                    | 8.4                                    | –                      | –                                      |
| Unsecured bank loan                       | RMB      | 2010             | 1.8                    | 1.8                                    | 10.5                   | 10.5                                   |
| Unsecured bank loan                       | TWD      | 2010             | 0.4                    | 0.4                                    | 2.9                    | 2.9                                    |
| Unsecured bank loan                       | EURO     | 2010             | 0.1                    | 0.1                                    | –                      | –                                      |
| Secured bank loan                         | USD      | 2010             | –                      | –                                      | 1.5                    | 1.5                                    |
| Secured bank loan                         | TWD      | 2010-2017        | 2.2                    | 2.2                                    | 3.0                    | 3.0                                    |
| <b>Total interest-bearing liabilities</b> |          |                  | <b>84.1</b>            | <b>83.9</b>                            | <b>97.9</b>            | <b>97.5</b>                            |

The multi-currency unsecured bank facility bears interest at Libor of the currency drawn down plus a margin based on the Group's net borrowings earnings before interest, tax, depreciation and amortisation ("EBITDA"). The remaining loans bear interest at interest rates of between 0.8 per cent and 4.4 per cent. The secured bank loans are secured against time deposit accounts in China and land and buildings in Taiwan with a carrying value of £5.6 million.

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was

|                           | Carrying amount<br>2009<br>£million | 2008<br>£million |
|---------------------------|-------------------------------------|------------------|
| Trade receivables         | 57.7                                | 69.0             |
| Cash and cash equivalents | 17.9                                | 33.6             |
|                           | <b>75.6</b>                         | <b>102.6</b>     |

The maximum exposure to credit risk for trade receivables at the reporting date by geographical region was

|               | Carrying amount<br>2009<br>£million | 2008<br>£million |
|---------------|-------------------------------------|------------------|
| North America | 14.0                                | 18.6             |
| Europe        | 19.4                                | 20.8             |
| Rest of World | 24.3                                | 29.6             |
|               | <b>57.7</b>                         | <b>69.0</b>      |

**Impairment losses**

The ageing of trade receivables at the reporting date was

|                      | Gross<br>2009<br>£million | Impairment<br>2009<br>£million | Gross<br>2008<br>£million | Impairment<br>2008<br>£million |
|----------------------|---------------------------|--------------------------------|---------------------------|--------------------------------|
| Not past due         | 51.9                      | (1.2)                          | 62.6                      | (0.8)                          |
| Past due 0-30 days   | 6.2                       | (0.1)                          | 6.7                       | (0.1)                          |
| Past due 31-120 days | 1.0                       | (0.1)                          | 1.2                       | (0.6)                          |
| <b>Total</b>         | <b>59.1</b>               | <b>(1.4)</b>                   | <b>70.5</b>               | <b>(1.5)</b>                   |

The movement in the allowance for impairment in respect of trade receivables during the year was as follows

|                        | 2009<br>£million | 2008<br>£million |
|------------------------|------------------|------------------|
| Balance at 1 January   | 1 5              | 0 9              |
| Impairment movements   | (0 1)            | 0 6              |
| Balance at 31 December | 1 4              | 1 5              |

The provision relates to customers primarily of Elementis Chromium who, due to their payment history and geographical location, are assessed as having a higher exposure to credit risk than is acceptable

### Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements

|                                             | 31 December 2009               |                                       |                                 |                         |                               |
|---------------------------------------------|--------------------------------|---------------------------------------|---------------------------------|-------------------------|-------------------------------|
|                                             | Carrying<br>amount<br>£million | Contractual<br>cash flows<br>£million | 6 months<br>or less<br>£million | 6-12 months<br>£million | 1 year<br>or more<br>£million |
| Non-derivative financial liabilities        |                                |                                       |                                 |                         |                               |
| Unsecured bank loan                         | 81 7                           | (81 9)                                | (81 9)                          | –                       | –                             |
| Secured bank loan                           | 2 2                            | (2 2)                                 | –                               | (0 2)                   | (2 0)                         |
| Trade and other payables*                   | 30 5                           | (30 5)                                | (30 5)                          | –                       | –                             |
| Derivative financial liabilities            |                                |                                       |                                 |                         |                               |
| Forward exchange contracts used for hedging |                                |                                       |                                 |                         |                               |
| Outflow                                     | 2 8                            | (35 5)                                | (27 0)                          | (6 4)                   | (2 1)                         |
| Inflow                                      | –                              | 32 7                                  | 24 4                            | 6 2                     | 2 1                           |
|                                             | 117 2                          | (117 4)                               | (115 0)                         | (0 4)                   | (2 0)                         |

\* Excludes derivatives

|                                             | 31 December 2008               |                                       |                                 |                         |                               |
|---------------------------------------------|--------------------------------|---------------------------------------|---------------------------------|-------------------------|-------------------------------|
|                                             | Carrying<br>amount<br>£million | Contractual<br>cash flows<br>£million | 6 months<br>or less<br>£million | 6-12 months<br>£million | 1 year<br>or more<br>£million |
| Non-derivative financial liabilities        |                                |                                       |                                 |                         |                               |
| Unsecured bank loan                         | 93 0                           | (93 3)                                | (93 3)                          | –                       | –                             |
| Secured bank loan                           | 4 5                            | (4 5)                                 | (2 3)                           | –                       | (2 2)                         |
| Trade and other payables*                   | 45 7                           | (45 7)                                | (45 7)                          | –                       | –                             |
| Derivative financial liabilities            |                                |                                       |                                 |                         |                               |
| Forward exchange contracts used for hedging |                                |                                       |                                 |                         |                               |
| Outflow                                     | 22 4                           | (118 7)                               | (48 9)                          | (52 4)                  | (17 4)                        |
| Inflow                                      | –                              | 96 3                                  | 38 8                            | 43 1                    | 14 4                          |
|                                             | 165 6                          | (165 9)                               | (151 4)                         | (9 3)                   | (5 2)                         |

\* Excludes derivatives

Bank loans have been drawn under committed facilities and can be refinanced on maturity from the same facilities. The contractual maturities indicated reflect the maturing of the loans rather than the end date of the facilities

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**22 Financial risk management (continued)**

**Cash flow hedges**

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur

|                            | Carrying<br>amount<br>£million | Expected<br>cash flows<br>£million | 2009<br>6 months<br>or less<br>£million | 6-12<br>months<br>£million | 1-2 years<br>£million | Carrying<br>amount<br>£million | Expected<br>cash flows<br>£million | 2008<br>6 months<br>or less<br>£million | 6-12<br>months<br>£million | 1-2 years<br>£million |
|----------------------------|--------------------------------|------------------------------------|-----------------------------------------|----------------------------|-----------------------|--------------------------------|------------------------------------|-----------------------------------------|----------------------------|-----------------------|
| Forward exchange contracts |                                |                                    |                                         |                            |                       |                                |                                    |                                         |                            |                       |
| Assets                     | –                              | 32.7                               | 24.4                                    | 6.2                        | 2.1                   | –                              | 96.3                               | 38.8                                    | 43.1                       | 14.4                  |
| Liabilities                | (2.8)                          | (35.5)                             | (27.0)                                  | (6.4)                      | (2.1)                 | (22.4)                         | (118.7)                            | (48.9)                                  | (52.4)                     | (17.4)                |
|                            | (2.8)                          | (2.8)                              | (2.6)                                   | (0.2)                      | –                     | (22.4)                         | (22.4)                             | (10.1)                                  | (9.3)                      | (3.0)                 |

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to impact the income statement

|                            | Carrying<br>amount<br>£million | Expected<br>cash flows<br>£million | 2009<br>6 months<br>or less<br>£million | 6-12<br>months<br>£million | 1-2 years<br>£million | Carrying<br>amount<br>£million | Expected<br>cash flows<br>£million | 2008<br>6 months<br>or less<br>£million | 6-12<br>months<br>£million | 1-2 years<br>£million |
|----------------------------|--------------------------------|------------------------------------|-----------------------------------------|----------------------------|-----------------------|--------------------------------|------------------------------------|-----------------------------------------|----------------------------|-----------------------|
| Forward exchange contracts |                                |                                    |                                         |                            |                       |                                |                                    |                                         |                            |                       |
| Assets                     | –                              | 12.5                               | 6.2                                     | 6.3                        | –                     | –                              | 86.0                               | 42.9                                    | 43.1                       | –                     |
| Liabilities                | (0.3)                          | (12.8)                             | (6.4)                                   | (6.4)                      | –                     | (18.8)                         | (104.8)                            | (52.4)                                  | (52.4)                     | –                     |
|                            | (0.3)                          | (0.3)                              | (0.2)                                   | (0.1)                      | –                     | (18.8)                         | (18.8)                             | (9.5)                                   | (9.3)                      | –                     |

