

30 July 2013

## ELEMENTIS plc

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

Elementis plc (ELM.L) (“Elementis”, the “Company” or the “Group”), the FTSE 250 Global Specialty Chemicals Company, announces its results for the six months ended 30 June 2013.

## HIGHLIGHTS

- Resilient results compared to record earnings in first half of 2012.
- Group is benefiting from strong market positions and diverse geographic spread:
  - Sales in Specialty Products up 5 per cent.
- Continuing investment in Specialty Products’ growth, including previously announced acquisition of Hi-Mar in North America.
- Further strong cash generation, operating cash flow up 8 per cent.
- Interim dividend increased by 5 per cent to 2.57 cents.

## FINANCIAL SUMMARY

	2013	2012 restated*
Sales	<b>\$388.2m</b>	\$401.3m
Operating profit	<b>\$72.8m</b>	\$80.7m
Operating margin	<b>18.8%</b>	20.1%
Profit before tax	<b>\$67.5m</b>	\$75.1m
Diluted earnings per share	<b>11.3c</b>	11.5c
Operating cash flow	<b>\$48.6m</b>	\$45.2m
Net (debt)/cash	<b>\$(8.5)m</b>	\$29.9m
Interim dividend to shareholders	<b>2.57c</b>	2.45c
Basic earnings per share	<b>11.5c</b>	11.7c

\*restated following the adoption of revised IAS 19 Employee Benefits standard

Commenting on the results, Group Chief Executive, David Dutro said:

“Elementis has delivered earnings per share close to last year’s record first half performance, despite global growth remaining slow and uneven and the impact of the planned first quarter maintenance shutdown in Chromium. Our resilient performance is a reflection of our strong market positions, value added customer offerings, diverse global presence and healthy new product pipeline.

In Specialty Products, sales grew by 5 per cent helped by our recent acquisitions in the US and Brazil, and strong performances in Asia Pacific coatings additives, personal care and oilfield drilling which showed a strong recovery from the destocking adjustment that took place in the second half of 2012.

Chromium’s results reflect the impact of a scheduled maintenance shutdown and more challenging markets, particularly outside of North America. We remain confident in the business’s ability to deliver stable earnings and cash flow with good margins across the cycle, based on a unique position in North America and a flexible operating model.

The Group delivered another half year of strong cash flow performance by leveraging our high return, low capital intensive production base and continuing our focused comprehensive programme to optimise working capital, all of which underpins our progressive dividend policy.

The macro economic outlook remains uncertain but Elementis is well placed to meet these challenges. We move forward with confidence in our ability to successfully execute our growth strategy and create additional shareholder value, and expect to make progress in the second half of 2013 in line with market expectations.”

**– ENDS –**

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Elementis plc  
David Dutro, Group Chief Executive  
Brian Taylorson, Finance Director

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## **Chairman's statement**

In my final statement as Chairman, I can say with confidence that I am leaving Elementis well positioned for the future, both in terms of the strength and diversity of its market positions as well as having the financial resources and balance sheet to support its strategy for growth.

In the first half of 2013, Elementis has continued to make good progress on its stated strategy of delivering profitable growth in Specialty Products and stable earnings and cash flow in Chromium. Despite a very strong comparative period Specialty Products grew sales by 5 per cent in a challenging global economic environment, benefiting from its attractive market positions and recent investments in Watercryn in Brazil and Hi-Mar in North America. Chromium's results for the first half of the year were impacted by a scheduled maintenance shutdown at the start of the year and more challenging markets outside of North America which contributes the majority of this division's sales. However the Chromium business continues to demonstrate that it has the attributes, in terms of market position and operating model, to deliver stable results on an annual basis.

Our full year results in 2013 will be more weighted to the second half than in the previous year, in part due to the Chromium maintenance programme, and the Board is confident that the full year outcome will reflect our strategic goals.

## **Results**

Revenue in the period was \$388.2 million, compared to \$401.3 million in the same period last year. Operating profit was \$72.8 million compared to \$80.7 million and diluted earnings per share were 11.3 cents compared to 11.5 cents.

## **Balance sheet**

Strong cash flow and return on operating capital continue to be key features of the Group's performance and operating cash flow in the current period was 8 per cent higher than the same period last year at \$48.6 million. In the first half of 2013 Specialty Products invested \$33.0 million in the acquisition of Hi-Mar and the Group made its first payment, of \$22.0 million, under the special dividend programme introduced last year, yet still ended the period with only \$8.5 million of net debt, providing further evidence of the Group's financial strength and cash generative nature. It is anticipated that the Group will be in a net cash position at the end of 2013.

## **Pensions**

The IAS 19 deficit in the Group's post retirement schemes reduced by \$43.9 million in the period to \$93.5 million due largely to positive investment returns and contributions from the Group. This is the first period in which the Group is reporting additional financial expenses relating to post retirement schemes due to the recently revised requirements under IAS 19. Consequently, the results for the first six months of 2012 have been restated to include additional financial expenses of \$3.9 million and the results for the current period include additional financial expenses of a similar amount.

## **Governance**

As previously announced a number of changes to the Board are in progress. Ian Brindle, who is the Senior Independent Director, will become Chairman on 1 August 2013 for an interim period and will lead the search for a new Chairman in a process that is expected to be concluded by the time of the 2014 Annual General Meeting. Ian is not only an extremely experienced and effective non-executive director, having been a member of the Board since 2005, but he has a very strong understanding of the business, its growth strategy and the Board's priorities.

On 1 June 2013 Anne Hyland joined the Board as a non-executive director and she will become Chairman of the Audit Committee on 1 August 2013, replacing Chris Girling who retires as a non-executive director on 31 July 2013.

**Interim dividend**

The Board is declaring an interim dividend of 2.57 cents per share, an increase of 5 per cent, which will be paid on 4 October 2013, in pounds sterling at an exchange rate of \$1.5401:£1.00 (equivalent to a sterling amount of 1.6687 pence per share), to shareholders on the register on 6 September 2013.

**Health, safety and environment**

Our activities in this important area of our business have continued to be of a high industry standard during the first half of 2013. Our ultimate goal is zero incidents and we use key lessons learned from even minor incidents to continually improve our performance.

**People**

The Group's sustained progress is due, in no small part, to the continuing efforts and achievements of our employees. I would like to thank them all on behalf of the Board for their solid commitment to our success.

