A global specialty chemicals company

Elementis plc

Annual report and accounts

2013

At a glance

9
countries

30+
locations

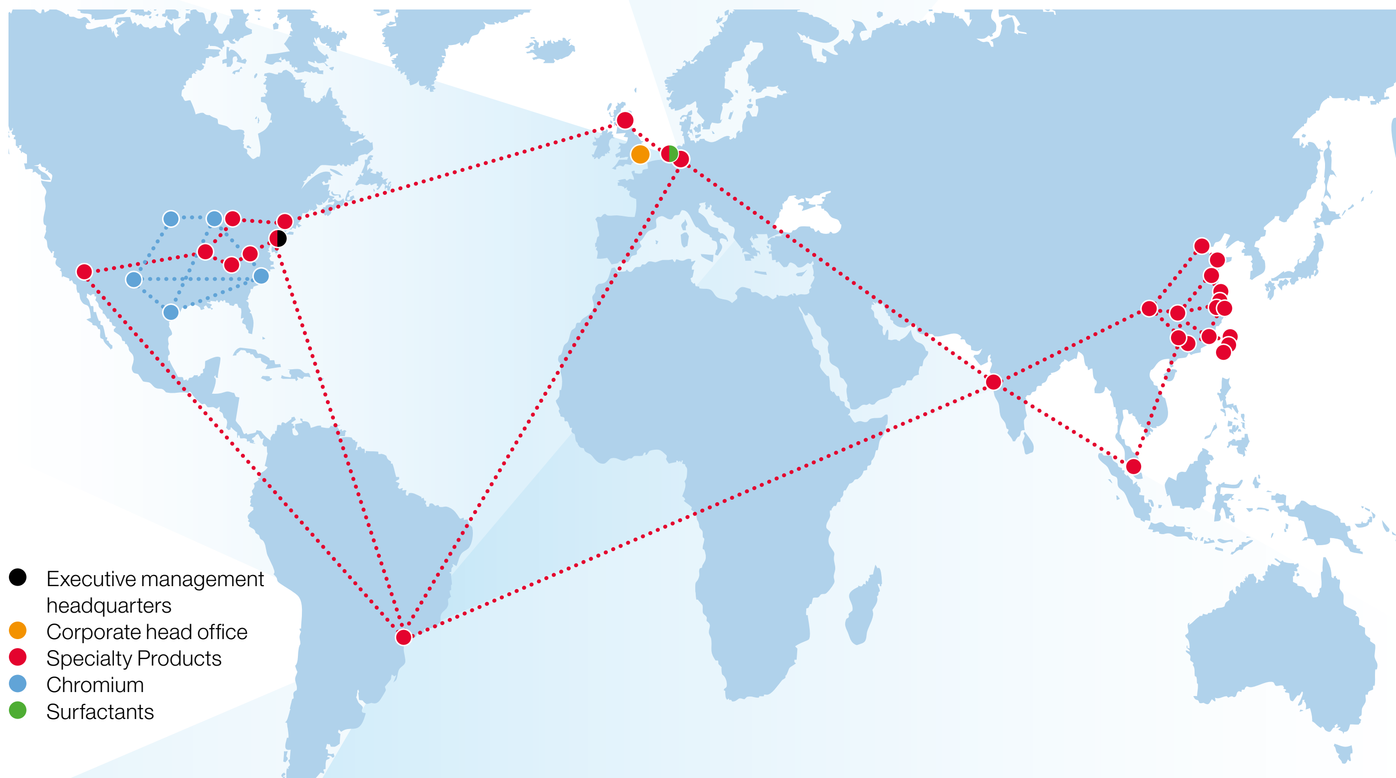
1,300+
employees

FTSE4Good

Who we are

Elementis plc is a global specialty chemicals company with operations worldwide that serve customers in North and Latin America, Europe and Asia in a wide range of markets and sectors. The Company has a premium listing in the UK on the London Stock Exchange and is a member of the FTSE 250 and FTSE4Good Indices.

Our global footprint



- Executive management headquarters
- Corporate head office
- Specialty Products
- Chromium
- Surfactants

What we do

The Company comprises three businesses: Specialty Products, Chromium and Surfactants. Both Specialty Products and Chromium hold leading market positions in their chosen sectors. Elementis employs over 1,300 people at more than 30 locations worldwide.

Specialty Products provides high value functional additives to the decorative and industrial coatings, personal care and oilfield drilling markets that improve the flow characteristics and performance of its customers' products or production processes.

Chromium is a leading producer of chromium chemicals that make its customers' products more durable.

Surfactants manufactures a wide range of surface active ingredients and products that are used as intermediates in the production of chemical compositions.

Why invest in Elementis?

- Clear strategy to grow the Specialty Products business and utilise a strong balance sheet to reinvest in growth and finance returns to shareholders (special dividend programme in place).
- Solid financial track record with well managed businesses that are profitable and cash generative.
- Broad differentiated product portfolio that is underpinned by proprietary technology, strong customer relationships and supported by innovation, know how and technical expertise.
- Operating in high margin, segmented markets and emerging economies, where products have many applications and diverse end users, and local market presence is supported by strong global infrastructure.
- Company has strong governance and risk management controls and maintains a high standard of business conduct, ethics and corporate responsibility.

Cautionary statement:
The Annual Report and Accounts for the financial year ended 31 December 2013, 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.

Highlights

- **Group earnings per share increased by 6 per cent to 23.0 cents per share.**
- **Strong growth in Specialty Products:**
  - Sales and operating profit* up 10 per cent.
  - Double digit sales growth in personal care and oilfield drilling.
- **Another year of excellent cash generation:**
  - Net cash position increased to $54.1 million.
- **Total dividends for the year increased by 11 per cent to 13.93 cents per share:**
  - Special dividend increased by 22 per cent.

Financial summary

	2013	2012 restated**	change
Sales	**$776.8m**	$757.0m	+3%
Operating profit	**$146.6m***	$143.9m	+2%
Profit before tax	**$136.0m***	$133.4m	+2%
Diluted earnings per share	**23.0c**	21.8c	+6%
Operating cash flow	**$143.9m**	$117.2m	+23%
Net cash	**$54.1m**	$44.0m	+23%
Profit for the year	**$106.7m**	$100.3m	
Basic earnings per share	**23.3c**	22.2c	
Dividends to shareholders:			
– Interim dividend	**2.57c**	2.45c	+5%
– Final proposed	**5.50c**	5.32c	+3%
– Special dividend	**5.86c**	4.79c	+22%
– Total for the year	**13.93c**	12.56c	+11%

* before exceptional items
** restated following the adoption of revised IAS 19 Employee Benefits standard

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Navigating the Annual Report

Key questions/areas of focus	At a glance (IFC)	Highlights and financial summary (p1)	Chairman's statement (p2)	Group Chief Executive's overview (p4)	Our objectives, strategies and business model (p6)	Our businesses (p8)	Finance report (p12)	Key performance indicators (p15)	Risk management report (p16)	Corporate responsibility report (p20)	Corporate governance (p26)
Who is Elementis, what does it do and why?	●			●	●						
How are the businesses structured and what markets do they serve?	●			●	●	●					
What are the objectives and strategies for achieving these?					●						
How is the Board structured and how does it influence the Company's strategy and objectives?											●
What are the key business and financial highlights in 2013?		●	●	●		●					
How did the businesses perform in 2013?						●					
What are the main trends and factors affecting (and those likely in the future to affect) the development, performance and position of the Company and its businesses?						●	●				
How are the Company's future prospects described?			●	●							
Where can I find more detailed information about each business?						●					
What are the KPIs and how did the Company perform against them?								●			
What are the most significant risks facing the Company?									●		
Where can I find information about social and environmental matters?										●	

Chairman's statement

Ian Brindle
Chairman

$776.8 million
Group revenue

13.93c
Total dividends per share for 2013

In 2013 Elementis achieved another year of earnings growth and good progress. The main focus of our growth strategy remains the Specialty Products business and so it is gratifying to report that both sales and operating profit* in that business grew by 10 per cent in the year. This is all the more impressive when considered against the background of a challenging economic environment. The nature of this growth provides further evidence of the diversity and resilience of our business model and the progress that has been made in implementing our strategy. All of the main market segments and geographies making up the Specialty Products business contributed to the growth, driven by market share gains, new product launches and strategic acquisitions while at the same time operating margins were maintained, demonstrating the inherent quality of the business.