**Currency risk**

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts

|                              | 2009             |                 |                   | 2008             |                 |                   |
|------------------------------|------------------|-----------------|-------------------|------------------|-----------------|-------------------|
|                              | Euro<br>£million | USD<br>£million | Other<br>£million | Euro<br>£million | USD<br>£million | Other<br>£million |
| Trade receivables            | 21.2             | 25.3            | 11.2              | 22.0             | 33.4            | 13.6              |
| Trade payables               | (11.7)           | (8.6)           | (5.6)             | (20.7)           | (12.4)          | (6.7)             |
| Gross balance sheet exposure | 9.5              | 16.7            | 5.6               | 1.3              | 21.0            | 6.9               |
| Estimated forecast sales     | 124.5            | 193.7           | 55.1              | 167.2            | 263.6           | 58.7              |
| Estimated forecast purchases | (100.9)          | (171.5)         | (50.1)            | (116.5)          | (197.5)         | (56.5)            |
| Gross exposure               | 33.1             | 38.9            | 10.6              | 52.0             | 87.1            | 9.1               |
| Forward exchange contracts   | (12.8)           | –               | –                 | (46.4)           | (58.4)          | –                 |
| Net exposure                 | 20.3             | 38.9            | 10.6              | 5.6              | 28.7            | 9.1               |

The main exchange rates relevant to the Group are set out in the Business review on page 11

**Sensitivity analysis**

A 10 per cent strengthening of GBP against the following currencies at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant

|                         | Equity<br>£million | Profit or loss<br>£million |
|-------------------------|--------------------|----------------------------|
| <b>31 December 2009</b> |                    |                            |
| USD                     | (0.2)              | (1.3)                      |
| Euro                    | (1.2)              | 1.1                        |
| RMB                     | (1.0)              | (0.6)                      |
| <b>31 December 2008</b> |                    |                            |
| USD                     | (2.8)              | (3.2)                      |
| Euro                    | (2.5)              | (0.9)                      |
| RMB                     | (0.5)              | –                          |

A 10 per cent strengthening of GBP against all currencies will have increased/(decreased) the carrying amount of variable rate instruments as follows

|                                  | Carrying amount |          |
|----------------------------------|-----------------|----------|
|                                  | 2009            | 2008     |
|                                  | £million        | £million |
| <b>Variable rate instruments</b> |                 |          |
| Financial liabilities            | (8 4)           | (8 9)    |

#### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant

|                           | 2009                          |                                                 | 2008                          |                                                 |
|---------------------------|-------------------------------|-------------------------------------------------|-------------------------------|-------------------------------------------------|
|                           | 100bp<br>increase<br>£million | Profit or loss<br>100bp<br>decrease<br>£million | 100bp<br>increase<br>£million | Profit or loss<br>100bp<br>decrease<br>£million |
| Variable rate instruments | (0.8)                         | 0 8                                             | (1 0)                         | 1 0                                             |

#### Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with carrying amounts shown in the balance sheet, are as follows

|                                             | 31 December 2009               |                           | 31 December 2008               |                           |
|---------------------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------|
|                                             | Carrying<br>amount<br>£million | Fair<br>value<br>£million | Carrying<br>amount<br>£million | Fair<br>Value<br>£million |
| Trade and other receivables                 | 60 9                           | 60 9                      | 74 5                           | 74 5                      |
| Cash and cash equivalents                   | 17 9                           | 17 9                      | 33 6                           | 33 6                      |
| Forward exchange contracts used for hedging |                                |                           |                                |                           |
| Liabilities                                 | (2 8)                          | (2 8)                     | (22 4)                         | (22 4)                    |
| Unsecured bank facility                     | (81 7)                         | (81 9)                    | (93 0)                         | (93 3)                    |
| Secured bank loan                           | (2 2)                          | (2 2)                     | (4 5)                          | (4 5)                     |
| Trade and other payables*                   | (51.1)                         | (51 1)                    | (82 9)                         | (82 9)                    |
|                                             | (59 0)                         | (59.2)                    | (94 7)                         | (95 0)                    |
| Unrecognised loss                           |                                | (0 2)                     |                                | (0 3)                     |

\* Excludes derivatives

#### Basis for determining fair values

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements

Level 1 Quoted market price (unadjusted) in an active market for an identical instrument

Level 2 Valuation techniques based on observable inputs, either directly or indirectly

Level 3 Valuation techniques using significant unobservable inputs

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above

##### Derivatives (level 1)

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest (based on government bonds)

##### Non-derivatives financial liabilities (level 2)

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**22 Financial risk management (continued)**

Trade and other receivables (level 3)

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date

**Interest rates used for determining fair value**

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate constant credit spread, and were as follows

|             | 2009<br>per cent | 2008<br>per cent |
|-------------|------------------|------------------|
| Derivatives | 4.1              | 3.7              |
| Borrowings  | 0.8 – 4.4        | 2.0 – 7.2        |

**23 Operating leases**

|                                                                                    | 2009<br>£million | 2008<br>£million |
|------------------------------------------------------------------------------------|------------------|------------------|
| Minimum lease payments under operating leases recognised as an expense in the year | 2.4              | 2.1              |

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

|                                        | 2009<br>£million | 2008<br>£million |
|----------------------------------------|------------------|------------------|
| Within one year                        | 0.4              | 0.6              |
| In the second to fifth years inclusive | 4.1              | 3.5              |
| After five years                       | 1.6              | 0.3              |
|                                        | 6.1              | 4.4              |

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

**24 Retirement benefit obligations**

The Group has a number of contributory and non-contributory post retirement benefit plans providing retirement benefits for the majority of employees and executive directors. The main schemes in the UK, US and the Netherlands are of the defined benefit type, the benefit being based on number of years of service and either the employee's final remuneration or the employee's average remuneration during a period of years before retirement. The assets of these schemes are held in separate trustee administered funds or are unfunded but provided for on the Group balance sheet. In addition the Group operates an unfunded post-retirement medical benefit ("PRMB") scheme in the US. The entitlement to these benefits is usually based on the employee remaining in service until retirement age and completion of a minimum service period.

A full actuarial valuation was carried out on 30 September 2005 for the UK scheme and at 31 December 2009 for the US and Netherlands schemes. The UK actuarial valuation has been updated to 31 December 2009 for inclusion within this Annual Report. The assumed life expectancies on retirement are

|                              | UK            |               | US            |               | Netherlands   |               |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                              | 2009<br>years | 2008<br>years | 2009<br>years | 2008<br>years | 2009<br>years | 2008<br>years |
| Retiring at 31 December 2009 |               |               |               |               |               |               |
| Males                        | 20            | 20            | 19            | 19            | 19            | 19            |
| Females                      | 23            | 22            | 21            | 21            | 21            | 21            |
| Retiring in 20 years         |               |               |               |               |               |               |
| Males                        | 22            | 22            | 21            | 21            | 19            | 19            |
| Females                      | 24            | 24            | 22            | 22            | 21            | 21            |

The principal assumptions used by the actuaries were as follows

|                                         | UK<br>per cent | US<br>per cent | Netherlands<br>per cent |
|-----------------------------------------|----------------|----------------|-------------------------|
| <b>2009</b>                             |                |                |                         |
| Rate of increase in salaries            | 4.60           | 3.45           | 2.00                    |
| Rate of increase in pensions in payment | 3.50           | N/A            | N/A                     |
| Discount rate                           | 5.50           | 6.25           | 5.25                    |
| Inflation                               | 3.60           | 3.25           | 2.00                    |
| <b>2008</b>                             |                |                |                         |
| Rate of increase in salaries            | 3.80           | 3.45           | 2.00                    |
| Rate of increase in pensions in payment | 2.80           | N/A            | 0.25                    |
| Discount rate                           | 6.40           | 6.25           | 5.75                    |
| Inflation                               | 2.80           | 3.25           | 2.00                    |
| <b>2007</b>                             |                |                |                         |
| Rate of increase in salaries            | 4.20           | 3.70           | 2.00                    |
| Rate of increase in pensions in payment | 3.10           | N/A            | 0.50                    |
| Discount rate                           | 6.00           | 6.25           | 5.75                    |
| Inflation                               | 3.20           | 3.50           | 2.00                    |

The main assumptions for the PRMB scheme are a discount rate of 6.25 per cent (2008: 6.25 per cent) per annum and a health care cost trend of 10.0 per cent (2008: 10.0 per cent) and 11.0 per cent (2008: 11.0 per cent) per annum for claims pre age 65 and post age 65 respectively reducing to 4.5 per cent per annum by 2017 (2008: 4.5 per cent). Actuarial valuations of retirement benefit plans in other jurisdictions have not been updated for IAS19 purposes because of the costs involved and the considerably smaller scheme sizes and numbers of employees involved.