**Outlook**

Although the global economic environment remains uncertain, the Board is confident in the resilience of the Group's business model, based on a broad geographic presence and diverse end markets, and the growth potential of the Specialty Products business. As such the Board expects the Group to make progress in the second half of the year in line with market expectations.

Robert Beeston  
Chairman  
30 July 2013

## **Business review**

### **Group Chief Executive's report**

Elementis has delivered financial results close to last year's record first half performance, despite global growth remaining slow and uneven and the impact of the planned first quarter kiln maintenance shutdown in Chromium. Moreover, underpinning our progressive dividend policy, the Group delivered another strong cash flow performance by leveraging its high return, low capital intensive production base and continuing our focused comprehensive programme to optimise working capital.

### **Elementis Specialty Products**

Following record results in the first half of 2012, Specialty Products continued to grow delivering improved sales and comparable profits in the first half of 2013. Market share gains, bringing new products to market and acquisitions led to greater volumes and sales, and strict cost control was a key feature in our half year operating profit. These improvements were achieved notwithstanding the challenging economic conditions in a number of our key regions and markets around the world.

Sales for the first half of 2013 were up 5 per cent compared to the first half of 2012 and 21 per cent against the second half of 2012. In Asia Pacific, our largest region, we continued to build on our strong positions in the additives market, which generated 7 per cent top line growth. The personal care business posted strong results (23 per cent sales growth) through increased market share, geographic expansion in Asia and Brazil and by taking full advantage of a relatively robust personal care market. Oilfield sales improved dramatically compared to the second half of 2012 (up 43 per cent) and were only 2 per cent down on the first half of 2012 which had experienced record market purchases in anticipation of a continued expansion of shale gas and oil drilling. Our coatings businesses in Europe and the US were marginally down as Europe continued to deal with its economic issues and the US business cycled against a particularly strong first half of 2012 and a US economy that has remained uncertain.

Innovation remains a vital platform from which to drive our continued success. Our R&D pipeline is stronger than ever and, most importantly, our new products are delivering real value to our customers and to the bottom line. Our ability to consistently deliver innovative products has been a critical part of the Group's growth strategy and performance improvements, and we are confident that it will drive our future success as well.

On the acquisition front Specialty Products acquired Hi-Mar, a US based specialty defoamer manufacturer. Its manufacturing site in Wisconsin complements our production capabilities in Asia and Europe, such that Specialty Products is now positioned to supply defoamer products from any part of the globe. Defoamers are used across all of our business units and play a necessary role in a large variety of applications. Having a robust defoamer portfolio can also lead to other high-end additives opportunities. Hi-Mar brings a unique set of products that will enhance our portfolio and provide an additional platform for growth using the Elementis global infrastructure.

The Specialty Products business is ideally positioned for long term growth through its balanced geographic exposure across mature and emerging economies, its strong technology base and strategic market diversification. The strategy for growth is two pronged: organic growth through innovative new products, geographic expansion and gains in market share; and value added bolt on acquisitions that are complementary and meet our growth and margin criteria.

### **Elementis Surfactants**

The Group has continued to benefit from improvements to the quality of the product portfolio in the Surfactants business and, as a result, margins and profitability improved from a year ago. This business is located in the Netherlands and shares its production facility with Specialty Products which represents an increasing portion of the site's output. The strategy remains to utilise more of the facility's capacity over time to manufacture higher margin products sold by the Specialty Products business. The strategy is succeeding as currently greater than 50 per cent of the facility's sales are generated by products manufactured for Specialty Products. The Delden team has done a very good job of optimising business performance while executing the transition strategy.

## **Elementis Chromium**

Given the impact of the scheduled January kiln maintenance shutdown in combination with global economic headwinds, the Chromium business delivered a solid first half performance with sales of \$103.4 million and operating profit of \$25.3 million. Compared to the same period last year, which was a record half year for the business, sales were down 18 per cent. But despite the lower run rate versus prior year, the business maintained contribution margins, generated an operating margin of 24.5 per cent and delivered operating cash flow of \$24.5 million, representing 97 per cent conversion of operating profit to cash.

The Chromium strategy is primarily focused on reducing cyclical fluctuations and consistently delivering predictable earnings and cash flow which in turn improves the quality of these earnings for the Group. The business provides products that serve a diverse range of customers, geographies and applications, allowing it to quickly focus sales and resources away from sluggish regions and markets to those offering better returns.

As the only North American based manufacturer, the business has a significant share of the region's chromium chemicals sales and in the first half of 2013 this represented 59 per cent of the division's revenues. The business is able to provide its North American customers with a differentiated and highly valued closed loop delivery model, providing a long term competitive advantage. Elementis Chromium has successfully executed on this strategy and has demonstrated over the last eight quarters consistently strong revenues, operating profits, margins and cash flow, proving the stability and resilience of this business's operating model under a wide range of economic and market conditions. Our intention is to continue to utilise the cash generated by this business to fund the future growth of our Specialty Products business and to reward our shareholders through the previously announced special dividend programme.

## **Summary**

We are resolute in our commitment to outperform the market and deliver profitable growth across all stages of the economic cycle. Our growth strategy is not reliant on favourable market conditions to produce better results but is centred on our ability to translate our know-how and technology into profitable, innovative products and solutions for a growing variety of markets. Such innovation is highly valued by our customers.

Although the macro economic outlook remains uncertain, I am confident that Elementis is better placed than many of its industry peers and the Group is strongly positioned to meet these challenges. We move forward with confidence in our ability to successfully execute our growth strategy and create additional shareholder value.