Cash flow generation continued to be a strong feature of the Group's performance in 2013. The balance sheet net cash position at the end of the year increased by $10.1 million over the previous year to $54.1 million, despite paying $33.0 million for the Hi-Mar acquisition and making the first special dividend payment of $22.0 million.

Group revenues in 2013 were $776.8 million compared to $757.0 million in the previous year supported by the good growth in Specialty Products. As previously reported, Chromium sales were impacted by the timing of a maintenance shutdown in the early part of the year. Operating profit* was $146.6 million compared to $143.9 million in the previous year and Group operating margin* was stable across the two years at 19 per cent. Diluted earnings per share improved by 6 per cent to 23.0 cents per share.

Balance sheet
The Group continues to be in a robust financial position with net cash on the balance sheet at the year end, providing an appropriate platform to support future growth. During the year the Group refinanced its main borrowing facilities, agreeing a new $100 million facility for 5 years on improved terms with a syndicate of US, European and Asian banks.

The deficit on Group retirement schemes, under IAS 19, also declined during the year from $137.4 million to $99.3 million, due to a combination of favourable asset returns, Company contributions and increases in real bond yields, further improving the balance sheet.

Dividends
The Board is continuing with the dividend strategy announced in 2012, which is to pay out approximately one third of earnings, before exceptional items, each year in a combination of interim and final dividends. In addition a special dividend is paid each year of up to 50 per cent of the net cash balance at the year end, provided there are no immediate investment plans for that cash. Consequently, the Board is recommending a final dividend for 2013 of 5.50 cents per share (2012: 5.32 cents) and a special dividend of 5.86 cents per share or $27.1 million (2012: 4.79 cents or $22.0 million). These will be paid on 30 May 2014 in pounds sterling at an exchange rate of £1 = $1.6674 (equivalent to a sterling amount of 6.8130 pence per share), to shareholders on the register on 2 May 2014. This brings the total dividends for the year to 13.93 cents per share (2012: 12.56 cents), representing an increase of 11 per cent over the previous year.

Health, safety and the environment
Our performance in this important area of our business continues to be of a high standard relative to the industry and showed an improvement over the previous year, with fewer incidents. Nevertheless, we remain extremely vigilant in monitoring and improving our processes and activities that impact upon the safety of our employees and the environment.

Board changes
We stated this time last year that we would be making changes to the Board during 2013, as part of our succession planning programme. Consequently, we welcomed Anne Hyland to the Board in June who replaced Chris Girling as Chairman of the Audit Committee when he retired at the end of July. On behalf of the Board, I would like to thank Chris for his financial guidance, pragmatic approach and excellent contribution over the years.

Your Chairman Robert Beeston decided to retire at the end of July for personal reasons. Robert was Chairman for just under seven years and led the Board through a period in which the Company experienced significant positive change and the foundations of its growth strategy were laid. On behalf of the Board, I would like to express my sincere thanks to Robert for his leadership and wise counsel over the years. As a consequence of this development, we decided that further Board appointments would be put on hold until a new Chairman had been appointed.

In January of this year we were delighted to announce the appointment of Andrew Duff as Deputy Chairman and Chairman-Designate, effective from 1 April 2014. The Board succession programme will continue under Andrew's chairmanship.

During 2014 Kevin Matthews and I will have served on the Board for more than nine years but, subject to shareholder support, we intend to continue in office for another year in the current period of Board transition. Kevin Matthews' appointment was renewed in February for another year and my appointment will also be renewed for another year in June. We will both retire and stand for re-election at the AGM in April. Whilst Kevin and I can no longer be considered independent under the UK Corporate Governance Code once nine years have been served, we will both continue to exercise the independent judgement which will provide continuity and stability to the Board during the process of change.

The Board's process of refreshing its composition will continue this year.

Governance
The Board considers that it has applied all the principles and provisions of the Corporate Governance Code in 2013. Further information about this and other aspects of our governance arrangements are set out in the Corporate governance report on page 26.

* before exceptional items

People
Our progress and achievements are only possible through the significant efforts and dedication of our employees around the world. I would therefore like to congratulate and thank them on behalf of the Board for their considerable successes during the year.

Outlook
The positive results and significant progress made by the Group in 2013, combined with a strong financial position, are further evidence that the Group is adopting the right strategy and has the appropriate resources to drive profitable growth and create value for all its stakeholders. The Board is therefore confident that the Group will continue to make progress.

Ian Brindle
Chairman
25 February 2014

Group Chief Executive's overview

David Dutro
Group Chief Executive

Dear Shareholders,

2013 has been another excellent year for Elementis with sales, operating profit, operating cash flow and earnings per share all showing a positive trend. We were able to leverage our diversified and broadly balanced portfolio of activities to deliver another year of solid results. In addition to our strong financial performance, we continued building the foundation for sustained growth by successfully executing a number of strategic initiatives.

EPS* moved to a record level for the fourth consecutive year, helping to drive total shareholder return to more than 400 per cent over the same period. Additionally, we announced total dividends in 2013 of 13.93 cents per share, which represents an 11 per cent increase over the previous year and a threefold improvement over the past 4 years.

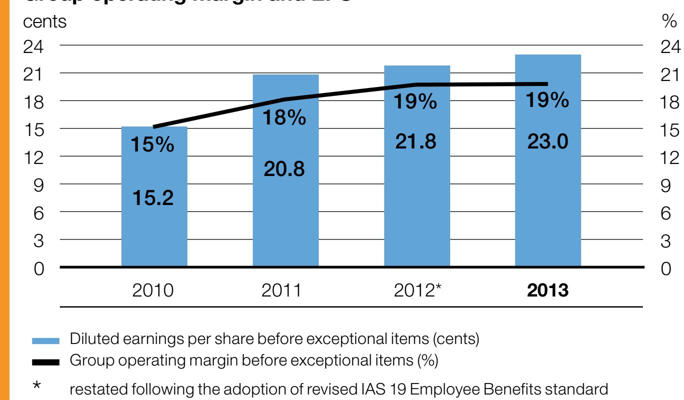
Throughout the year we continued to strengthen our business both organically and by acquisition. We introduced new products, built on existing and new applications and invested to meet our customers' growing demands. Among the many accomplishments of 2013 were:

- Another record EPS performance.
- Stable operating margins.
- Specialty Products:
  - 10 per cent growth in sales and operating profit*.
  - Hi-Mar and Watercryl acquisitions fully integrated and providing the anticipated synergy benefits.
  - Double digit growth in personal care and oilfield drilling.
  - Strong customer response to new decorative additives from recently commissioned New Martinsville plant.
- Strong cash flow – 22 per cent increase in special dividend.

Underlying everything we do is a constant focus on achieving increasingly higher levels of safety, operational and environmental performance. For the third consecutive year our safety and environmental performance improved around the globe. Our safety performance in 2013 was one of our best ever and, while we are encouraged by this positive trend, we know that even one incident is too many. Our strong safety culture and focussed efforts in improving process safety will help us progress towards our goal of incident free operations.