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

|                                 | Equities<br>per cent | Gilts<br>per cent | Bonds<br>per cent | Cash & insured<br>annuities<br>per cent | Total    |
|---------------------------------|----------------------|-------------------|-------------------|-----------------------------------------|----------|
| <b>2009</b>                     |                      |                   |                   |                                         |          |
| <b>Long term rate of return</b> |                      |                   |                   |                                         |          |
| UK                              | 7.50                 | 4.30              | 5.60              | 4.40                                    | —        |
| US                              | 8.50                 | —                 | 6.00              | —                                       | —        |
| Netherlands                     | —                    | —                 | 5.25              | —                                       | —        |
|                                 | £million             | £million          | £million          | £million                                | £million |
| <b>Asset value</b>              |                      |                   |                   |                                         |          |
| UK                              | 180.9                | 60.7              | 93.9              | 50.9                                    | 386.4    |
| US                              | 33.2                 | —                 | 12.6              | 0.3                                     | 46.1     |
| Netherlands                     | —                    | —                 | 25.1              | —                                       | 25.1     |
| Total                           | 214.1                | 60.7              | 131.6             | 51.2                                    | 457.6    |
|                                 | Equities<br>per cent | Gilts<br>per cent | Bonds<br>per cent | Cash & insured<br>annuities<br>per cent | Total    |
| <b>2008</b>                     |                      |                   |                   |                                         |          |
| <b>Long term rate of return</b> |                      |                   |                   |                                         |          |
| UK                              | 7.50                 | 3.80              | 6.40              | 3.80                                    | —        |
| US                              | 8.50                 | —                 | 6.00              | —                                       | —        |
| Netherlands                     | —                    | —                 | 5.80              | —                                       | —        |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**24 Retirement benefit obligations (continued)**

|              | Equities<br>£million | Gilts<br>£million | Bonds<br>£million | Cash & insured<br>annuities<br>£million | Total<br>£million |
|--------------|----------------------|-------------------|-------------------|-----------------------------------------|-------------------|
| <b>2008</b>  |                      |                   |                   |                                         |                   |
| Asset value  |                      |                   |                   |                                         |                   |
| UK           | 157.8                | 74.8              | 51.1              | 65.4                                    | 349.1             |
| US           | 31.4                 | -                 | 13.3              | 0.3                                     | 45.0              |
| Netherlands  | -                    | -                 | 25.0              | -                                       | 25.0              |
| <b>Total</b> | <b>189.2</b>         | <b>74.8</b>       | <b>89.4</b>       | <b>65.7</b>                             | <b>419.1</b>      |

The net liability was as follows

|                                               | UK pension<br>scheme<br>£million | US pension<br>schemes<br>£million | US PRMB<br>scheme<br>£million | Netherlands<br>pension<br>scheme<br>£million | Total<br>£million |
|-----------------------------------------------|----------------------------------|-----------------------------------|-------------------------------|----------------------------------------------|-------------------|
| <b>2009</b>                                   |                                  |                                   |                               |                                              |                   |
| Total market value of assets                  | 386.4                            | 46.1                              | -                             | 25.1                                         | 457.6             |
| Present value of scheme liabilities           | (429.5)                          | (65.6)                            | (5.0)                         | (26.2)                                       | (526.3)           |
| Net liability recognised in the balance sheet | (43.1)                           | (19.5)                            | (5.0)                         | (1.1)                                        | (68.7)            |

|                                               | UK pension<br>scheme<br>£million | US pension<br>schemes<br>£million | US PRMB<br>scheme<br>£million | Netherlands<br>pension<br>scheme<br>£million | Total<br>£million |
|-----------------------------------------------|----------------------------------|-----------------------------------|-------------------------------|----------------------------------------------|-------------------|
| <b>2008</b>                                   |                                  |                                   |                               |                                              |                   |
| Total market value of assets                  | 349.1                            | 45.0                              | -                             | 25.0                                         | 419.1             |
| Present value of scheme liabilities           | (361.8)                          | (74.0)                            | (5.9)                         | (26.0)                                       | (467.7)           |
| Net liability recognised in the balance sheet | (12.7)                           | (29.0)                            | (5.9)                         | (1.0)                                        | (48.6)            |

The net pension liability in respect of pension schemes in other jurisdictions at 31 December 2009 was £0.7 million (2008 £0.7 million)

The following amounts have been recognised in the performance statements

|                                                                           | UK pension<br>scheme<br>£million | US pension<br>schemes<br>£million | US PRMB<br>scheme<br>£million | Netherlands<br>pension<br>scheme<br>£million | Total<br>£million |
|---------------------------------------------------------------------------|----------------------------------|-----------------------------------|-------------------------------|----------------------------------------------|-------------------|
| <b>2009</b>                                                               |                                  |                                   |                               |                                              |                   |
| <b>Consolidated income statement</b>                                      |                                  |                                   |                               |                                              |                   |
| Current service cost                                                      | (0.9)                            | (0.2)                             | (0.1)                         | (0.4)                                        | (1.6)             |
| Expected return on pension scheme assets                                  | 19.9                             | 3.0                               | -                             | 1.3                                          | 24.2              |
| Interest on pension scheme liabilities                                    | (22.2)                           | (4.1)                             | (0.3)                         | (1.5)                                        | (28.1)            |
| Net finance income/(charge)                                               | (2.3)                            | (1.1)                             | (0.3)                         | (0.2)                                        | (3.9)             |
| Exceptional past service credit                                           | 5.5                              | -                                 | -                             | -                                            | 5.5               |
| Curtailment gains                                                         | 0.4                              | -                                 | -                             | -                                            | 0.4               |
| Net income statement                                                      | 2.7                              | (1.3)                             | (0.4)                         | (0.6)                                        | 0.4               |
| <b>Other comprehensive income</b>                                         |                                  |                                   |                               |                                              |                   |
| Actual return less expected return on pension scheme assets               | 34.5                             | 8.0                               | -                             | 1.0                                          | 43.5              |
| Experience gains and losses arising on scheme liabilities                 | 1.2                              | (0.6)                             | -                             | 0.5                                          | 1.1               |
| Changes in assumptions underlying the present value of scheme liabilities | (76.3)                           | -                                 | -                             | (1.3)                                        | (77.6)            |
| Actuarial gain/(loss) recognised                                          | (40.6)                           | 7.4                               | -                             | 0.2                                          | (33.0)            |

|                                                                           | UK pension<br>scheme<br>£million | US pension<br>schemes<br>£million | US PRMB<br>scheme<br>£million | Netherlands<br>pension<br>scheme<br>£million | Total<br>£million |
|---------------------------------------------------------------------------|----------------------------------|-----------------------------------|-------------------------------|----------------------------------------------|-------------------|
| <b>2008</b>                                                               |                                  |                                   |                               |                                              |                   |
| Consolidated income statement                                             |                                  |                                   |                               |                                              |                   |
| Current service cost                                                      | (1.3)                            | (0.2)                             | (0.1)                         | (0.4)                                        | (2.0)             |
| Expected return on pension scheme assets                                  | 23.0                             | 4.0                               | –                             | 0.9                                          | 27.9              |
| Interest on pension scheme liabilities                                    | (23.0)                           | (3.4)                             | (0.3)                         | (1.3)                                        | (28.0)            |
| Net finance income/(charge)                                               | 0.0                              | 0.6                               | (0.3)                         | (0.4)                                        | (0.1)             |
| Net income statement                                                      | (1.3)                            | 0.4                               | (0.4)                         | (0.8)                                        | (2.1)             |
| Other comprehensive income                                                |                                  |                                   |                               |                                              |                   |
| Actual return less expected return on pension scheme assets               | (38.5)                           | (20.7)                            | –                             | (1.5)                                        | (60.7)            |
| Experience gains and losses arising on scheme liabilities                 | (9.0)                            | (0.1)                             | 1.1                           | 0.7                                          | (7.3)             |
| Changes in assumptions underlying the present value of scheme liabilities | 41.4                             | –                                 | –                             | 1.1                                          | 42.5              |
| Actuarial gain/(loss) recognised                                          | (6.1)                            | (20.8)                            | 1.1                           | 0.3                                          | (25.5)            |

In addition to the current service cost above, £0.9 million (2008: £1.1 million) was charged to the income statement in respect of defined contribution schemes.