David Dutro  
Group Chief Executive  
30 July 2013

## Finance report

Revenue for the six months ended 30 June	Revenue	Effect of	Increase/	Revenue
	2012	exchange	(decrease)	2013
	\$million	rates	2013	\$million
		\$million	\$million	
Specialty Products	246.6	1.1	10.0	<b>257.7</b>
Chromium	125.8	-	(22.4)	<b>103.4</b>
Surfactants	36.9	0.2	(3.3)	<b>33.8</b>
Inter-segment	(8.0)	-	1.3	<b>(6.7)</b>
	401.3	1.3	(14.4)	<b>388.2</b>

Operating profit for the six months ended 30 June	Operating	Effect of	Increase/	Operating
	profit	Exchange	(decrease)	Profit
	2012	Rates	2013	2013
	\$million	\$million	\$million	\$million
Specialty Products	52.0	0.8	(1.2)	<b>51.6</b>
Chromium	33.4	-	(8.1)	<b>25.3</b>
Surfactants	2.4	-	0.5	<b>2.9</b>
Central costs	(7.1)	0.3	(0.2)	<b>(7.0)</b>
	80.7	1.1	(9.0)	<b>72.8</b>

### Group results

Group revenue was \$388.2 million in the first half of 2013, compared to \$401.3 million in the same period last year, representing a decrease of 3 per cent with currency having no significant effect between the two periods. Sales in Specialty Products were 5 per cent higher than the previous period, with strong growth in Asia Pacific coatings and personal care. Chromium sales were lower by 18 per cent due to maintenance shutdowns and a more challenging market environment, particularly outside of North America. Surfactants sales declined by 8 per cent, in line with the business's strategy of transitioning the Netherlands facility to high margin additives for Specialty Products. Group operating profit was consequently lower by \$7.9 million, at \$72.8 million, and operating margin was 18.8 per cent compared to 20.1 per cent in the same period last year.

### Specialty Products

Revenue in Specialty Products for the first half of 2013 was \$257.7 million, which is an increase of 5 per cent over the same period last year with currency having no material impact on the change, as the business continued to benefit from its broad geographic base and strong market positions.

In coatings additives, Asia Pacific sales improved by 7 per cent with volumes up 10 per cent, as the business continued to benefit from its strong position in the region, particularly in China where its sophisticated technical service offering to customers is an on-going source of market share gains. In Europe, coatings sales were 2 per cent lower than the previous year on 3 per cent higher volumes, as the business continued to source new business opportunities to offset the more difficult economic environment in that region. Sales in North America were 2 per cent lower than the previous year on 5 per cent higher volumes, or 9 per cent lower on 7 per cent lower volumes excluding the acquisition of Hi-Mar, as the business cycled against a very strong first half in 2012. Sales in Latin America were 57 per cent higher than the previous year, or 3 per cent lower (1 per cent in volume terms), excluding the acquisition of Watercryn. The acquisition is providing a solid platform for growth in the Latin American region, allowing the business to make good progress despite there being a generally softer tone to coatings demand in Brazil in the first half of the year. Sales to the oilfield drilling sector were just 2 per cent lower than the same period last year (3 per cent in volume terms), reflecting a strong recovery in the first half of 2013 following an industry destocking in the North American drilling sector that took place in the second half of last year. Sales in personal care were 23 per cent higher than the previous year, as the business continued to make good progress by expanding into new geographies, promoting its natural based products for skin and hair care and finding new applications for existing products.

Operating profit was \$51.6 million, compared to \$52.0 million in the previous period, a reduction of 1 per cent, or 2 per cent on a constant currency basis. Pricing across the business was relatively stable, while additional fixed costs associated with the start-up phase of the new additives plant for the decorative coatings market in North America, plus the integration of Hi-Mar, led to operating margin in the first six months of 2013 being slightly lower than the previous year (20.0 per cent versus 21.1 per cent).

### Chromium

Revenue in Chromium was \$103.4 million in the first half of 2013 compared to \$125.8 million in the same period last year. Currency movements had no material impact on sales between the two reporting periods, as most sales are invoiced in US dollars. Sales volumes were 13 per cent lower due to the combined effect of a scheduled maintenance shutdown in the early part of 2013, more challenging markets outside of North America, and continued softness in the North American leather tanning market. Pricing in the period was 6 per cent lower than the same period last year as customers received pricing adjustments in response to lower raw material costs.

Operating profit was \$25.3 million, compared to \$33.4 million in the first half of 2012, due to lower sales volumes, with currency having no material impact on the change. Despite the lower sales volumes, operating margin remained robust at 24.5 per cent compared to 26.6 per cent in the previous period. Average raw material and energy costs declined by 7 per cent, largely due to decreases in chrome ore and natural gas prices, both of which were fixed towards the end of last year. Fixed costs also declined by \$2.1 million as the business continued to make good progress in overall operational efficiency and production yields.

### Surfactants

Surfactants revenue for the first half of 2013 was \$33.8 million, compared to \$36.9 million in the previous year, which is a decrease of 8 per cent, or 9 per cent on a constant currency basis. The decline in sales was driven by reduced volumes, in line with the Group's on-going strategy to transition the facility in Delden, Netherlands away from the production of lower margin surfactants and more towards the manufacture of high value coatings additives for the Specialty Products business.

Operating profit was \$2.9 million in the first half of 2013, compared to \$2.4 million in the previous period, and operating margins improved to 8.6 per cent (2012: 6.5 per cent) due to the focus on higher margin products and good cost control.

### Central costs

Central costs are costs that are not identifiable as expenses of a particular business and comprise the Board of Directors and corporate offices in the UK and US. Costs for the first half of 2013 were \$7.0 million compared to \$7.1 million in the previous period, with no significant structural changes in the cost base between the two periods.

### Net finance costs

	<b>30 June 2013</b>	30 June 2012 restated*
	<b>\$million</b>	\$million
Finance income	<b>0.1</b>	0.4
Finance cost of borrowings	<b>(1.0)</b>	(2.0)
	<b>(0.9)</b>	(1.6)
Net pension finance expense	<b>(2.3)</b>	(2.0)
Pension admin expenses	<b>(1.5)</b>	(1.4)
Discount on provisions	<b>(0.6)</b>	(0.6)
	<b>(5.3)</b>	(5.6)

\*restated following the adoption of revised IAS 19 Employee Benefits standard



Net finance costs in the first half of 2013 were \$5.3 million compared to \$5.6 million in the previous period. Net interest costs were \$0.7 million lower than the previous period, at \$0.9 million, due to a decline in the Group's borrowing requirements. Net pension expenses were \$3.8 million in the current period, compared to \$3.4 million in the first six months of 2012, and increased due to an increase in the IAS 19 deficit during the period used for expense calculations, which more than offset a positive benefit from a decline in corporate bond yields over the same period. Charges for the unwinding of discounts on provisions that were calculated on a discounted basis were \$0.6 million in each period.