Elementis Specialty Products
Specialty Products provides solutions to its customers' challenges through superior technical service, application support and technically advanced products. We are a key supplier of performance critical products to the coatings, oilfield and personal care markets and our business provides an ideal growth platform with its well balanced geographic exposure across mature and emerging economies. Specialty Products continued to successfully execute its growth strategy, delivering its best year ever in terms of sales and operating profit. This performance was driven by market segment share gains, new product introductions, synergistic bolt on acquisitions, stable margins and operational efficiency. We firmly believe that making our customers more successful makes us more successful and it is this customer centric philosophy that remains the cornerstone of our strategy for new product development and technology investments. It is also a key component of our acquisition criteria.

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



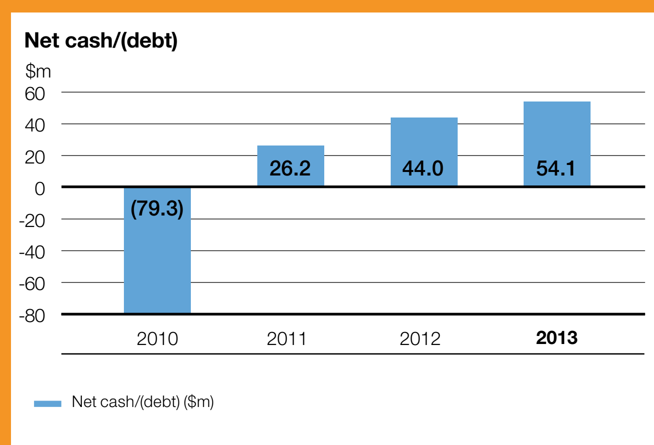
Each of the three Specialty Products segments – coatings, oilfield drilling and personal care – is strategically positioned to capitalise on one or more of the powerful global trends of a rapidly growing middle class in developing economies, the increasing longevity and urbanisation of the world's population and deep water and unconventional drilling for oil and natural gas. With the global middle class expected to nearly double by 2020, and with 85 per cent of this increase projected to come from faster growing emerging markets, we expect consumer preference to evolve towards Elementis products that are used in environmentally friendly high performance coatings. The growing global middle class is also enjoying greater life expectancy and is increasingly urban, creating significant opportunities for our innovative natural formulations in personal care. The increasing demand for energy around the world, and the relative environmental benefits of natural gas compared to coal, will drive activity in deep water and unconventional drilling. With over 20 years of experience in cutting edge technology and strong customer relationships in the energy drilling sector, Elementis is ideally positioned to fully benefit from the anticipated continued robust growth in deep water and shale gas drilling. While most of the growth thus far has been in the US, we are participating in exciting opportunities in a number of other regions as horizontal drilling and fracturing technology start to jump continents.

For the last few years, Elementis has focussed its technical resources to capitalise on these trends of a growing middle class, the increasing longevity and urbanisation of societies around the world and increasing deep water and unconventional oilfield drilling. To that end, our technology group applied for patents on 70 per cent of new products launched in 2013 and we expect higher revenue growth and margins on these sales. I am confident that Elementis is uniquely qualified to develop and supply innovative products and solutions that will allow our customers to take full advantage of the opportunities created by these trends. It is this unique and enviable position that convinces me that we are only beginning to unlock the earnings and growth potential of this business.

Specialty Products' global capabilities allow us to develop and leverage solutions for customers around the world. Already, approximately 40 per cent of its revenue comes from China, ASEAN countries and Latin America. In addition, our strong local presence in these fast growing regions allows us to truly understand our customers and to anticipate their specific needs in coatings, personal care and oilfield drilling applications. We expect this combination of Specialty Products' broad global capability and strong local management to deliver material growth for Elementis.

Elementis Surfactants

The Group has continued to benefit from improvements in the quality of the product portfolio of the Surfactants business and, as a result, operating profit* improved 17 per cent versus the previous year, on similar sales.



The business is located in Delden, the Netherlands, and shares its production facility with Specialty Products which represents an increasing proportion 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, achieving specialty chemicals margins. The strategy is succeeding as currently greater than 50 per cent of the facility's sales are generated from products manufactured for the Specialty Products business. The Delden team continues to do an excellent job of optimising business performance while executing this capacity transition strategy.

Elementis Chromium

Elementis Chromium is one of the largest suppliers of chromium chemicals in the world. From its efficient, flexible and scalable operations located in the US, it delivers a full range of chromium based products globally to a variety of end markets including timber treatment, metal finishing, refractory, metal alloy and leather tanning applications. 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 prides itself on maintaining the highest global standards for its environmental, health and safety systems.

Elementis Chromium's strategic focus is to deliver stable earnings and cash flow. The business has successfully executed this strategy, demonstrating consistently strong revenues, operating profit, margins and cash flow. This validates the stability and resilience of the business operating model over a wide range of economic and market conditions. The business got off to a slow start due to the impact of a scheduled kiln maintenance shutdown in the first quarter, but recovered as the year progressed in spite of a weaker global trading environment outside of North America. The Chromium team delivered $56.4 million of cash on operating profits* of $55.1 million, demonstrating once again the strong cash generation capability of this business. Our intention is to continue to utilise the cash from Elementis Chromium to preferentially invest in growing the Specialty Products business and rewarding shareholders with enhanced dividends.

Summary

I am extremely proud of the high performance culture we have built at Elementis and I would like to take this opportunity to thank all of our employees for their dedication and tireless commitment.

It is with tremendous gratitude that we bid a fond farewell to Robert Beeston, who retired from the Elementis Board at the end of July 2013 having served as Chairman of the Board from 2006 to 2013. He is a true gentleman and his thoughtful leadership and unwavering support have been truly appreciated.

While we anticipate 2014 to be a period of modest progress in global GDP growth, our internal performance targets and growth objectives are not predicated on an improvement in overall market conditions. Based on our strategic positioning, focus on innovation, strong product portfolio and healthy product pipeline, we remain confident in our ability to deliver profitable growth across a broad range of economic scenarios.

In closing, on behalf of the entire Elementis team I would like to sincerely thank our shareholders and customers for your support. We look towards the future with confidence and an unrelenting commitment to reward you for the confidence you have placed in us.

David Dutro
Group Chief Executive
25 February 2014

* before exceptional items

Our objectives, strategies and business model

Our objectives

Group
Deliver annual operating plans and year on year sustainable earnings growth.

Outperform the FTSE 250 Index for total shareholder return over each successive annual and 3 year period.

Maintain a strong balance sheet to provide financial stability and support investments in growth.

Manage key corporate and business risks and maintain high standards of business conduct, ethics and corporate responsibility.

Specialty Products
Grow the Specialty Products business profitably.

Chromium
Manage the Chromium business to deliver stable earnings and cash flow.

Surfactants
Transition the Surfactants product portfolio to higher margin specialty additives.

Our strategies

Group
Offer added value, high quality solutions tailored to our customers with strong technical support.

Manage businesses to deliver strong financial performance and cash flow.

Maintain well invested facilities, operational excellence, strong HSE performance and comply with laws and regulations.

Specialty Products
Growth from new products, markets, applications and geographies and complementary bolt on acquisitions.

Offer broad, differentiated and patent protected product portfolio, innovation and new product development.

Chromium
Optimise capacity utilisation and operating efficiencies, manage cost base, serve higher margin markets and maintain margin discipline.

Surfactants
Optimise profitability, operating efficiencies and commercial focus.