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

|                                    | UK pension<br>scheme<br>£million | US pension<br>schemes<br>£million | US PRMB<br>scheme<br>£million | Netherlands<br>pension<br>scheme<br>£million | Total<br>£million |
|------------------------------------|----------------------------------|-----------------------------------|-------------------------------|----------------------------------------------|-------------------|
| <b>2009</b>                        |                                  |                                   |                               |                                              |                   |
| Opening defined benefit obligation | (361.8)                          | (74.0)                            | (5.9)                         | (26.0)                                       | (467.7)           |
| Service cost                       | (0.9)                            | (0.2)                             | (0.1)                         | (0.4)                                        | (1.6)             |
| Interest cost                      | (22.2)                           | (4.1)                             | (0.3)                         | (1.5)                                        | (28.1)            |
| Contributions by employees         | (0.2)                            | –                                 | –                             | (0.5)                                        | (0.7)             |
| Actuarial losses                   | (75.1)                           | (0.6)                             | –                             | (0.8)                                        | (76.5)            |
| Benefits paid                      | 24.8                             | 5.2                               | 0.7                           | 0.9                                          | 31.6              |
| Exceptional past service credit    | 5.5                              | –                                 | –                             | –                                            | 5.5               |
| Curtailment gains                  | 0.4                              | –                                 | –                             | –                                            | 0.4               |
| Exchange differences               | –                                | 8.1                               | 0.6                           | 2.1                                          | 10.8              |
| Closing defined benefit obligation | (429.5)                          | (65.6)                            | (5.0)                         | (26.2)                                       | (526.3)           |

|                                    | UK pension<br>scheme<br>£million | US pension<br>schemes<br>£million | US PRMB<br>scheme<br>£million | Netherlands<br>pension<br>scheme<br>£million | Total<br>£million |
|------------------------------------|----------------------------------|-----------------------------------|-------------------------------|----------------------------------------------|-------------------|
| <b>2008</b>                        |                                  |                                   |                               |                                              |                   |
| Opening defined benefit obligation | (393.6)                          | (53.7)                            | (5.1)                         | (20.2)                                       | (472.6)           |
| Service cost                       | (1.3)                            | (0.2)                             | (0.1)                         | (0.4)                                        | (2.0)             |
| Interest cost                      | (23.0)                           | (3.4)                             | (0.3)                         | (1.3)                                        | (28.0)            |
| Contributions by employees         | (0.2)                            | –                                 | –                             | (0.4)                                        | (0.6)             |
| Actuarial gains                    | 32.4                             | (0.1)                             | 1.1                           | 1.8                                          | 35.2              |
| Benefits paid                      | 23.9                             | 4.1                               | 0.2                           | 0.8                                          | 29.0              |
| Exchange differences               | –                                | (20.7)                            | (1.7)                         | (6.3)                                        | (28.7)            |
| Closing defined benefit obligation | (361.8)                          | (74.0)                            | (5.9)                         | (26.0)                                       | (467.7)           |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**24 Retirement benefit obligations (continued)**

Changes in the fair value of plan assets are as follows

|                                   | UK pension<br>scheme<br>£million | US pension<br>schemes<br>£million | US PRMB<br>scheme<br>£million | Netherlands<br>pension<br>scheme<br>£million | Total<br>£million |
|-----------------------------------|----------------------------------|-----------------------------------|-------------------------------|----------------------------------------------|-------------------|
| <b>2009</b>                       |                                  |                                   |                               |                                              |                   |
| Opening fair value of plan assets | 349.1                            | 45.0                              | –                             | 25.0                                         | 419.1             |
| Expected return                   | 19.9                             | 3.0                               | –                             | 1.3                                          | 24.2              |
| Actuarial gains                   | 34.5                             | 8.0                               | –                             | 1.0                                          | 43.5              |
| Contributions by employer         | 7.5                              | 0.5                               | –                             | 0.5                                          | 8.5               |
| Contributions by employees        | 0.2                              | –                                 | –                             | 0.5                                          | 0.7               |
| Benefits paid                     | (24.8)                           | (5.2)                             | –                             | (0.9)                                        | (30.9)            |
| Exchange differences              | –                                | (5.2)                             | –                             | (2.3)                                        | (7.5)             |
| Closing fair value of plan assets | 386.4                            | 46.1                              | –                             | 25.1                                         | 457.6             |

|                                   | UK pension<br>scheme<br>£million | US pension<br>schemes<br>£million | US PRMB<br>scheme<br>£million | Netherlands<br>pension<br>scheme<br>£million | Total<br>£million |
|-----------------------------------|----------------------------------|-----------------------------------|-------------------------------|----------------------------------------------|-------------------|
| <b>2008</b>                       |                                  |                                   |                               |                                              |                   |
| Opening fair value of plan assets | 380.8                            | 51.7                              | –                             | 19.3                                         | 451.8             |
| Expected return                   | 23.0                             | 4.0                               | –                             | 0.9                                          | 27.9              |
| Actuarial losses                  | (38.5)                           | (20.7)                            | –                             | (1.5)                                        | (60.7)            |
| Contributions by employer         | 7.5                              | 0.4                               | –                             | 0.6                                          | 8.5               |
| Contributions by employees        | 0.2                              | –                                 | –                             | 0.4                                          | 0.6               |
| Benefits paid                     | (23.9)                           | (4.1)                             | –                             | (0.8)                                        | (28.8)            |
| Exchange differences              | –                                | 13.7                              | –                             | 6.1                                          | 19.8              |
| Closing fair value of plan assets | 349.1                            | 45.0                              | –                             | 25.0                                         | 419.1             |

|                                            | UK pension<br>scheme<br>£million | US pension<br>schemes<br>£million | US PRMB<br>scheme<br>£million | Netherlands<br>pension<br>scheme<br>£million | Total<br>£million |
|--------------------------------------------|----------------------------------|-----------------------------------|-------------------------------|----------------------------------------------|-------------------|
| <b>2009</b>                                |                                  |                                   |                               |                                              |                   |
| <b>Movement in deficit during the year</b> |                                  |                                   |                               |                                              |                   |
| Deficit in schemes at 1 January            | (12.7)                           | (29.0)                            | (5.9)                         | (1.0)                                        | (48.6)            |
| Current service cost                       | (0.9)                            | (0.2)                             | (0.1)                         | (0.4)                                        | (1.6)             |
| Contributions                              | 7.5                              | 0.5                               | 0.7                           | 0.5                                          | 9.2               |
| Net interest expense                       | (2.3)                            | (1.1)                             | (0.3)                         | (0.2)                                        | (3.9)             |
| Actuarial gain/(loss)                      | (40.6)                           | 7.4                               | –                             | 0.2                                          | (33.0)            |
| Exceptional past service credit            | 5.5                              | –                                 | –                             | –                                            | 5.5               |
| Curtailment gains                          | 0.4                              | –                                 | –                             | –                                            | 0.4               |
| Currency translation differences           | –                                | 2.9                               | 0.6                           | (0.2)                                        | 3.3               |
| <b>Deficit in schemes at 31 December</b>   | <b>(43.1)</b>                    | <b>(19.5)</b>                     | <b>(5.0)</b>                  | <b>(1.1)</b>                                 | <b>(68.7)</b>     |

Employer contributions in 2009 were £7.5 million (2008: £7.5 million) to UK scheme, £0.5 million (2008: £0.4 million) to US schemes and £0.5 million (2008: £0.6 million) in respect of other schemes. Contributions in 2010 will depend upon the outcome of negotiations with scheme trustees.

## Year ended 31 December 2009

|                                                                       | UK      | US     | Netherlands | Total  |
|-----------------------------------------------------------------------|---------|--------|-------------|--------|
| <b>Difference between expected and actual return on scheme assets</b> |         |        |             |        |
| Amount (£million)                                                     | 34.5    | 8.0    | 1.0         | 43.5   |
| Percentage of scheme assets                                           | 8.9%    | 17.4%  | 4.0%        | 9.5%   |
| <b>Experience gains and losses on scheme liabilities</b>              |         |        |             |        |
| Amount (£million)                                                     | 1.2     | (0.6)  | 0.5         | 1.1    |
| Percentage of scheme assets                                           | 0.3%    | (1.3)% | 2.0%        | 0.2%   |
| <b>Total amount recognised in statement of comprehensive income</b>   |         |        |             |        |
| Amount (£million)                                                     | (40.6)  | 7.4    | 0.2         | (33.0) |
| Percentage of scheme assets                                           | (10.5)% | 16.1%  | 0.8%        | (7.9)% |

## Year ended 31 December 2008

|                                                                       | UK      | US      | Netherlands | Total   |
|-----------------------------------------------------------------------|---------|---------|-------------|---------|
| <b>Difference between expected and actual return on scheme assets</b> |         |         |             |         |
| Amount (£million)                                                     | (38.5)  | (20.7)  | (1.5)       | (60.7)  |
| Percentage of scheme assets                                           | (11.0)% | (46.0)% | (6.0)%      | (14.5)% |
| <b>Experience gains and losses on scheme liabilities</b>              |         |         |             |         |
| Amount (£million)                                                     | (9.0)   | 1.0     | 0.7         | (7.3)   |
| Percentage of scheme assets                                           | (2.6)%  | 2.2%    | 2.8%        | (1.7)%  |
| <b>Total amount recognised in statement of comprehensive income</b>   |         |         |             |         |
| Amount (£million)                                                     | (6.1)   | (19.7)  | 0.3         | (25.5)  |
| Percentage of scheme assets                                           | (1.7)%  | (43.8)% | 1.2%        | (6.1)%  |