### Tax

The provision for tax on profits was \$15.3 million, or 22.7 per cent, in the first half of 2013 (2012: \$22.5 million, or 30.0 per cent) and is based on the likely tax payable in those jurisdictions where taxable profits arise and deferred tax provisions where these are applicable. For the current period the provision was based on an estimated tax rate for the full year of approximately 21.8 per cent (2012: 24.8 per cent) plus an adjustment to UK deferred tax for the change in underlying rate of UK corporation tax. The rate is very sensitive to the mix of profits from different jurisdictions. In the first six months of 2013 the majority of the Group's taxable income was generated in the US, where the marginal rate of tax is 40 per cent, and the UK, where the marginal rate is 2 per cent due to the availability of prior year advance corporation tax credits.

### Earnings per share

Basic and diluted earnings per share for the first half of 2013, calculated on the reported earnings of \$52.2 million (2012: \$52.6 million), were 11.5 cents and 11.3 cents, respectively, compared to 11.7 cents and 11.5 cents in the same period last year.

### Cash flow

Cash flow is summarised below:

	<b>30 June 2013</b>	30 June 2012 restated*
	<b>\$million</b>	\$million
Earnings before interest, tax, exceptionals, depreciation and amortisation (EBITDA)	<b>84.3</b>	91.3
Change in working capital	<b>(20.2)</b>	(29.3)
Capital expenditure	<b>(16.7)</b>	(18.1)
Other	<b>1.2</b>	1.3
<b>Operating cash flow</b>	<b>48.6</b>	45.2
Pension	<b>(11.0)</b>	(11.5)
Interest and tax	<b>(8.9)</b>	(7.9)
Other	<b>(0.5)</b>	(0.4)
<b>Free cash flow</b>	<b>28.2</b>	25.4
Dividends	<b>(46.3)</b>	(21.1)
Acquisitions	<b>(32.8)</b>	-
Currency fluctuations	<b>(1.6)</b>	(0.6)
<b>Movement in net cash</b>	<b>(52.5)</b>	3.7
Net cash at start of period	<b>44.0</b>	26.2
<b>Net (debt)/cash at end of period</b>	<b>(8.5)</b>	29.9

\*restated following the adoption of revised IAS 19 Employee Benefits standard

Operating cash flow in the first half of 2013 improved by \$3.4 million to \$48.6 million, compared to the same period last year as lower EBITDA was more than offset by lower working capital outflows and lower capital expenditure. Working capital outflows in the current period of \$20.2 million were consistent with normal trading patterns, where coatings sales are seasonally stronger in the first half of the year. The outflow was lower than the same period last year because the seasonal upswing in sales last year was exacerbated by a downturn in coatings demand toward the end of 2011. Capital expenditure in the current period was \$1.4 million lower than the previous year at \$16.7 million and included spending of \$4.8 million on the second phase of the new US facility to produce additives for the decorative coatings market and \$1.6 million on IT system upgrades at the Delden facility in the Netherlands. Capital spending for the whole of 2013 is expected to be approximately \$30 million (2012: \$37.4 million). Pension payments were \$11.0 million in the period (2012: \$11.5 million) and consist largely of

deficit reduction payments to the Group's UK and US pension funds. Further comments on the amounts paid to pension funds are included in the pensions section of this report. Tax and interest payments were \$1.0 million higher than the previous period, at \$8.9 million, largely due to an increase in taxes paid as legacy tax credits are becoming fully utilised. Dividend payments in the period were \$46.3 million, compared to \$21.1 million in the same period last year, and the current period payments consist of the final dividend for 2012 of \$24.3 million, or 5.32 cents, and the special dividend, announced in February 2013, of \$22.0 million, or 4.79 cents. The prior period amount of \$21.1 million consisted only of the final dividend for 2011, there being no special dividend paid in that period. Finally Specialty Products invested \$33.0 million in the acquisition of Hi-Mar in the US in the first half of 2013, while there was no spending on acquisitions in the same period last year. As a result of the acquisition spending and special dividend payment in the current period, the Group had a small net debt position at the end of June 2013 of \$8.5 million, compared to a net cash position of \$44.0 million at the end of 2012.

### Working capital

Working capital days	30 June 2013	30 June 2012	31 Dec 2012
Inventory	94	84	92
Debtors	52	53	51
Creditors	57	58	64
Average working capital to sales (per cent)	20.2	17.9	19.1

Average working capital to sales at the end of June 2013 was 20.2 per cent compared to 17.9 per cent at the same time last year. The increase is mainly due to a strategic decision made in 2012 to hold higher inventories of chrome ore in the Chromium business, as part of their supply chain management programme, which was completed during that year. This also largely accounted for the increase in inventory days from 84 to 94. Otherwise debtor days and creditor days were relatively stable between the two periods.

### Balance sheet

	30 June 2013	30 June 2012 restated*
	\$million	\$million
Property, plant and equipment	193.1	171.7
Other net assets	328.5	255.8
Net cash	-	29.9
	521.6	457.4
Equity	513.1	457.4
Net debt	8.5	-
	521.6	457.4

\*restated following the adoption of revised IAS 19 Employee Benefits standard

Property, plant and equipment increased by \$21.4 million both as a result of capacity expansion projects, most notably the new Specialty Products plant in West Virginia, and from the Watercryn and Hi-Mar acquisitions. Other net assets increased by \$72.7 million, compared to the same period in 2012, driven mainly by an increase in goodwill and intangibles of \$45.9 million and a reduction in the pension deficit of \$19.3 million. The decrease in the pension deficit compared to both the comparable period in 2012 and the year end position is a consequence of increased asset values, resulting from both company contributions and improved returns, and an increase in corporate bond rates, which has a beneficial impact on the pension schemes' liabilities. Working capital increased by \$7.8 million, mainly as a result of the strategic increase in inventory within the Chromium business. Having had net cash balances both at the comparable period in 2012 and the year end, the Group has moved into a small net debt position due to acquisition spend and the payment under the special dividend programme.

The main dollar currency exchange rates in the period were:

	2013 30 June	2013 Average	2012 30 June	2012 Average
Sterling	0.66	0.64	0.64	0.63
Euro	0.77	0.76	0.79	0.77

### Pensions and post retirement plans

	Total \$million
<b>Movement in deficit during the period</b>	
Deficit in schemes at 1 January 2013	(137.4)
Current service cost	(1.5)
Contributions	12.5
Net interest expense	(3.8)
Actuarial gain	32.0
Currency translation differences	4.7
<b>Deficit in schemes at 30 June 2013</b>	<b>(93.5)</b>

During the period the deficit, under IAS 19, on the Group's pension and post retirement medical plans improved by \$43.9 million to \$93.5 million. The improvement was largely the result of actuarial gains and contributions from the Group. Actuarial gains primarily consisted of positive investment returns, including approximately 7.7 per cent on an annualised basis for the UK pension scheme, the largest of the Group's plans. Deficit contributions, net of current service costs, in the first half of 2013 totalled \$11.0 million (2012: \$11.5 million) of which \$9.2 million (2012: \$9.5 million) was paid to the UK plan under the existing funding agreement. This agreement will be reviewed next in 2015.