Our business model

Key inputs
Clear strategies and business priorities, leadership from the top and robust governance and risk management frameworks, policies and procedures.

Passionate and committed global workforce and an embedded culture of performance and customer service.

Long term customer relationships built on trust, strong focus on technical expertise, product innovation and providing a differentiated service to diverse markets.

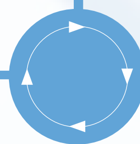
Excellent commercial, procurement and supply chain teams supported by strong global infrastructure.

Financial and operating discipline, well maintained facilities and strong functional support teams.

Key products
Specialty Products
Rheological modifiers, specialty additives, organoclays, defoamers, adhesion promoters, waxes and resins, flow and levelling additives, colourants and pigments, dispersing/wetting/slip and coalescing agents, and lanolin and other natural oil derivatives.

Chromium
Chromic acid, chromic oxide, sodium dichromate and chrome sulphate, with customised delivery system.

Surfactants
Wide range of surface active ingredients and products used as intermediates in the production of chemical compositions.



Key sales channels
Specialty Products
Long term customer relationships with global MNEs as well as sales to regional and local customers.

Global sales platform, solid infrastructure with cross-selling opportunities.

Manufacturing facilities, R&D centres and technical service labs in the Americas, Europe and Asia to support all our key markets.

Chromium
Sales to the North American market while selectively supplying the Latin American, European and Asian markets.

Surfactants
Long term customer relationships with global MNEs as well as sales to regional and local customers.

Key markets
Major regions supplied
North and Latin America, Europe and Asia.

Major segments/applications
Specialty Products
Industrial and decorative coatings, personal care and oilfield drilling.

Chromium
Metal finishing, super alloys, timber treatment, leather tanning, pigments, ceramics and refractory.

Surfactants
Oilfield production chemicals, construction chemicals, textiles and leather, household, plastics, resins and other niche markets.

Who is Elementis, what does it do...

Elementis is a global specialty chemicals company. Its largest and most profitable business, Elementis Specialty Products, is the core of our growth strategy and has the following key characteristics:

- Operating in diverse and highly segmented markets.
- Supplying products that are critical ingredients in its customers' formulations and essential to their performance, whilst representing a small proportion of the overall cost.
- Having a broad, differentiated and patent protected product portfolio, coupled with innovation and new product development.
- Long term relationships with customers that are based on mutual trust and collaboration, supported by strong technical service and expertise.
- High sustainable operating margins and return on operating capital.

In addition, Elementis is the owner of the only rheology grade hectorite mine in the world, which provides a key raw material and source of competitive advantage. Elementis Chromium supplies chromium chemicals that make its customers' products more durable and Elementis Surfactants supplies a wide range of surface active ingredients.

Common to all three businesses are the following:

- Profitable, strong cash generation and high level of return on capital.
- Well invested manufacturing facilities, operational excellence and a broad product offering to a wide range of customers and markets.
- Provision of a differentiated service to customers, offering tailored solutions and product innovation.
- Strong leadership, clear business strategies and high performance cross functional business teams, underpinned by robust governance and risk management frameworks, as well as a culture of maintaining high standards of business conduct, ethics and corporate responsibility.

...and why?

Ultimately, the strategy of the Company is to operate its portfolio of manufacturing assets and exploit its proprietary technologies and know how to supply products and services to customers, thereby creating value for shareholders. Key to achieving the above is the allocation and management of human and capital resources, as well as accessing and leveraging the appropriate market channels and supply chains. All of the above elements are an essential part of the process that forms our overall business activities in terms of the inputs, processes and outputs.

The things that matter most to our ability to be successful

The aspects of our business model most important to the preservation and creation of value can be summarised as follows:

- Clear objectives and business strategies.
- Strong leadership, governance and risk management, supported by Group policies, processes and controls.
- Intellectual property, innovation and new product development.
- Relationships with customers, suppliers and other stakeholders based on trust and collaboration.
- Strong financial resources, balance sheet and cash generation.
- Well invested manufacturing assets that are managed to deliver optimal performance.
- The passion, attitude, commitment and work ethic of all our employees around the world.
- Our global infrastructure and ability to access market channels.
- Culture of compliance with laws and regulations and maintaining high standards of business conduct, ethics and corporate responsibility.

How this section links in with other sections of the Annual Report

Areas of focus	Where you can find the information										
	Chairman's statement (p2)	Group Chief Executive's overview (p4)	Our objectives, strategies and business model (p6)	Our businesses (p8)	Key performance indicators (p15)	Risk management report (p16)	Corporate responsibility report (p20)	Corporate governance (p26)	Audit Committee report (p29)	Nomination Committee report (p32)	Directors' remuneration report (p33)
Development, performance and position	●	●		●							
Future prospects	●	●		●							
Strategy, objectives and business model			●								
Key performance indicators					●						
Principal risks and uncertainties						●			●		
Safety, environmental, employee and other social matters (including human rights)	●						●				
Gender diversity							●	●			
Governance	●							●	●	●	●

Our businesses

Group performance

Revenue

	Revenue 2012 $million	Effect of exchange rates $million	Increase/ (decrease) 2013 $million	**Revenue 2013 $million**
Specialty Products	458.7	5.7	38.4	**502.8**
Chromium	240.1	–	(25.3)	**214.8**
Surfactants	72.5	2.1	(2.4)	**72.2**
Inter-segment	(14.3)	–	1.3	**(13.0)**
	757.0	7.8	12.0	**776.8**

Operating profit

	Operating profit 2012 $million	Effect of exchange rates $million	Increase/ (decrease) 2013 $million	**Operating profit 2013* $million**
Specialty Products	90.1	2.5	6.5	**99.1**
Chromium	62.8	–	(7.7)	**55.1**
Surfactants	4.8	0.1	0.7	**5.6**
Central costs	(13.8)	0.5	0.1	**(13.2)**
	143.9	3.1	(0.4)	**146.6**

* before exceptional items

Elementis Specialty Products

Greg McClatchy
President of Elementis Specialty Products and Elementis Surfactants

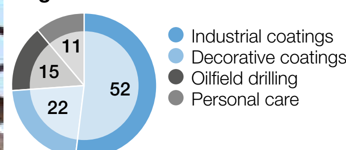
Our performance

	2013	2012
Sales	**$502.8m**	$458.7m
Operating profit*	**$99.1m**	$90.1m
Operating margin*	**20%**	20%
ROCE**	**38%**	40%

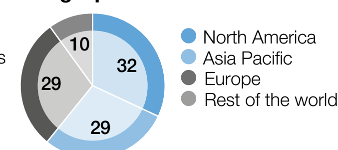
* before exceptional items
** before tax and excluding goodwill

Split of sales revenue

Segment %



Geographic %



Key facts

- We account for 65 per cent of Group sales and 68 per cent of Group operating profit* in 2013.
- We are based in 27 locations around the world, in North and Latin America, Europe and Asia, and our sales are broadly split between North America, Europe and Asia.
- We have over 900 employees globally, 12 manufacturing facilities, 3 research centres of excellence (including a process development facility), 6 technical service centres and 11 dedicated sales offices.
- Our top ten customers account for less than 24 per cent of total sales.
- In each key segment, the business has many competitors from multinationals to smaller privately owned businesses.

What we do

- We provide high value functional additives to the decorative and industrial coatings, personal care and oilfield drilling markets that improve the flow characteristics and performance of our customers' products or production processes.
- We have significant expertise in the science of rheology which, in its simplest form, means our technology imparts thickness and viscosity control. For example, paint without rheological additives would have the consistency of water but paint with our additives is smooth, homogeneous and has a controlled, even spread on a surface.
- The same requirements for rheological additives exist in personal care products, such as creams and lotions, and in oilfield drilling applications, providing viscosity control to thicken and suspend solids in drilling formulations and to stabilise stimulation packages used in the drilling process.