## Year ended 31 December 2007

|                                                                       | UK     | US   | Netherlands | Total  |
|-----------------------------------------------------------------------|--------|------|-------------|--------|
| <b>Difference between expected and actual return on scheme assets</b> |        |      |             |        |
| Amount (£million)                                                     | (7.0)  | 0.5  | (2.2)       | (8.7)  |
| Percentage of scheme assets                                           | (1.8)% | 0.9% | (11.4)%     | (1.9)% |
| <b>Experience gains and losses on scheme liabilities</b>              |        |      |             |        |
| Amount (£million)                                                     | (2.0)  | 0.4  | 0.5         | (1.1)  |
| Percentage of scheme assets                                           | (0.5)% | 0.8% | 2.6%        | (0.2)% |
| <b>Total amount recognised in statement of comprehensive income</b>   |        |      |             |        |
| Amount (£million)                                                     | (3.9)  | 4.2  | 0.5         | 0.8    |
| Percentage of scheme assets                                           | (1.0)% | 8.1% | 2.6%        | 0.2%   |

## Historical summary

| £million                                           | 2009    | 2008    | 2007    | 2006    | 2005    |
|----------------------------------------------------|---------|---------|---------|---------|---------|
| Present value of scheme liabilities                | (526.3) | (467.7) | (472.6) | (484.1) | (502.4) |
| Fair value of plan assets                          | 457.6   | 419.1   | 451.8   | 447.5   | 440.9   |
| Deficit in the plan                                | (68.7)  | (48.6)  | (20.8)  | (36.6)  | (61.5)  |
| Experience adjustments arising on plan liabilities | 1.1     | (7.3)   | (1.1)   | 6.2     | (3.6)   |
| Experience adjustments arising on plan assets      | 43.5    | (60.7)  | (8.7)   | 4.1     | 29.9    |

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below

| Assumption            | Change in assumption                | Impact on scheme liabilities      |
|-----------------------|-------------------------------------|-----------------------------------|
| Discount rate         | Increased/decreased by 0.5 per cent | Decreased/increased by 6 per cent |
| Rate of inflation     | Increased/decreased by 0.5 per cent | Increased/decreased by 4 per cent |
| Rate of salary growth | Increased/decreased by 0.5 per cent | Increased/decreased by 1 per cent |
| Rate of mortality     | Increased by 1 year                 | Increased by 3 per cent           |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**25 Share based payments**

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

The 1998 Executive Share Option Scheme is a discretionary scheme 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 the grant, those granted since 1995 are subject to earnings per share performance targets. Although this 1998 scheme only expired in 2008, it was replaced by the 2003 scheme that year and no options have been granted under the 1998 scheme since 2002. However, a small number of options remain outstanding under the 1998 scheme.

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

The 1998 and 2008 UK Savings-Related Share Option Schemes are schemes under which UK employees can enter into savings contracts with a building society or a bank for a period of three or five years and use the proceeds from their savings accounts to purchase shares in the Company on the exercise of their options. The option price is the average market price over the five working days preceding the invitation date discounted by a maximum of 20 per cent. The 1998 scheme expired in 2008, although options are still outstanding under that scheme, and was replaced by the 2008 scheme.

The 2000 and 2008 US Savings-Related Share Option Schemes are schemes under which US employees can enter into savings contracts with a bank for a period of two years and use the proceeds from their savings accounts to purchase shares in the Company on the exercise of their options. The option price is the market price on the date of the grant, discounted by 15 per cent. The 2000 scheme expired in 2008, although options are still outstanding under that scheme, and was replaced by the 2008 scheme.

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

|                                    | 2009 | 2008 |
|------------------------------------|------|------|
| Fair value per option (pence)      | 10.5 | 23.9 |
| Expected volatility (per cent)     | 49.0 | 35.0 |
| Risk free rate (per cent)          | 1.8  | 4.5  |
| Expected dividend yield (per cent) | 5.0  | 3.6  |

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous five years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The Group recognised total expenses of £0.6 million (2008: £0.8 million) related to equity-settled share based payment transactions during the year including the LTIP award in 2008.

The table overleaf shows all outstanding options granted under the executive and savings related share option schemes.

The Company made a one-off grant of awards in 2008 under the long term incentive plan ("LTIP") in 2008 and awards were made to four senior executives. Details of these awards are set out on page 33 of the Directors' remuneration report. The LTIP awards were valued using the binomial method and an IFRS 2 expense of £0.3 million (2008: £0.3 million) was recognised.

At 31 December 2009 the following options to subscribe for ordinary shares were outstanding

| Year of grant                                 | Exercise price (p) | Exercisable From | Exercisable To | At 1 January 2009 '000 | Granted '000 | Exercised '000 | Expired '000 | At 31 December 2009 '000 |
|-----------------------------------------------|--------------------|------------------|----------------|------------------------|--------------|----------------|--------------|--------------------------|
| <b>UK savings-related share option scheme</b> |                    |                  |                |                        |              |                |              |                          |
| 2004                                          | 23.2               | 01/06/09         | 30/11/09       | 187                    | -            | (162)          | (25)         | -                        |
| 2005                                          | 44.1               | 01/06/10         | 30/11/10       | 47                     | -            | -              | (3)          | 44                       |
| 2006                                          | 67.0               | 01/06/09         | 30/11/09       | 195                    | -            | -              | (195)        | -                        |
| 2006                                          | 67.0               | 01/06/11         | 30/11/11       | 27                     | -            | -              | (13)         | 14                       |
| 2007                                          | 71.1               | 01/06/10         | 30/11/10       | 208                    | -            | -              | (143)        | 65                       |
| 2007                                          | 71.1               | 01/06/12         | 30/11/12       | 51                     | -            | -              | (41)         | 10                       |
| 2008                                          | 69.0               | 01/10/11         | 31/03/12       | 381                    | -            | -              | (276)        | 105                      |
| 2008                                          | 69.0               | 01/10/13         | 31/03/14       | 83                     | -            | -              | (50)         | 33                       |
| 2009                                          | 35.5               | 01/10/12         | 31/03/13       | -                      | 988          | -              | -            | 988                      |
| 2009                                          | 35.5               | 01/10/14         | 31/03/15       | -                      | 47           | -              | -            | 47                       |
|                                               |                    |                  |                | 1,179                  | 1,035        | (162)          | (746)        | 1,306                    |
| <b>US savings-related share option scheme</b> |                    |                  |                |                        |              |                |              |                          |
| 2007                                          | 75.7               | 28/03/09         | 28/06/09       | 198                    | -            | -              | (198)        | -                        |
| 2008                                          | 72.3               | 27/08/10         | 27/11/10       | 283                    | -            | -              | (76)         | 207                      |
| 2009                                          | 42.5               | 27/08/11         | 27/11/11       | -                      | 484          | -              | (3)          | 481                      |
|                                               |                    |                  |                | 481                    | 484          | -              | (277)        | 688                      |
| <b>Executive share option plans</b>           |                    |                  |                |                        |              |                |              |                          |
| 1999                                          | 92.8               | 01/04/02         | 01/04/09       | 30                     | -            | -              | (30)         | -                        |
| 2000                                          | 69.5               | 31/03/03         | 31/03/10       | 122                    | -            | -              | (15)         | 107                      |
| 2001                                          | 97.9               | 07/03/04         | 07/03/11       | 404                    | -            | -              | (122)        | 282                      |
| 2001                                          | 56.5               | 10/09/04         | 10/09/11       | 92                     | -            | -              | (92)         | -                        |
| 2002                                          | 29.0               | 10/04/05         | 10/04/12       | 103                    | -            | -              | (58)         | 45                       |
| 2003                                          | 24.8               | 29/04/06         | 29/04/13       | 71                     | -            | -              | (46)         | 25                       |
| 2004                                          | 35.0               | 23/04/07         | 23/04/14       | 170                    | -            | -              | (35)         | 135                      |
| 2005                                          | 51.2               | 30/03/08         | 30/03/15       | 2,215                  | -            | -              | (1,221)      | 994                      |
| 2005                                          | 64.5               | 02/11/08         | 02/11/15       | 1,100                  | -            | -              | (400)        | 700                      |
| 2006                                          | 85.5               | 04/04/09         | 04/04/16       | 2,194                  | -            | -              | (165)        | 2,029                    |
| 2007                                          | 88.0               | 15/05/10         | 15/05/17       | 2,267                  | -            | -              | (74)         | 2,193                    |
| 2008                                          | 71.3               | 28/04/11         | 28/04/18       | 1,209                  | -            | -              | (77)         | 1,132                    |
| 2009                                          | 29.5               | 25/03/12         | 25/03/19       | -                      | 4,314        | -              | (202)        | 4,112                    |
| 2009                                          | 25.3               | 29/04/12         | 29/04/19       | -                      | 100          | -              | -            | 100                      |
|                                               |                    |                  |                | 9,977                  | 4,414        | -              | (2,537)      | 11,854                   |