### Principal risks and uncertainties

The Group has policies, processes and systems in place to help identify, evaluate and manage risks at all levels throughout the organisation. Certain key risks, because of their size, likelihood and/or severity, are reviewed regularly by the senior management team and the Board, to ensure that appropriate action is taken to eliminate, reduce or mitigate, wherever practicable, significant risks that can lead to financial loss, harm to reputation or business failure. The following is a summary of the principal risks faced by the Group that could impact the second half of the year: global economic conditions, competitive pressure in the marketplace and not meeting market expectations of Group earnings; growth opportunities and product innovation not materialising; disruption to raw materials and supply chain; major regulatory enforcement action/litigation and other claims from products and historical and ongoing operations; UK pension fund; regulation/technological advances; major incident or catastrophe; and major disruption to global or regional banking systems. A full description of these risks and the mitigation actions taken by the Company can be found in Company's 2012 Annual report and accounts on pages 27 and 28.

### Cautionary statement

The Elementis plc interim results announcement for the half year ended 30 June 2013, which comprises the Chairman's statement, Group Chief Executive's report, Finance report and the Directors' responsibility statement (which taken together constitute the Interim management report) and the interim financial statements and accompanying notes (incorporating a Condensed consolidated balance sheet at 30 June 2013, Condensed consolidated income statement, Condensed consolidated statement of comprehensive income, Condensed consolidated cash flow statement and Condensed consolidated statement of changes in equity, each for the six months ended 30 June 2013) (altogether 'Half-yearly financial report'), contains 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 Half-yearly financial report should be construed as a profit forecast.

### **Related party transactions**

There were no material related party transactions entered into during the first half of the year and there have been no material changes to the related party transactions disclosed in the Company's 2012 Annual report and accounts on page 98.

### **Directors' responsibility statement**

A full list of the directors can be found on the Elementis corporate website at: [www.elementisplc.com](http://www.elementisplc.com). With the exception of Anne Hyland, these directors are also shown on page 36 of the Company's 2012 Annual report and accounts.

The directors confirm that to the best of their knowledge:

- The condensed set of financial statements set-out in this Half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.
- The interim management report contained in this Half-yearly financial report includes a fair review of the information required by:
  - DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of the important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year.
  - DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in related party transactions described in the 2012 Annual report and accounts that could have a material effect on the financial position or performance of the entity during the first six months of the current financial year.

Approved by the Board on 30 July 2013 and signed on its behalf by:

David Dutro  
Group Chief Executive  
30 July 2013

Brian Taylorson  
Finance Director  
30 July 2013

## **Independent review report to Elementis plc**

### **Introduction**

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

### **Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 - *Interim Financial Reporting* as adopted by the EU.

### **Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Lynton Richmond  
for and on behalf of KPMG Audit Plc  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL  
30 July 2013

**Condensed consolidated income statement  
for the six months ended 30 June 2013**

	Note	2013 Six months ended 30 June \$million	2012 Six months ended 30 June restated* \$million	2012 Year ended 31 December restated* \$million
Revenue	3	388.2	401.3	757.0
Cost of sales		(242.7)	(243.8)	(465.6)
Gross profit		145.5	157.5	291.4
Distribution costs		(40.4)	(42.5)	(80.6)
Administrative expenses		(32.3)	(34.3)	(66.9)
Operating profit	3	72.8	80.7	143.9
Finance income	4	0.1	0.4	0.8
Finance costs	5	(5.4)	(6.0)	(11.3)
Profit before income tax	3	67.5	75.1	133.4
Tax	6	(15.3)	(22.5)	(33.1)
Profit for the period		52.2	52.6	100.3
Attributable to equity holders of the parent		52.2	52.6	100.3
<b>Earnings per share</b>				
Basic (cents)	7	11.5	11.7	22.2
Diluted (cents)	7	11.3	11.5	21.8

**Condensed consolidated statement of comprehensive income  
for the six months ended 30 June 2013**

	2013 Six months ended 30 June \$million	2012 Six months ended 30 June restated* \$million	2012 Year ended 31 December restated* \$million
Profit for the period	52.2	52.6	100.3
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain/(loss) on pension and other post retirement schemes	32.0	(24.1)	(59.3)
Deferred tax associated with pension and other post retirement schemes	(5.0)	0.5	4.0
	27.0	(23.6)	(55.3)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(3.4)	(2.2)	1.4
Effective portion of changes in fair value of cash flow hedges	0.2	1.5	(0.5)
Fair value of cash flow hedges transferred to income statement	(0.4)	(0.9)	0.8
	(3.6)	(1.6)	1.7
Other comprehensive income, net of tax	23.4	(25.2)	(53.6)
<b>Total comprehensive income for the period</b>	<b>75.6</b>	<b>27.4</b>	<b>46.7</b>
Attributable to:			
Equity holders of the parent	75.6	27.4	46.7
Non-controlling interests	-	-	-
<b>Total comprehensive income for the period</b>	<b>75.6</b>	<b>27.4</b>	<b>46.7</b>