How and where we do it

For a description of what makes us successful, who and where our customers are and a list of our products and markets, refer to the 'Business model' section on page 6.

A map of our global locations is in the 'At a glance' section on the Inside Front Cover.

Key product applications

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

Key sector drivers

- Decorative coatings: regulatory trend towards low VOC, increasing consumer sophistication in emerging markets.
- Industrial coatings: increasing demand from customers for high performance coatings that enhance their products and exposure to higher growth emerging markets.
- Oilfield drilling: exposure to shale oil and gas.
- Personal care: increasingly sophisticated consumer demand and emerging market development.

2013 Performance

Specialty Products' sales in 2013 increased by 10 per cent compared to the previous year, or 8 per cent on a constant currency basis. The business continued to benefit from strong, diverse market positions in high growth areas, new product introductions and complementary acquisitions. Overall pricing and margins remained stable throughout the year, demonstrating the resilience of the business and the high value added nature of the product portfolio.

- In North America sales of coatings additives improved by 5 per cent, with acquisitions contributing 9 per cent to the year on year result. The underlying result was influenced by the fact that the first half of 2013 had a particularly strong comparative period in 2012. More normal trading patterns were experienced in the second half of the year and sales in that period improved by 3 per cent. Sales volumes, excluding acquisitions, were similarly impacted by these demand patterns and hence, while full year volumes were similar to the previous year, volumes in the second half grew by 9 per cent. Another feature of the North American coatings sales in 2013 was the increasing percentage of additives for decorative coatings compared to industrial coatings, as a result of new innovative product launches and the introduction of the new manufacturing plant in New Martinsville, West Virginia, at the start of the year. Additives for decorative applications have similar margins to industrial products but often have lower selling prices, hence the shift towards decorative products naturally led to the growth in sales volumes being higher than sales dollars.

  In Europe sales improved by 1 per cent, with currency contributing 2 per cent to the year on year comparison. The underlying economic activity in the region was more stable in 2013 but showed no material growth. Despite this, volumes were 5 per cent higher as the business was able to introduce new decorative products, improve market share with key customers and increase sales to Eastern Europe and the Middle East to deliver a solid performance with stable margins.

  Coatings sales in Asia Pacific improved by 8 per cent, with volumes up 11 per cent, as the business continued to deliver growth in excess of the underlying GDP for the region, with China representing almost 70 per cent of regional sales. Capital investments to support new products, exceptional technical service and manufacturing capabilities and an extensive sales network enabled the business to continue to gain market share in China and the rest of Asia Pacific.

  In Latin America sales improved by 48 per cent, largely due to the positive impact of the Watercryl acquisition in Brazil towards the end of 2012. The acquisition was fully integrated during 2013 and sales opportunities inside and outside of Brazil are providing early synergy benefits. Underlying sales improved by 4 per cent, with volumes up 5 per cent in the region.

- In Personal Care sales improved by 26 per cent as the business benefited from a variety of new hectorite formulations, the launch of the Rheoluxe range of products, expansion into emerging markets, particularly Asia and Latin America, and good growth in aerosol antiperspirants and colour cosmetics.

- Oilfield drilling sales were 14 per cent higher than the previous year, with volumes up 15 per cent, driven by strong fracturing and cold climate drilling in the US and Canada and the return of deep water drilling programmes in the Gulf of Mexico. Drilling activity in North America returned to more normal levels in 2013, having experienced a temporary slowdown in the second half of 2012 as inventory levels were corrected. Sales in the first half of the year were therefore similar to the previous year, while sales in the second half were 38 per cent higher.

Operating profit* in 2013 was $99.1 million compared to $90.1 million in the previous year, an increase of 10 per cent, or 7 per cent excluding currency movements. Operating margin* remained consistent with last year, at 20 per cent, demonstrating the inherent quality of the business in a period of strong sales growth and changes in sales mix. There were no material changes in overall raw material and energy costs compared to the previous year. Fixed costs, excluding acquisitions, increased by only 2 per cent, despite the introduction of a new manufacturing facility in the US and resource investments to support growth during the year, as strict cost management remained a key foundation of the business. Acquisitions contributed $1.2 million to the year on year increase in operating profit.

* before exceptional items

Our businesses continued

Elementis Chromium

Dennis Valentino
President of Elementis Chromium

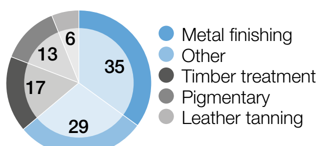
Our performance

	2013	2012
Sales	**$214.8m**	$240.1m
Operating profit*	**$55.1m**	$62.8m
Operating margin*	**26%**	26%
ROCE**	**52%**	65%

* before exceptional items
** before tax and excluding goodwill

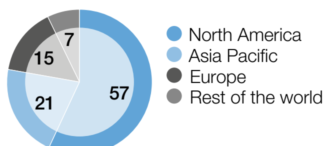
Split of sales revenue

Segment %



- Metal finishing
- Other
- Timber treatment
- Pigmentary
- Leather tanning

Geographic %



- North America
- Asia Pacific
- Europe
- Rest of the world

Key facts

- We account for 26 per cent of Group sales and 38 per cent of Group operating profit* in 2013.
- We are the only domestic producer of chromium chemicals in the US and operate from two major facilities in Castle Hayne, North Carolina, and Corpus Christi, Texas, and three smaller processing facilities supplying local tanneries.
- We have over 240 employees, most of whom are located in the US.
- Our top ten customers account for less than 52 per cent of total sales.
- The business has many competitors from multinationals to smaller privately owned businesses.

What we do

- We provide chromium chemicals to customers that make their products more durable and are used in a wide range of sectors and applications.
- Our reputation for quality and operational excellence and our high levels of customer service and technical support are key differentiating factors that enable us to develop long term, mutually advantageous relationships with our customers.

How and where we do it
For a description of what makes us successful, who and where our customers are and a list of our products and markets, refer to the 'Business model' section on page 6.

A map of our global locations is in the 'At a glance' section on the Inside Front Cover.

Key products and applications
- Chromic oxide: as a pigment in paints, decorative coatings, plastics, roofing tiles and ceramic tiles; in the construction of high temperature and abrasion resistant refractory brick for glass and fibreglass; and in the production of super alloy metals for use in aeroplane and land based turbines.
- Chromic acid: in plating metal and plastic to produce a strong, tarnish resistant chrome finish for appliances, automobiles and many other applications; and as a wood preservative for marine pilings, telegraph poles, landscape timbers and other industrial wood applications.
- Chrome sulphate: in tanning to produce high quality leathers for a wide range of end uses.
- Sodium dichromate: as an intermediate chemical to produce pigment for industrial coatings and traffic paint.

Key sector drivers
- Chromic oxide: construction, coatings, aircraft engines and gas turbines.
- Chromic acid: automotive, heavy/light machinery, construction and infrastructure.
- Chrome sulphate: beef consumption.
- Sodium dichromate: as above.

2013 Performance
Chromium sales in 2013 were 11 per cent lower than the previous year at $214.8 million. Sales volumes were 5 per cent lower than the previous year as a planned maintenance shutdown in the early part of the year reduced manufactured volumes. This was exacerbated by related pre-buying by customers towards the end of 2012, pulling some sales into that year. Regional sales continued to be influenced by the strategy of the business: operating with a fixed manufacturing volume and optimising the geographic and product sales mix to produce stable margins, earnings and cash flow. In 2013, sales volumes for leather tanning applications in North America continued to be soft as tanneries adjusted to lower herd sizes and sales to chrome sulphate converters outside of the US were curtailed. This reduction broadly matched the reduction in available volumes due to the maintenance shutdown. Hence sales volumes for other applications and for sales outside of North America were relatively stable compared to the previous year. Average selling prices in 2013 were 6 per cent lower than the previous year although this was partially offset by lower raw material costs.