The weighted average exercise price of options was as follows

|                | 2009 Average exercise price (p) | 2008 Average exercise price (p) |
|----------------|---------------------------------|---------------------------------|
| At 1 January   | 71.5                            | 66.8                            |
| Granted        | 31.5                            | 70.9                            |
| Exercised      | 23.2                            | 47.5                            |
| Expired        | 60.7                            | 67.5                            |
| At 31 December | 57.7                            | 71.5                            |

The weighted average share price at the date of exercise of share options exercised during the year was 44 pence (2008: 75 pence)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**26 Related party transactions**

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

|                             | 2009<br>£million | 2008<br>£million |
|-----------------------------|------------------|------------------|
| Sales of goods to associate | –                | 0.8              |
| Receivable from associate   | –                | 0.5              |

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

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

**27 Movement in net borrowings**

|                                                             | 2009<br>£million | 2008<br>£million |
|-------------------------------------------------------------|------------------|------------------|
| Change in net borrowings resulting from cash flows          |                  |                  |
| (Decrease)/increase in cash and cash equivalents            | (14.6)           | 21.1             |
| Decrease/(increase) in borrowings repayable within one year | 3.7              | (0.1)            |
| Increase in borrowings repayable after one year             | (2.8)            | (29.4)           |
|                                                             | (13.7)           | (8.4)            |
| Acquisition of businesses                                   | –                | (14.1)           |
| Currency translation differences                            | 11.6             | (25.2)           |
| Increase in net borrowings                                  | (2.1)            | (47.7)           |
| Net borrowings at beginning of year                         | (63.9)           | (16.2)           |
| <b>Net borrowings at end of year</b>                        | <b>(66.0)</b>    | <b>(63.9)</b>    |

**28 Dividends**

An interim dividend of 1.5 pence per share (2008: 1.5 pence) was paid on 9 October 2009 and the Group is proposing a final dividend of 1.4 pence per share for the year ended 31 December 2009 (2008: 1.4 pence). This brings the total for the year to 2.9 pence per share (2008: 2.9 pence). The final dividend payable, based on the number of ordinary shares in issue at 31 December 2009, is £6.2 million (2008: £6.2 million).

**29 Key management compensation**

|                                           | 2009<br>£million | 2008<br>£million |
|-------------------------------------------|------------------|------------------|
| Salaries and short term employee benefits | 1.6              | 2.6              |
| Other long term benefits                  | 0.3              | 0.1              |
| Share based payments                      | 0.3              | 0.4              |
|                                           | <b>2.2</b>       | <b>3.1</b>       |

The key management compensation given above is for the two Executive Directors and the Divisional Managing Directors. Directors' remuneration is set out in the Directors' Remuneration Report on page 36.

### 30 Acquisitions

On 24 December 2009 the Group acquired substantially all of the trading assets of the Fanning Corporation and Fancor Ltd for a cash consideration of £5.6 million. Fancor is one of the largest North American suppliers of lanolin and lanolin derivatives and will expand the Group's presence in the personal care market.

Because of the proximity of the acquisition date to the year end, a detailed fair value exercise has yet to be performed. Using book values at the acquisition date the acquisition had the following effect on the Group's assets and liabilities:

|                                       | Book value<br>at acquisition<br>£million |
|---------------------------------------|------------------------------------------|
| Inventory                             | 1.2                                      |
| Trade receivables                     | 0.9                                      |
| Trade payables                        | (1.4)                                    |
|                                       | 0.7                                      |
| Goodwill                              | 4.9                                      |
| Consideration paid, satisfied in cash | 5.6                                      |

A purchase price allocation and fair value exercise will be performed in 2010 in order to identify the fair values of assets acquired to the Group, including potentially intangible assets relating, for example, to brand. In the meantime, the difference between consideration paid and net value acquired has been allocated to goodwill.

The estimated contribution of Fancor to the results of the Group, had the acquisition been made on 1 January 2009, is as follows:

|                  | 2009<br>£million |
|------------------|------------------|
| Revenue          | 7.9              |
| Operating profit | 1.4              |

On 1 July 2008 the Group acquired all the shares of Deuchem Co., Ltd, a Taiwan based company, for a cash consideration of £38.5 million. Deuchem is a leading supplier of additives and resins to the coating and related industries, with manufacturing and technical facilities in Taiwan and China.

On 8 July 2008 the Group set up a new business with Anji County Yu Hong Clay Chemicals Co., Ltd for the production of organoclays in China. The Group holds 80 per cent of the shares in the entity, which is treated as a subsidiary. Cash consideration paid was £2.6 million.

The acquisitions had the following effect on the Group's assets and liabilities:

|                                       | Book value at<br>acquisition<br>£million | Fair value<br>adjustments<br>£million | Fair value of<br>assets acquired<br>£million |
|---------------------------------------|------------------------------------------|---------------------------------------|----------------------------------------------|
| Intangible assets                     | 0.4                                      | 13.1                                  | 13.5                                         |
| Property, plant and equipment         | 12.6                                     | 2.2                                   | 14.8                                         |
| Inventories                           | 6.5                                      | -                                     | 6.5                                          |
| Trade and other receivables           | 11.3                                     | -                                     | 11.3                                         |
| Trade and other payables              | (5.1)                                    | -                                     | (5.1)                                        |
| Cash and cash equivalents             | 10.1                                     | -                                     | 10.1                                         |
| Loans and borrowings                  | (14.1)                                   | -                                     | (14.1)                                       |
| Corporation tax                       | (0.4)                                    | -                                     | (0.4)                                        |
| Deferred tax                          | (1.2)                                    | (3.8)                                 | (5.0)                                        |
|                                       | 20.1                                     | 11.5                                  | 31.6                                         |
| Goodwill                              |                                          |                                       | 10.6                                         |
| Consideration paid, satisfied in cash |                                          |                                       | 42.2                                         |
| Cash acquired                         |                                          |                                       | (10.1)                                       |
| Net cash outflow                      |                                          |                                       | 32.1                                         |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**30 Acquisitions (continued)**

The consideration for the acquisitions, which included professional fees and incidental expenses of £1.1 million, was allocated against identified net assets with the remaining balance recorded as goodwill. The goodwill recognised on acquisition reflects both the capabilities of the acquired entities' personnel and the synergistic opportunities going forward, neither of which can be allocated to an identifiable intangible asset. Following a review in 2009 of the provisional fair value adjustments made in 2008, a fair value adjustment of £0.4 million was made in respect of obsolete stock which has resulted in an increase in goodwill of £0.4 million.

Acquisitions made during 2008 contributed £20.2 million to the Group's revenue, £0.5 million to the operating profit before intangible amortisation and £0.1 million to the operating profit after amortisation.

The estimated contribution of Deuchem to the results of the Group, had the acquisition been made on 1st January 2008, and assuming that the fair value adjustments that arose on acquisition would have been the same at the earlier date, are as follows:

|                                                 | 2008<br>£million |
|-------------------------------------------------|------------------|
| Revenue                                         | 45.4             |
| Operating profit before intangible amortisation | (0.2)            |
| Operating profit after intangible amortisation  | (0.9)            |

**31 Contingent liabilities**

As is the case with other chemical companies, the Group regularly receives notices of litigation relating to regulatory and legal matters. A provision is recognised when the Group believes it has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where it is deemed that an obligation is merely possible and that the probability of a material outflow is remote, the Group would not disclose a contingent liability. No contingent liability is considered to be reportable as at 31 December 2009. While the risk of any individual claim faced by the Group leading to a material outflow is considered remote, a finding of liability in one proceeding may lead to additional litigation risks, at which time a provision may be recognised or a contingent liability disclosed.

## PARENT COMPANY STATUTORY ACCOUNTS

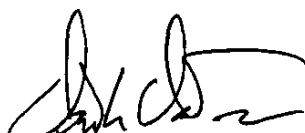
The Group is required to present a separate balance sheet for the parent company, Elementis plc, which continues to adopt UK generally accepted accounting principles. Its accounting policies are set out in note 1 and its balance sheet is set out below.