\* restated following the adoption of revised IAS 19 Employee Benefits standard

**Condensed consolidated balance sheet  
at 30 June 2013**

	2013 30 June \$million	2012 30 June restated* \$million	2012 31 December restated* \$million
<b>Non-current assets</b>			
Goodwill and other intangible assets	380.7	334.8	342.6
Property, plant and equipment	193.1	171.7	197.2
Deferred tax assets	11.5	6.2	12.4
<b>Total non-current assets</b>	<b>585.3</b>	<b>512.7</b>	<b>552.2</b>
<b>Current assets</b>			
Inventories	130.2	118.9	128.8
Trade and other receivables	138.8	144.7	119.1
Derivatives	-	0.8	-
Cash and cash equivalents	39.2	59.6	63.1
<b>Total current assets</b>	<b>308.2</b>	<b>324.0</b>	<b>311.0</b>
<b>Total assets</b>	<b>893.5</b>	<b>836.7</b>	<b>863.2</b>
<b>Current liabilities</b>			
Bank overdrafts and loans	(9.6)	(3.2)	(5.6)
Trade and other payables	(101.6)	(104.0)	(100.3)
Derivatives	(0.8)	(0.5)	(0.4)
Current tax liabilities	(11.1)	(4.3)	(8.7)
Provisions	(4.2)	(3.4)	(6.6)
<b>Total current liabilities</b>	<b>(127.3)</b>	<b>(115.4)</b>	<b>(121.6)</b>
<b>Non-current liabilities</b>			
Loans and borrowings	(38.1)	(26.5)	(13.5)
Derivatives	-	(0.2)	-
Retirement benefit obligations	(93.5)	(112.8)	(137.4)
Deferred tax liabilities	(87.1)	(83.7)	(74.4)
Provisions	(32.4)	(38.3)	(33.9)
Government grants	(0.4)	(0.8)	(0.6)
<b>Total non-current liabilities</b>	<b>(251.5)</b>	<b>(262.3)</b>	<b>(259.8)</b>
<b>Total liabilities</b>	<b>(378.8)</b>	<b>(377.7)</b>	<b>(381.4)</b>
<b>Net assets</b>	<b>514.7</b>	<b>459.0</b>	<b>481.8</b>
<b>Equity</b>			
Share capital	44.1	43.5	43.7
Share premium	16.0	13.8	14.7
Other reserves	128.6	126.1	130.3
Retained earnings	324.4	274.0	291.5
<b>Equity attributable to equity holders of the parent</b>	<b>513.1</b>	<b>457.4</b>	<b>480.2</b>
Minority equity interests	1.6	1.6	1.6
<b>Total equity and reserves</b>	<b>514.7</b>	<b>459.0</b>	<b>481.8</b>

\*restated following the adoption of revised IAS 19 Employee Benefits standard

**Condensed consolidated cash flow statement  
for the six months ended 30 June 2013**

	2013 Six months ended 30 June \$million	2012 Six months ended 30 June restated* \$million	2012 Year ended 31 December restated* \$million
<b>Operating activities:</b>			
Profit for the period	52.2	52.6	100.3
Adjustments for:			
Finance income	(0.1)	(0.4)	(0.8)
Finance costs	5.4	6.0	11.3
Tax	15.3	22.5	33.1
Depreciation and amortisation	11.5	10.6	21.3
Decrease in provisions	(1.0)	(0.6)	(1.9)
Pension contributions net of current service cost	(11.0)	(11.5)	(27.9)
Share based payments	2.1	1.9	4.2
Cash flow in respect of exceptional items	(1.9)	(2.2)	(3.7)
<b>Operating cash flows before movements in working capital</b>	<b>72.5</b>	<b>78.9</b>	<b>135.9</b>
(Increase)/decrease in inventories	(1.9)	0.8	(6.1)
Increase in trade and other receivables	(20.6)	(46.3)	(16.2)
Increase in trade and other payables	2.3	16.2	9.4
<b>Cash generated by operations</b>	<b>52.3</b>	<b>49.6</b>	<b>123.0</b>
Income taxes paid	(7.9)	(6.2)	(13.1)
Interest paid	(1.1)	(2.0)	(3.6)
<b>Net cash flow from operating activities</b>	<b>43.3</b>	<b>41.4</b>	<b>106.3</b>
<b>Investing activities:</b>			
Interest received	0.1	0.3	1.1
Disposal of property, plant and equipment	0.2	1.0	1.5
Purchase of property, plant and equipment	(15.7)	(18.8)	(38.3)
Purchase of business	(32.8)	-	(24.0)
Acquisition of intangibles	(1.2)	(0.3)	(0.7)
<b>Net cash flow from investing activities</b>	<b>(49.4)</b>	<b>(17.8)</b>	<b>(60.4)</b>
<b>Financing activities:</b>			
Issue of shares	1.4	1.8	2.8
Dividends paid	(46.3)	(21.1)	(32.2)
Receipt of unclaimed dividends	-	-	0.3
Increase/(decrease) in borrowings	28.6	7.6	(3.3)
Net cash used in financing activities	(16.3)	(11.7)	(32.4)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(22.4)</b>	<b>11.9</b>	<b>13.5</b>
Cash and cash equivalents at beginning of period	63.1	48.2	48.2
Foreign exchange on cash and cash equivalents	(1.5)	(0.5)	1.4
<b>Cash and cash equivalents at end of period</b>	<b>39.2</b>	<b>59.6</b>	<b>63.1</b>

\*restated following the adoption of revised IAS 19 Employee Benefits standard



**Condensed consolidated statement of changes in equity  
for the six months ended 30 June 2013**

	Share capital	Share premium	Other reserves	Retained earnings restated*	Total restated*	Minority interest	Total equity restated*
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
<b>At 1 January 2013</b>	<b>43.7</b>	<b>14.7</b>	<b>130.3</b>	<b>291.5</b>	<b>480.2</b>	<b>1.6</b>	<b>481.8</b>
Profit for the period	-	-	-	52.2	52.2	-	52.2
Other comprehensive income:							
Exchange differences	-	-	(3.4)	-	(3.4)	-	(3.4)
Movement in cash flow hedges	-	-	(0.2)	-	(0.2)	-	(0.2)
Actuarial gain on pension scheme	-	-	-	32.0	32.0	-	32.0
Deferred tax adjustment on pension scheme deficit	-	-	-	(5.0)	(5.0)	-	(5.0)
Transactions with owners:							
Issue of shares	0.4	1.3	(0.2)	-	1.5	-	1.5
Share based payments	-	-	2.1	-	2.1	-	2.1
Dividends paid	-	-	-	(46.3)	(46.3)	-	(46.3)
<b>At 30 June 2013</b>	<b>44.1</b>	<b>16.0</b>	<b>128.6</b>	<b>324.4</b>	<b>513.1</b>	<b>1.6</b>	<b>514.7</b>