Operating profit* for 2013 was $7.7 million lower than the previous year at $55.1 million, largely due to the reduction in sales volumes, while operating margin* remained stable at 26 per cent. Raw material and energy costs trended lower during the year, leading to lower selling prices, while other fixed costs remained tightly controlled and made a positive contribution to the year on year comparison. Currency movements had no material impact on sales or operating profit as the majority of sales and costs in the business are denominated in US dollars.

* before exceptional items

Elementis Surfactants

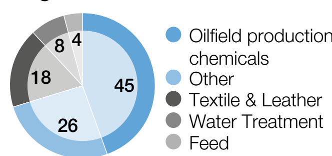
Our performance

	2013	2012
Sales	**$72.2m**	$72.5m
Operating profit*	**$5.6m**	$4.8m
Operating margin*	**8%**	7%
ROCE**	**25%**	25%

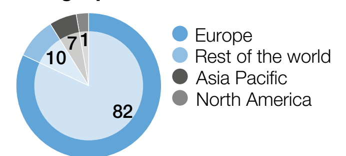
* before exceptional items
** before tax and excluding goodwill

Split of sales revenue

Segment %



Geographic %



Key facts
- We account for 9 per cent of Group sales and 4 per cent of Group operating profit* in 2013.
- We share a manufacturing plant in Delden, the Netherlands, with Elementis Specialty Products.
- We employ over 140 employees at our Delden site.
- Our top ten customers represent 73 per cent of total sales.
- The business has many competitors from multinationals to smaller privately owned businesses.

What we do
- We are in the process of transitioning to more higher margin specialty additives.
- Our facility is equipped with both continuous and multi-purpose batch reactors for a variety of chemical processes which, together with our expertise, allow us to produce a wide range of complex products, customised to meet our customers' requirements.

How and where we do it
For a description of what makes us successful, who and where our customers are, and a list of our products and markets, refer to the 'Business model' section on page 6.

A map of our global locations is in the 'At a glance' section on the Inside Front Cover.

2013 Performance
Sales in Surfactants in 2013 were broadly the same in dollar terms as the previous year, at $72.2 million, or 3 per cent lower on a constant currency basis. The majority of sales are denominated in euros. Sales volumes were 8 per cent lower than the previous year, which is in line with the strategy to transition the Delden facility over time to produce more higher margin additives for Specialty Products. Average selling prices increased by 4 per cent in response to higher raw material costs during the year.

Operating profit* increased to $5.6 million compared to $4.8 million in the previous year, as the business team continued to focus on higher margin products and disciplined cost management during the transition process. Consequently operating margin improved from 7 per cent in the previous year to 8 per cent in 2013.

Finance report

Brian Taylorson
Finance Director

Revenue

	2013 $million	2012 $million
Specialty Products	**502.8**	458.7
Chromium	**214.8**	240.1
Surfactants	**72.2**	72.5
Inter-segment	**(13.0)**	(14.3)
	776.8	757.0

Operating profit

	2013 Operating profit $million	2013 Exceptional items $million	2013 Underlying operating profit $million	2012 Operating profit $million	2012 Exceptional items $million	2012 Underlying operating profit $million
Specialty Products	**99.8**	**(0.7)**	**99.1**	90.1	–	90.1
Chromium	**44.6**	**10.5**	**55.1**	62.8	–	62.8
Surfactants	**6.9**	**(1.3)**	**5.6**	4.8	–	4.8
Central costs	**(6.4)**	**(6.8)**	**(13.2)**	(13.8)	–	(13.8)
	144.9	**1.7**	**146.6**	143.9	–	143.9

Group results
Group sales in 2013 were $776.8 million compared to $757.0 million in the previous year, an increase of 3 per cent or 2 per cent excluding currency movements. Strong sales growth was experienced in Specialty Products, helped by exposure to high growth emerging markets, new product launches, market share gains and two strategic acquisitions, while Chromium sales were lower due to the impact of a scheduled maintenance shutdown. Overall sales volumes for the Group improved, while pricing was relatively stable across Specialty Products and Surfactants, but lower in Chromium in response to lower raw material and energy costs.

Group operating profit* was $146.6 million in 2013 compared to $143.9 million in 2012 and Group operating margin* was stable at 19 per cent in each year. Improved earnings in both Specialty Products and Surfactants more than offset the lower earnings from Chromium and, overall, the Group benefited from growth in Specialty Products, stable margins and good cost control.

Currency hedging
Although a large proportion of the Group's business is transacted in US dollars, the Group also transacts in other currencies, in particular euros, pounds sterling and Chinese renminbi. In order to reduce earnings volatility from these currency exposures, the Group takes out cash flow hedges each year where these are readily available. In 2013 overall currency movements were such that the net impact of these hedge transactions was not material to Group operating profit, while in 2012 there was a credit of $1.2 million.

Central costs
Central costs are costs that are not identifiable as expenses of a particular business and comprise expenditures of the Board of directors and the corporate office. In 2013 central costs were lower than the previous year by $0.6 million, or 4 per cent, due to changes in variable compensation programmes and other structural cost savings.

Exceptional items
A number of items have been recorded under 'Exceptional items' in the 2013 'Consolidated income statement' by virtue of their size and/or one time nature, in order to provide a better understanding of the Group's results. The net impact of these items on the Group profit for the year is a charge of $1.7 million, with an associated tax credit of $1.8 million. The items fall into three categories, as summarised below.

(Charge)/credit	Post employment benefits	Environmental provisions	Other	Total
Specialty Products	1.1	(0.4)	–	0.7
Surfactants	2.2	(0.9)	–	1.3
Chromium	(3.2)	(6.3)	(1.0)	(10.5)
Central costs	–	7.4	(0.6)	6.8
Total	0.1	(0.2)	(1.6)	(1.7)

Post employment benefits – net credit of $0.1 million
In 2013 the Group settled a 2005 claim made by a group of its Dutch pensioners and, as a result, released the balance of a provision made at the time the claim was lodged. Consequently, a credit of $3.3 million has been recorded in the current year.

Following the closure of the chromium plant at Eaglescliffe, UK, in 2009 there remain a number of post employment payments to former employees that will continue for a period of time. The Group has concluded that it would be appropriate to make a provision for these payments under IAS 19 and has therefore recorded a charge of $3.2 million in the current year.

Environmental provisions – net charge of $0.2 million

A number of structural changes were made to the Group's provisions in 2013. First, a fixed term indemnity given by the Group to a third party in 1998 expired in 2013. As a result the related balance sheet provision has been released, creating a credit of $9.8 million. Second, during the year the closure plan for the Eaglescliffe site was finalised, in consultation with regulatory authorities, and adjustments were then made to the provision for closure costs. This resulted in a charge of $5.0 million. Third, the Group's environmental provisions are calculated on a discounted basis, reflecting the time period over which spending is estimated to take place. Due to changes in those time periods, the Group concluded that it would be appropriate to reduce the discount rate being used and this resulted in a charge of $5.8 million. Finally, other adjustments to existing provisions resulted in a credit of $0.8 million.

Other adjustments – net charge of $1.6 million

In 2013 the Group exited a long term office lease, resulting in a charge of $0.6 million. The Group also increased its provision for a 2002 dispute relating to the filing of an industry report with the US EPA, resulting in a charge of $1.0 million.