### ELEMENTIS plc

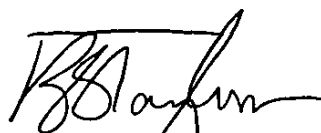
#### Balance Sheet at 31 December 2009

|                                                               | Note | 2009<br>£million | 2008<br>£million |
|---------------------------------------------------------------|------|------------------|------------------|
| <b>Fixed assets</b>                                           |      |                  |                  |
| Investments                                                   | 3    | 590.1            | 590.1            |
| <b>Current assets</b>                                         |      |                  |                  |
| Debtors                                                       | 4    | -                | 0.7              |
| <b>Creditors amounts falling due within one year</b>          |      |                  |                  |
| Creditors                                                     | 5    | (0.2)            | -                |
| <b>Net current (liabilities)/assets</b>                       |      | (0.2)            | 0.7              |
| <b>Total assets less current liabilities</b>                  |      | 589.9            | 590.8            |
| <b>Creditors amounts falling due after more than one year</b> |      |                  |                  |
| Amounts due to subsidiary undertakings                        |      | (256.7)          | (244.3)          |
| <b>Net assets</b>                                             |      | 333.2            | 346.5            |
| <b>Capital and reserves</b>                                   |      |                  |                  |
| Called up share capital                                       | 7    | 22.4             | 22.4             |
| Share premium account                                         | 8    | 5.8              | 5.8              |
| Capital redemption reserve                                    | 8    | 83.3             | 83.3             |
| Other reserves                                                | 8    | 81.5             | 81.5             |
| Share option reserve                                          | 8    | 1.8              | 1.6              |
| Profit and loss account                                       | 8    | 138.4            | 151.9            |
| <b>Equity shareholders' funds</b>                             |      | 333.2            | 346.5            |

The financial statements of Elementis plc on pages 79 to 82 were approved by the Board on 23 February 2010 and signed on its behalf by



David Dutro  
Group Chief Executive



Brian Taylorson  
Finance Director

# NOTES TO THE FINANCIAL STATEMENTS OF ELEMENTIS PLC

## FOR THE YEAR ENDED 31 DECEMBER 2009

### 1 Accounting policies

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

#### Basis of preparation

The Company's financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its profit and loss account. As the Company's voting rights are controlled within the Group headed by Elementis plc, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned entities which form part of the Group.

#### Foreign currencies

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

#### Investments

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

#### Dividends on shares presented within shareholders' funds

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

#### Pensions and other post-retirement benefits

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

#### Taxation

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

### 2 Profit for the financial year attributable to shareholders

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. A loss of £0.6 million (2008: £3.0 million) is dealt with in the financial statements of the Company.

#### Share based payments

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

#### Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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

### 3 Investments

|                                             | Unlisted<br>shares at cost<br>£million | Unlisted loans<br>£million | Total<br>£million |
|---------------------------------------------|----------------------------------------|----------------------------|-------------------|
| Cost at 1 January 2009 and 31 December 2009 | 0.1                                    | 759.0                      | 759.1             |
| Provision for impairment                    |                                        |                            |                   |
| At 1 January 2009 and 31 December 2009      | –                                      | (169.0)                    | (169.0)           |
| <b>Net book value 31 December 2009</b>      | <b>0.1</b>                             | <b>590.0</b>               | <b>590.1</b>      |
| Net book value 31 December 2008             | 0.1                                    | 590.0                      | 590.1             |

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

The principal subsidiaries of Elementis plc are as follows:

| Country of incorporation and operation                   |                                                                     |                          |
|----------------------------------------------------------|---------------------------------------------------------------------|--------------------------|
| Subsidiary undertakings                                  |                                                                     |                          |
| Elementis Chromium LLP                                   | Chromium chemicals                                                  | United Kingdom           |
| Elementis UK Limited trading as<br>Elementis Specialties | Rheological additives, colourants, waxes, other specialty additives | United Kingdom           |
| Elementis Chromium LP                                    | Chromium chemicals                                                  | United States of America |
| Elementis Specialties Inc                                | Rheological additives, colourants, waxes, other specialty additives | United States of America |
| Elementis Specialties Netherlands BV                     | Surfactants and coatings additives                                  | The Netherlands          |
| Deuchem Co., Ltd                                         | Additives and resins                                                | Taiwan                   |

#### Notes

1. None of the undertakings is 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 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, except Deuchem which also operates in China.
5. All undertakings listed above have been included in the consolidated financial statements of the Group for the year.

### 4 Debtors

|                 | 2009<br>£million | 2008<br>£million |
|-----------------|------------------|------------------|
| Corporation tax | –                | 0.7              |

### 5 Creditors: amount falling due within one year

|                 | 2009<br>£million | 2008<br>£million |
|-----------------|------------------|------------------|
| Corporation tax | 0.2              | –                |

### 6 Retirement benefit obligations

The Company is a member of a multi-employer pension scheme providing benefits based on final pensionable pay. Because the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 "Retirement benefits", the scheme has been accounted for as if the scheme was a defined contribution scheme. The net deficit in the scheme at 31 December 2009 was £43.1 million (2008: £12.7 million).

The latest full actuarial valuation was carried out at 30 September 2005 and was updated for FRS 17 purposes to 31 December 2009 by a qualified actuary. The contribution for the year was £0.1 million (2008: £0.1 million).

Details of a guarantee given by the Company in respect of current and future obligations of UK subsidiaries currently participating in the pension scheme are set out in Note 10 in the Company's financial statements.

**NOTES TO THE COMPANY FINANCIAL STATEMENTS OF ELEMENTIS PLC**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**  
continued

**7 Called up share capital**

|                                          | 2009           |                  | 2008           |                  |
|------------------------------------------|----------------|------------------|----------------|------------------|
|                                          | Number<br>'000 | 2009<br>£million | Number<br>'000 | 2008<br>£million |
| <b>Authorised</b>                        |                |                  |                |                  |
| Ordinary shares of 5 pence each          | 640,000        | 32.0             | 640,000        | 32.0             |
| <b>Called-up allotted and fully paid</b> |                |                  |                |                  |
| Ordinary shares of 5 pence each          |                |                  |                |                  |
| At 1 January                             | 447,961        | 22.4             | 446,429        | 22.3             |
| Issue of shares                          | 162            | –                | 1,532          | 0.1              |
| At 31 December                           | 448,123        | 22.4             | 447,961        | 22.4             |

During the year a total of 162,082 ordinary shares with an aggregate nominal value of £8,104 were allotted and issued for cash to various employees at subscription prices of 23.2 pence on the exercise of options under the Group's share option schemes. The holders of ordinary shares are entitled to receive dividends and entitled to one vote per share at meetings of the Company.

**8 Reserves**

|                            | Share<br>premium<br>account<br>£million | Capital<br>redemption<br>reserve<br>£million | Other<br>reserves<br>£million | Share<br>option<br>reserve<br>£million | Profit &<br>loss account<br>£million |
|----------------------------|-----------------------------------------|----------------------------------------------|-------------------------------|----------------------------------------|--------------------------------------|
| At 1 January 2009          | 5.8                                     | 83.3                                         | 81.5                          | 1.6                                    | 151.9                                |
| Retained loss for the year | –                                       | –                                            | –                             | –                                      | (0.6)                                |
| Share based payments       | –                                       | –                                            | –                             | 0.2                                    | –                                    |
| Dividend paid              | –                                       | –                                            | –                             | –                                      | (12.9)                               |
| <b>At 31 December 2009</b> | <b>5.8</b>                              | <b>83.3</b>                                  | <b>81.5</b>                   | <b>1.8</b>                             | <b>138.4</b>                         |

**9 Reconciliation of movements in shareholders' funds**

|                                     | 2009<br>£million | 2008<br>£million |
|-------------------------------------|------------------|------------------|
| Loss for the financial year         | (0.6)            | (3.0)            |
| Dividend paid                       | (12.9)           | (12.8)           |
| Share based payments                | 0.2              | 0.4              |
| Ordinary shares issued              | –                | 0.7              |
| Net decrease in shareholders' funds | (13.3)           | (14.7)           |
| Opening shareholders' funds         | 346.5            | 361.2            |
| Closing shareholders' funds         | 333.2            | 346.5            |