	Share Capital	Share premium	Other reserves	Retained earnings restated*	Total restated*	Minority interest	Total equity restated*
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
<b>At 1 January 2012</b>	<b>43.4</b>	<b>12.7</b>	<b>125.8</b>	<b>265.5</b>	<b>447.4</b>	<b>1.6</b>	<b>449.0</b>
Profit for the period	-	-	-	52.6	52.6	-	52.6
Other comprehensive income:							
Exchange differences	-	-	(2.2)	-	(2.2)	-	(2.2)
Movement in cash flow hedges	-	-	0.6	-	0.6	-	0.6
Actuarial loss on pension scheme	-	-	-	(24.1)	(24.1)	-	(24.1)
Deferred tax adjustment on pension scheme deficit	-	-	-	0.5	0.5	-	0.5
Transactions with owners:							
Issue of shares	0.1	1.1	-	0.6	1.8	-	1.8
Share based payments	-	-	1.9	-	1.9	-	1.9
Dividends paid	-	-	-	(21.1)	(21.1)	-	(21.1)
<b>At 30 June 2012</b>	<b>43.5</b>	<b>13.8</b>	<b>126.1</b>	<b>274.0</b>	<b>457.4</b>	<b>1.6</b>	<b>459.0</b>

\* restated following the adoption of revised IAS 19 Employee Benefits standard

## Notes to the interim financial statements for the six months ended 30 June 2013

### 1 General Information

Elementis plc (the 'Company') and its subsidiaries (together, the 'Group') manufactures specialty chemicals. The Group has operations in the US, UK, The Netherlands, Brazil, Germany, China, Taiwan, Malaysia and India. The Company is a limited liability company incorporated and domiciled in England, UK and is listed on the London Stock Exchange.

### 2 Accounting policies

#### Basis of preparation

This condensed set of financial statements (also referred to as 'interim financial statements' in this announcement) has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

As required by the Disclosure and Transparency Rules of the Financial Services Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2012, except when new or revised accounting standards have been applied.

The following amendments to published standards and interpretations are effective for the Group for the half year ended 30 June 2013:

IAS 19 – Employee Benefits. The impact of the revised standard and the restatement of comparatives is set out below.

IAS 1 – Presentation of Financial Statements. The amendments require an entity to present the items of other comprehensive income that may be recycled to profit or loss in the future if certain conditions are met, separately from those that would never be recycled to profit or loss.

IFRS 13 – Fair Value Measurement. This standard explains how to measure fair value and introduces enhanced fair value disclosure.

The comparative figures for the financial year ended 31 December 2012 are not the Company's statutory accounts for that financial year, but are derived from those accounts. Those accounts have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The preparation of these interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of income, expense, assets and liabilities. The significant estimates and judgements made by management were consistent with those applied to the consolidated financial statements for the year ended 31 December 2012.

#### Going concern

After making enquiries, the directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis for preparing the interim financial statements.

#### Restatement of comparatives

The revised IAS 19 Employee Benefits standard became effective from 1 January 2013 and has been implemented from that date. The standard makes substantial changes to the recognition,

measurement and disclosure of retirement benefit obligations. The impact of the changes on the Group's income statement and balance sheet are shown in the table below:

	2012 Six months ended 30 June \$million	2012 Year ended 31 December \$million
<b>Income Statement</b>		
Finance costs:		
Increase in interest on pension scheme Liabilities	(2.5)	(4.9)
Pension admin expenses	(1.4)	(2.9)
Decrease in profit before tax	(3.9)	(7.8)
Reduction in tax charge	0.5	1.0
Decrease in profit for the period	(3.4)	(6.8)
<b>Balance Sheet</b>		
Increase in retirement benefit obligations	(1.6)	(1.4)
Decrease in deferred tax liabilities	0.5	1.0
Decrease in retained earnings	(1.1)	(0.4)

### 3 Segment reporting

For management purposes the Group is currently organised into three operating divisions – Specialty Products, Surfactants and Chromium. Principal activities are as follows:

Specialty Products – production of rheological additives, compounded products and colourants.

Surfactants – production of surface active ingredients.

Chromium – production of chromium chemicals.

	Six months ended 30 June 2013			Six months ended 30 June 2012			Year ended 31 December 2012		
	Gross \$million	Inter- segment \$million	External \$million	Gross \$million	Inter- segment \$million	External \$million	Gross \$million	Inter- segment \$million	External \$million
<b>Revenue</b>									
Specialty Products	257.7	-	257.7	246.6	-	246.6	458.7	-	458.7
Surfactants	33.8	-	33.8	36.9	-	36.9	72.5	-	72.5
Chromium	103.4	(6.7)	96.7	125.8	(8.0)	117.8	240.1	(14.3)	225.8
	<b>394.9</b>	<b>(6.7)</b>	<b>388.2</b>	<b>409.3</b>	<b>(8.0)</b>	<b>401.3</b>	<b>771.3</b>	<b>(14.3)</b>	<b>757.0</b>

All revenues relate to the sale of goods

	2013 Six months ended 30 June \$million	2012 Six months ended 30 June restated* \$million	2012 Year Ended 31 December restated* \$million
<b>Operating profit</b>			
Specialty Products	51.6	52.0	90.1
Surfactants	2.9	2.4	4.8
Chromium	25.3	33.4	62.8
Central costs	(7.0)	(7.1)	(13.8)
	<b>72.8</b>	<b>80.7</b>	<b>143.9</b>
Finance income	0.1	0.4	0.8
Finance costs	(5.4)	(6.0)	(11.3)
Profit before tax	<b>67.5</b>	<b>75.1</b>	<b>133.4</b>

\*restated following the adoption of revised IAS 19 Employee Benefits standard

## 4 Finance income

	2013 Six months ended 30 June \$million	2012 Six months ended 30 June restated* \$million	2012 Year Ended 31 December restated* \$million
Interest on bank deposits	0.1	0.4	0.8

## 5 Finance costs

	2013 Six months ended 30 June \$million	2012 Six months ended 30 June restated* \$million	2012 Year Ended 31 December restated* \$million
Interest on bank loans	1.0	2.0	3.4
Unwind of discount on provisions	0.6	0.6	1.3
Expected return on pension scheme assets	(16.7)	(19.2)	(38.1)
Interest on pension scheme liabilities	19.0	21.2	41.8
Pension admin expenses	1.5	1.4	2.9
Pension and other post-retirement liabilities	3.8	3.4	6.6
	5.4	6.0	11.3

## 6 Tax

The provision for tax on profits of \$15.3 million (2012: \$22.5 million) is based on the likely tax charge in those jurisdictions where profits arise and takes account of the change in the UK tax rate from 24 per cent to 23 per cent. On 2 July 2013 a revised UK corporation tax rate of 21 per cent was substantively enacted, with effect from 1 April 2014. For the period ended 30 June 2013, there is no change to deferred tax balances as a result of this enactment.