Other expenses

Other expenses are administration costs incurred and paid by the Group's pension schemes, which relate primarily to former employees of legacy businesses, and were $2.0 million in 2013 compared to $2.5 million in the previous year. Under the recently revised IAS 19 these costs are now required to be shown in the 'Consolidated income statement', rather than as part of the scheme deficit. In 2013 the costs were lower due to reduced spending by both the UK and Dutch schemes.

Net finance costs

	2013 $million	2012 restated** $million
Finance income	**0.2**	0.8
Finance cost of borrowings	**(2.5)**	(3.4)
	(2.3)	(2.6)
Net pension finance costs	**(4.5)**	(4.1)
Discount on provisions	**(1.8)**	(1.3)
	(8.6)	(8.0)

Net finance costs increased by $0.6 million in 2013 to $8.6 million, mainly due to modest increases in the financial cost of pension deficits and an increase in the discount charge on provisions. Net finance costs on borrowings and cash balances were lower by $0.3 million, at $2.3 million, as lower borrowing costs were offset by lower income from cash balances. Borrowing costs, which largely relate to arrangement and commitment fees on unutilised borrowing facilities, came down as a result of the refinancing of the Group's main borrowing facility in 2013. Income from cash balances was lower than the previous year because, although the year end cash balance was higher than the previous year, the average cash balances held during the year were lower. Net pension finance expense was higher than the previous year because, under IAS 19, the charge is based on the deficit value at the beginning of the year and the opening deficit in 2013 was higher than in 2012. The increase in the discount charge on provisions is related to the changes in the basis of the discount rate as discussed in the section 'Exceptional items'.

* before exceptional items
** restated following the adoption of IAS19 Employee Benefits standard

Taxation

Tax charge

	2013 $million	2013 Effective rate per cent	2012 restated** $million	2012 restated** Effective rate per cent
Before exceptional items	**29.4**	**21.6**	33.1	24.8
Exceptional items	**(1.8)**	**(1.0)**	–	–
Total	**27.6**	**20.6**	33.1	24.8

The tax charge of $27.6 million (2012: $33.1 million) represents an effective tax rate of 20.6 per cent (2012: 24.8 per cent) with the decrease in tax rate resulting from structural changes within the Group's financing arrangements, as well as changes in the geographic mix of profits.

Earnings per share

Note 9 to the 'Consolidated financial statements' 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 was 23.0 cents compared to 21.8 cents in the previous year**, with the improvement mainly due to an increase in operating profit* of $2.7 million and a reduction in tax rate from 24.8** per cent to 21.6 per cent. Basic earnings per share was 23.3 cents compared to 22.2** cents in 2012.

Distributions to shareholders

During 2013 the Group paid a final dividend in respect of the year ended 31 December 2012 of 5.32 cents per share (2012: 4.66 cents) and a special dividend of 4.79 cents per share (2012: nil). An interim dividend of 2.57 cents per share (2012: 2.45 cents) was paid on 4 October 2013 and the Board is recommending a final dividend for 2013 of 5.50 cents per share and a special dividend of 5.86 cents per share, both of which will be paid on 30 May 2014.

Finance report continued

Cash flow

The cash flow is summarised below.

	2013 $million	2012 restated** $million
EBITDA[1]	**170.5**	165.2
Change in working capital	**6.5**	(12.9)
Capital expenditure	**(35.0)**	(37.4)
Other	**1.9**	2.3
Operating cash flow	**143.9**	117.2
Pension deficit payments	**(26.8)**	(27.9)
Interest and tax	**(14.6)**	(15.7)
Other	**(1.5)**	(0.6)
Free cash flow	**101.0**	73.0
Dividends paid	**(58.3)**	(32.2)
Acquisitions and disposals	**(32.8)**	(24.0)
Currency fluctuations	**0.2**	1.0
Movement in net cash	**10.1**	17.8
Net cash at start of year	**44.0**	26.2
Net cash at end of year	**54.1**	44.0

1 EBITDA – earnings before interest, tax, exceptional items, depreciation and amortisation

The Group delivered another positive cash flow performance in 2013 and, as a result, increased net cash on the balance sheet by $10.1 million to $54.1 million. Contributing to the increase in operating cash flow in the year, EBITDA increased from $165.2 million to $170.5 million, in line with the increase in operating profit for the year. Cash flow relating to working capital was an inflow of $6.5 million compared to an outflow of $12.9 million in 2012. This positive change was mainly the result of two things. First, the cash outflow in 2012 was higher because of a strategic decision taken in 2012 to increase the level of chrome ore stocks held during that year. Secondly, in 2013 the timing of customer and supplier payments towards the end of the year was overall more favourable than in 2012. Capital expenditure in 2013 was $2.4 million lower than the previous year, at $35.0 million, although higher than depreciation for the year ($23.9 million), as the Group continued to invest in the growth of Specialty Products. Growth investments in the year totalled $12.6 million and included $9.3 million on the new decorative additives plant in New Martinsville, US, while spending on plant maintenance and productivity across the Group was $21.8 million (2012: $18.9 million) and included additional capital expenditure from acquisitions and the installation of a new systems platform at the Delden facility in the Netherlands. Pension deficit payments in 2013 were $1.1 million lower than the previous year at $26.8 million. The largest component of the payments relates to the UK plan, where payments under the existing funding agreement were at a similar level in both years. Interest and tax payments in 2013 were $14.6 million compared to $15.7 million in the previous year, with the modest reduction coming mostly from lower tax payments which were influenced by the timing of annual payments in various jurisdictions. Dividends paid in 2013 were $26.1 million higher than the previous year, at $58.3 million, largely as a result of the first payment ($22.0 million) under the special dividend programme. Acquisition spending in 2013 of $32.8 million relates primarily to the acquisition of Hi-Mar in the US, while the spending in 2012 relates to the acquisition of Watercryl in Brazil. Both acquisitions were made by the Specialty Products business.

Balance sheet

	2013 $million	2012 restated** $million
Intangible fixed assets	**382.1**	356.7
Other net assets	**107.7**	78.5
Net cash	**54.1**	44.0
	543.9	479.2
Equity	**543.9**	479.2

Group equity increased by $64.7 million in 2013, consistent with the profit for the year, after dividends paid and changes in pension liabilities. Intangible fixed assets increased by $25.4 million in the year, largely due to the acquisition of Hi-Mar in the year. Other net assets increased by $29.2 million, with the main drivers being a reduction in pension liabilities of $38.1 million, as discussed below, and an increase in net tax liabilities of $23.8 million reflecting the impact of tax on profits for the year which were higher than tax actually paid out, plus the tax effect of a fall in pension deficits. Net cash increased by $10.1 million as described in the previous section.

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

	2013 Year end	2013 Average	2012 Year end	2012 Average
Pounds sterling	**0.60**	**0.64**	0.62	0.63
Euro	**0.73**	**0.75**	0.76	0.78

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 2013 the Group held provisions of $38.1 million (2012: $40.5 million) relating to environmental, site closure and self-insurance, as detailed in the table below.

	Environmental $million	Site closure $million	Self-insurance $million	Total $million
At 1 January 2013	21.9	15.7	2.9	40.5
Charge to income statement	1.2	0.8	0.8	2.8
Exceptional items	(4.2)	4.4	–	0.2
Utilised during the year	(2.0)	(3.2)	(0.5)	(5.7)
Currency translation differences	0.2	0.1	–	0.3
At 31 December 2013	**17.1**	**17.8**	**3.2**	**38.1**

During the year there were a number of significant structural changes to provisions, the impact of which is shown as 'Exceptional items' in the above table and more details are provided in an earlier section of this report. These changes reduced environmental provisions by $4.2 million due to the reversal of a legacy provision of $9.8 million, offset by changes in the basis of the discount rate used and other smaller adjustments. They also resulted in an increase in Chromium UK closure provisions of $4.4 million due to net additional forecasted spending, changes in the basis of the discount rate used and other smaller adjustments. Other items shown in the table include 'Charge to income statement' which mostly represents the accrual of discount to reflect the time value of money and, in the case of self-insurance, represents adjustments to estimated future claims. 'Utilised during the year' describes cash payments made in the year in each category.