**10 Related party transactions**

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

## FIVE YEAR RECORD

|                                                                                      | 2009<br>£million | 2008<br>£million | 2007<br>£million | 2006<br>£million | 2005<br>£million |
|--------------------------------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Turnover</b>                                                                      |                  |                  |                  |                  |                  |
| Specialty Products                                                                   | 194.6            | 181.5            | 141.4            | 144.5            | 138.2            |
| Surfactants                                                                          | 49.2             | 51.1             | 46.2             | 46.1             | 45.7             |
| Chromium                                                                             | 119.9            | 167.9            | 112.2            | 111.4            | 125.0            |
| <b>Continuing operations</b>                                                         | <b>363.7</b>     | <b>400.5</b>     | <b>299.8</b>     | <b>302.0</b>     | <b>308.9</b>     |
| Discontinued operations                                                              | -                | -                | 59.7             | 93.9             | 131.0            |
| <b>Group turnover</b>                                                                | <b>363.7</b>     | <b>400.5</b>     | <b>359.5</b>     | <b>395.9</b>     | <b>439.9</b>     |
| <b>Operating profit</b>                                                              |                  |                  |                  |                  |                  |
| Specialty Products                                                                   | 18.4             | 29.1             | 28.8             | 25.0             | 17.0             |
| Surfactants                                                                          | 0.1              | 0.5              | 0.9              | 0.6              | 0.6              |
| Chromium                                                                             | 10.5             | 27.7             | 14.2             | 11.9             | 7.8              |
| Central costs                                                                        | (5.6)            | (5.3)            | (5.8)            | (6.0)            | (7.5)            |
| <b>Continuing operations before exceptional items</b>                                | <b>23.4</b>      | <b>52.0</b>      | <b>38.1</b>      | <b>31.5</b>      | <b>17.9</b>      |
| Exceptional items                                                                    | (49.5)           | (20.5)           | 19.4             | 3.0              | (47.7)           |
| Discontinued operations                                                              | -                | -                | 4.3              | 6.1              | 2.4              |
| <b>Profit/(loss) before interest</b>                                                 | <b>(26.1)</b>    | <b>31.5</b>      | <b>61.8</b>      | <b>40.6</b>      | <b>(27.4)</b>    |
| Net interest payable                                                                 | (5.1)            | (3.5)            | (4.8)            | (7.5)            | (7.6)            |
| <b>Profit/(loss) before tax</b>                                                      | <b>(31.2)</b>    | <b>28.0</b>      | <b>57.0</b>      | <b>33.1</b>      | <b>(35.0)</b>    |
| Tax                                                                                  | (5.8)            | (8.2)            | (8.9)            | (1.4)            | (3.4)            |
| Minority interests                                                                   | -                | -                | (0.1)            | (0.1)            | 0.3              |
| <b>Profit/(loss) attributable to equity holders of the parent</b>                    | <b>(37.0)</b>    | <b>19.8</b>      | <b>48.0</b>      | <b>31.6</b>      | <b>(38.1)</b>    |
|                                                                                      |                  |                  |                  |                  |                  |
|                                                                                      | 2009<br>£million | 2008<br>£million | 2007<br>£million | 2006<br>£million | 2005<br>£million |
| <b>Basic</b>                                                                         |                  |                  |                  |                  |                  |
| Earnings/(loss) per ordinary share (pence)                                           | (8.3)            | 4.5              | 10.9             | 7.1              | (8.8)            |
| Earnings per ordinary share before exceptional items (pence)                         | 2.8              | 9.1              | 8.1              | 6.8              | 2.8              |
| <b>Diluted</b>                                                                       |                  |                  |                  |                  |                  |
| Earnings/(loss) per ordinary share (pence)                                           | (8.3)            | 4.5              | 10.8             | 7.0              | (8.8)            |
| Earnings per ordinary share before exceptional items (pence)                         | 2.8              | 9.1              | 8.0              | 6.7              | 2.8              |
| <b>Dividend per ordinary share (pence)</b>                                           | <b>2.9</b>       | <b>2.9</b>       | <b>2.5</b>       | <b>2.3</b>       | <b>-</b>         |
| <b>Interest cover (times)*</b>                                                       | <b>4.6</b>       | <b>14.9</b>      | <b>8.8</b>       | <b>5.0</b>       | <b>2.7</b>       |
| <b>Equity attributable to equity holders of the parent</b>                           | <b>178.0</b>     | <b>268.3</b>     | <b>229.9</b>     | <b>199.3</b>     | <b>189.8</b>     |
| <b>Net borrowings</b>                                                                | <b>(66.0)</b>    | <b>(63.9)</b>    | <b>(16.2)</b>    | <b>(100.6)</b>   | <b>(99.4)</b>    |
| <b>Weighted average number of ordinary shares in issue during the year (million)</b> | <b>443.3</b>     | <b>442.6</b>     | <b>441.9</b>     | <b>439.4</b>     | <b>434.2</b>     |

\* Ratio of operating profit before exceptional items to net interest

## SHAREHOLDER SERVICES

### Internet

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

### Registrars

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

#### Equiniti Limited

Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

Telephone: 0871 384 2379 or +44 (0) 121 415 7043

Facsimile: 0871 384 2100 or +44 (0) 121 415 7057

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

Calls to the 0871 prefixed numbers are charged at 8 pence per minute from a BT landline. Other telephone providers' costs may vary.

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

### Payment of Dividends

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

### Registrars' text phone

For shareholders with hearing difficulties

Callers inside the UK telephone: 0871 384 2255

Callers outside the UK telephone: +44 (0) 121 415 7028

### Web-based enquiry service

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

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

### Share dealing service

A low cost, execution-only share dealing service for the purchase and sale of Elementis plc shares is available from NatWest Stockbrokers. NatWest Stockbrokers is authorised and regulated by the Financial Services Authority and is a member of the London Stock Exchange and PLUS. For details, please contact:

#### NatWest Stockbrokers

Premier Place  
2 1/2 Devonshire Square  
London EC2M 4BA

Telephone: 0800 208 4433

### Previously issued redeemable B shares

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

## CORPORATE INFORMATION

**Company Secretary**  
Wai Wong

**Registered office**  
10 Albemarle Street  
London W1S 4HH, UK

**Registered number**  
3299608

**Auditors**  
KPMG Audit Plc

**Stockbroker**  
RBS Hoare Govett Limited

## FINANCIAL CALENDAR

|                    |                                                                                |
|--------------------|--------------------------------------------------------------------------------|
| 23 February 2010   | Preliminary announcement of final results for the year ended 31 December 2009  |
| 22 April 2010      | Annual General Meeting and First Interim Management Statement                  |
| 28 April 2010      | Ex-dividend date for final dividend for 2009 payable on ordinary shares        |
| 30 April 2010      | Record date for final dividend for 2009 payable on ordinary shares             |
| 28 May 2010        | Payment of final dividend for 2009 on ordinary shares                          |
| 2 August 2010*     | Interim results announcement for the half year ended 30 June 2010              |
| 8 September 2010*  | Ex-dividend date for interim dividend for 2010 payable on ordinary shares      |
| 10 September 2010* | Record date for interim dividend payable for 2010 on ordinary shares           |
| 8 October 2010*    | Payment of interim dividend for 2010 on ordinary shares                        |
| 29 October 2010*   | Second Interim Management Statement                                            |
| 28 February 2011*  | Preliminary announcement of final results for the year ending 31 December 2010 |

\* Provisional dates

## ANNUAL GENERAL MEETING

The Annual General Meeting of Elementis plc will be held on 22 April 2010 at 11 00am at The City Presentation Centre, 4 Chiswell Street, London EC1Y 4UP. The Notice of Meeting is included in a separate document. Details of the ordinary and special business of the Annual General Meeting are contained within the Notice.

## PRINCIPAL OFFICES

**Elementis plc**  
10 Albemarle Street  
London W1S 4HH, UK

Tel +44 (0) 20 7408 9300  
Fax +44 (0) 20 7493 2194

Email [elementis.info@elementis-eu.com](mailto:elementis.info@elementis-eu.com)  
Website [www.elementis.com](http://www.elementis.com)

**Elementis Worldwide**  
**Elementis Specialty Products**  
**Elementis Surfactants**  
**Elementis Chromium**  
329 Wyckoffs Mill Road  
Hightstown  
New Jersey 08520, USA

Tel +1 609 443 2000  
Fax +1 609 443 2422

Email [contactus.web@elementis-na.com](mailto:contactus.web@elementis-na.com)  
Website [www.elementisspecialties.com](http://www.elementisspecialties.com)  
(Elementis Specialty Products and Surfactants)  
Email [chromium.usa@elementis.com](mailto:chromium.usa@elementis.com)  
Website [www.elementischromium.com](http://www.elementischromium.com)  
(Elementis Chromium)

The cover and text sections are printed on HannoArt Silk, comprising of fibres sourced from sustainable forest reserves and bleached without the use of chlorine. The production mill for this paper operates to EMAS ISO 14001 environmental and ISO 9001 quality standards. The accounts section is printed on Challenger Offset, comprising of fibres sourced from sustainable forest reserves and bleached without the use of chlorine.

---

**Elementis plc**  
10 Albemarle Street  
London W1S 4HH, UK

Tel +44 (0) 20 7408 9300  
Fax +44 (0) 20 7493 2194  
[www.elementis.com](http://www.elementis.com)

---