## 7 Earnings per share

	2013 Six months ended 30 June \$million	2012 Six months ended 30 June restated* \$million	2012 Year ended 31 December restated* \$million
Earnings for the purposes of basic earnings per share	52.2	52.6	100.3
	Number(m)	Number(m)	Number(m)
Weighted average number of shares for the purposes of basic earnings per share	455.2	450.4	451.8
Effect of dilutive share options	8.1	8.1	8.6
Weighted average number of shares for the purposes of diluted earnings per share	463.3	458.5	460.4

  

	2013 Six months ended 30 June cents	2012 Six months ended 30 June restated* cents	2012 Year ended 31 December restated* cents
Earnings per share:			
Basic	11.5	11.7	22.2
Diluted	11.3	11.5	21.8
Basic before exceptional items	11.5	11.7	22.2
Diluted before exceptional items	11.3	11.5	21.8

\* restated following the adoption of revised IAS 19 Employee Benefits standard

## 8 Dividends

The following dividends were declared and paid by the Group:

	2013 Six months ended 30 June \$million	2012 Six months ended 30 June \$million	2012 Year ended 31 December \$million
Dividends paid on ordinary shares	46.3	21.1	32.2

An interim dividend of 2.57 cents per share (2012: 2.45 cents) has been declared by the Board of Directors and will be paid on 4 October 2013 to shareholders on the register at 6 September 2013. As the interim dividend will be paid in pounds sterling, the exchange rate used for the purpose of determining the amount to be paid was \$1.5401:£1.00.

## 9 Pension

The last full valuation for IAS 19 purposes was conducted as of 31 December 2012 and the next full valuation will be conducted as at 31 December 2013. A high level review of the Group's major pension schemes was performed for the period ending 30 June 2013 using the revised IAS 19 standard and with updated assumptions. This resulted in the Group reporting a deficit on its combined retirement benefit obligations of \$93.5 million at the end of June 2013, compared to restated balances of \$112.8 million at the same time last year and \$137.4 million at the end of December 2012.

## 10 Movement in net (borrowings)/cash

	2013 Six months Ended 30 June \$million	2012 Six months Ended 30 June \$million	2012 Year ended 31 December \$million
Change in net (borrowings) / cash resulting from cash flows			
(Decrease)/increase in cash and cash equivalents	(22.4)	11.9	13.5
(Increase)/decrease in borrowings	(28.6)	(7.6)	3.3
Currency translation differences	(1.5)	(0.6)	1.0
(Decrease)/Increase in net cash	(52.5)	3.7	17.8
Net cash at beginning of period	44.0	26.2	26.2
Net (borrowings)/cash at end of period	(8.5)	29.9	44.0

## 11 Financial risk management

The Group has exposure to the following financial risks:

- 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, assisted by Internal Audit, 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. These interim financial statements do not include all the financial risk management information and disclosures that are required in the Annual report and accounts and should be read in conjunction with the financial statements for the year ended 31 December 2012. The Group's risk management policies have not changed since the year end.

The Group measures fair values in respect of financial instruments in accordance with IFRS 13, 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 Group categorises its trade and other receivables and payables, excluding derivatives, within level 3 and all other financial instruments, including cash, loans and derivatives within level 1. At both 30 June 2013 and 31 December 2012 there was no difference between the carrying value and fair value of financial instruments.

## 12 Acquisitions

On 19 February 2013 the Group purchased the trading assets of Hi-Mar Specialty Chemicals, LLC ("Hi-Mar"), a US coatings additives company, for a cash consideration of \$33 million. Hi-Mar was established in 1973 and is a leading supplier of defoamers to the coatings, construction and oilfield drilling industries, with manufacturing and technical facilities based in Milwaukee, Wisconsin. For the 12 months ended 31 December 2012, the acquired business reported, on an unaudited basis, sales of \$14.5 million and earnings before interest, tax, depreciation and amortisation of \$3.5 million.

	Book value at acquisition	Provisional fair value adjustments	Fair value of assets acquired
	\$million	\$million	\$million
Property, plant and equipment	0.6	1.7	2.3
Inventories	1.2	-	1.2
Trade and other receivables	1.7	-	1.7
Trade and other payables	(0.9)	-	(0.9)
Cash and cash equivalents	-	-	-
Loans and borrowings	-	-	-
Corporation tax	-	-	-
Deferred tax	-	-	-
	2.6	1.7	4.3
Goodwill			14.1
Intangible – Customer lists			9.7
Intangible – Brand			4.9
Consideration paid, satisfied in cash			33.0
Cash acquired			-
Net cash outflow			33.0

A provisional purchase price allocation and fair value exercise have been performed in order to identify the fair values of assets acquired to the Group. This has resulted in the recognition of intangible assets, relating to both customer lists and brand, of \$14.6m and goodwill of \$14.1m, being the difference between the consideration paid and the fair value of separable assets acquired. The goodwill recognised on acquisition reflects the capabilities of the Hi-Mar personnel and the synergistic opportunities going forward, neither of which can be allocated to another identifiable intangible asset.

Since acquisition Hi-Mar has contributed \$4.8 million to the Group's revenue and \$0.9m to the Group's operating profit before intangible amortisation.

Following the acquisition of Watercyl Quimica Ltda in September 2012, the provisional fair value exercise has now been completed with the assistance of external experts. The table below shows changes in the assessment of the fair value of assets acquired, from the provisional figures included in the 2012 Annual report and accounts.

	Provisional fair value of assets acquired \$million	Further fair value adjustments \$million	Fair value of assets acquired \$million
Property, plant and equipment	15.0	(10.4)	4.6
Inventories	1.5	(0.2)	1.3
Trade and other receivables	1.7	-	1.7
Trade and other payables	(0.6)	0.3	(0.3)
Cash and cash equivalents	0.4	-	0.4
Corporation tax	-	(0.3)	(0.3)
Deferred tax	-	(3.5)	(3.5)
	18.0	(14.1)	3.9
Goodwill	4.4	10.4	14.8
Intangible – Customer lists			3.7
Intangible – Brand	2.0	3.7	2.0
Consideration paid, satisfied in cash	24.4	-	24.4
Cash acquired	(0.4)	-	(0.4)
Net cash outflow	24.0	-	24.0

- ENDS -