Pensions and other post retirement benefits

	2013 $million	2012 restated** $million
Net liabilities:		
UK	**66.1**	72.9
US	**23.1**	51.3
Other	**10.1**	13.2
	99.3	137.4

UK plan

The largest of the Group's retirement plans is the UK defined benefit pension scheme ('UK Scheme') which had a deficit under IAS 19 of $66.1 million at the end of 2013, compared to $72.9 million at the end of 2012. The UK Scheme is relatively mature, with approximately 65 per cent (2012: 66 per cent) of its gross liabilities represented by pensions in payment, and is closed to new members. The deficit under IAS 19 declined in 2013 due mainly to a positive return on assets of 7 per cent (2012: 5 per cent) and deficit contributions from the Company of $21.4 million (2012: $21.1 million), which partly offset the financial cost of the liabilities of $30.6 million (2012: $33.2 million) and other liability adjustments of $26.9 million (2012: $57.5 million). Other liability adjustments included the impact of a decline in real bond yields by 20 basis points (2012: decline of 30 basis points). Future deficit contributions from the Company are defined in an agreement with the trustees of the scheme that was concluded in 2012, based on a valuation as of 30 September 2011. Under the agreement the Company will make the following future payments in pounds sterling:

Year payable	Amount £million
2014	**24.8**
2015	**14.9**
2016	**11.0**
2017	**9.8**
2018	**9.8**

US plans

At the end of 2013, post retirement plans in the US consisted of a defined benefit pension plan with a deficit value of $15.6 million (2012: $42.8 million) and a post retirement medical plan with a liability value of $7.5 million (2012: $8.5 million). The US pension plan is smaller than the UK Scheme and is closed to future accruals. In 2013 the deficit in the plan declined by $27.2 million (2012: increased by $1.4 million) due to a positive return on plan assets of 22 per cent (2012: 13 per cent), employer contributions of $2.4 million (2012: $6.8 million) and other positive liability adjustments of $10.6 million (2012: negative $12.7 million). The other adjustments were favourably influenced by an increase in real bond yields of 80 basis points (2012: decrease of 60 basis points).

Other plans

In the Netherlands, the Group operates an insured defined benefits plan as is customary in that country. At the end of 2013 the deficit value for this plan was $3.7 million compared to $9.9 million in the previous year. The decline was due mostly to the settlement in the year of a 2009 claim made by a group of pensioners in relation to plan changes dating back to 2005, further details of which are included under the section 'Exceptional items'. Other liabilities amounted to $6.4 million (2012: $3.3 million) and relate to pension arrangements for a relatively small number of employees in Germany, as well as additional provision in 2013 for benefits relating to the Eaglescliffe site as discussed in the 'Exceptional items' section.

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

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 earnings per share, 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, before exceptional items, to sales. The Group achieved an operating profit* of $146.6 million for the year ended 31 December 2013 (2012: $143.9 million before exceptional items). The Group's operating margin* was 19 per cent compared to 19 per cent in 2012.

2. Average trade working capital to sales ratio

The trade working capital to sales ratio is defined as the 12 month average trade working capital divided by sales, expressed as a percentage. Trade working capital comprises inventories, trade receivables and trade payables. It specifically excludes prepayments, capital or interest related receivables or payables, changes due to currency movements and items classified as other receivables and other payables. The Group's 12 month average trade working capital to sales ratio at 31 December 2013 was 20 per cent (2012: 19 per cent).

3. Return on operating capital employed

The return on operating capital employed ('ROCE') 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 ROCE was 41 per cent for the year ended 31 December 2013 (2012: 45 per cent).

ROCE for the Group including goodwill was 21 per cent in 2013 (2012: 23 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 3 LTAs in 2013 (2012: two).

5. Contribution margin

The Group's contribution margin, which is defined as sales less all variable costs, divided by sales and expressed as a percentage, in 2013 was 37 per cent (2012: 38 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 2013 the operating cash flow was $143.9 million (2012: $117.2 million).

* before exceptional items
** restated for updated provisional fair value adjustments

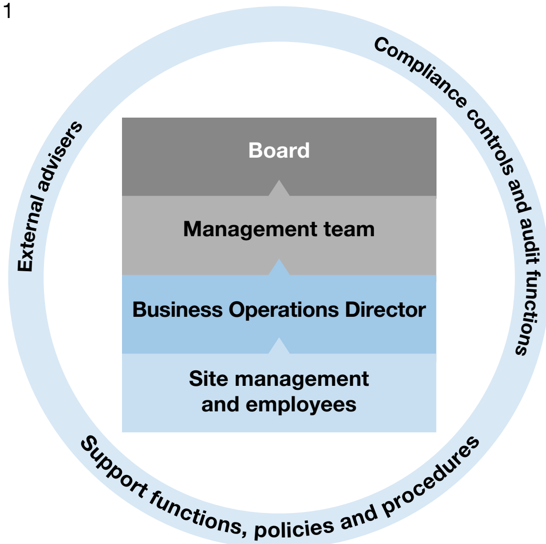
Risk management report

The governance framework at Elementis is well defined internally. The Board is responsible for preserving and generating value for shareholders, while ensuring that the Group's business activities are operated in compliance with applicable laws and regulations, as well as in a responsible manner as regards business conduct, ethics and its health, safety and environmental performance.

The Board defines strategic direction in conjunction with the management team and monitors the performance of the businesses in all material aspects of their operation, while the management team is responsible for managing all businesses activities and delivery of the Group's strategic objectives and annual operating plans. This requires identifying both opportunity and risk and leveraging these to the Group's advantage.

The management of risk is integrated into the general management function which means all layers of management have a responsibility for identifying, assessing and communicating risk upwards in the chain of management. To support this approach, the Group has risk management policies, procedures and controls in place. The lean operational management structure operated, as shown in Figure 1 below, ensures this approach is effective.

Figure 1



Risks are identified and grouped according to standard classification systems as shown in the table below which also gives examples of different threats within each risk category.

Risk category	Examples of threats
Strategic	Loss of competitive focus, M&A, R&D or key supply chain failure.
Operational	Resource allocation failure, HSE or IT incident.
Financial	Credit, liquidity or fraud.
Compliance	Breach of laws, operating permits or Group policies.
Hazard	Hurricane, typhoon or litigation.

Risk awareness training is an important part of our risk management so that managers in different roles and functions can recognise, identify and communicate risks to the business leadership and management teams. On a monthly basis, the management team reviews business performance and all material risks to the business and the Group's ability to deliver its operating plans are discussed. These risks can be from any of the above risk categories.

Twice a year the management team also carries out a more formal risk review. The first part of the process requires all sites and functional departments to complete comprehensive risk assessments that are compiled into risk maps and registers which are then reviewed by the business leadership and management teams, together with risk scores to estimate the financial impact to the business and their likelihood of occurrence, as well as the risk controls and mitigation action taken. The second part is a review of the Group's business continuity plans with scenario testing and training at corporate and site level.

The output from these exercises is shared with the Board. Management reports are also discussed at monthly Board meetings and HSE performance is reported to the Board on a regular basis.

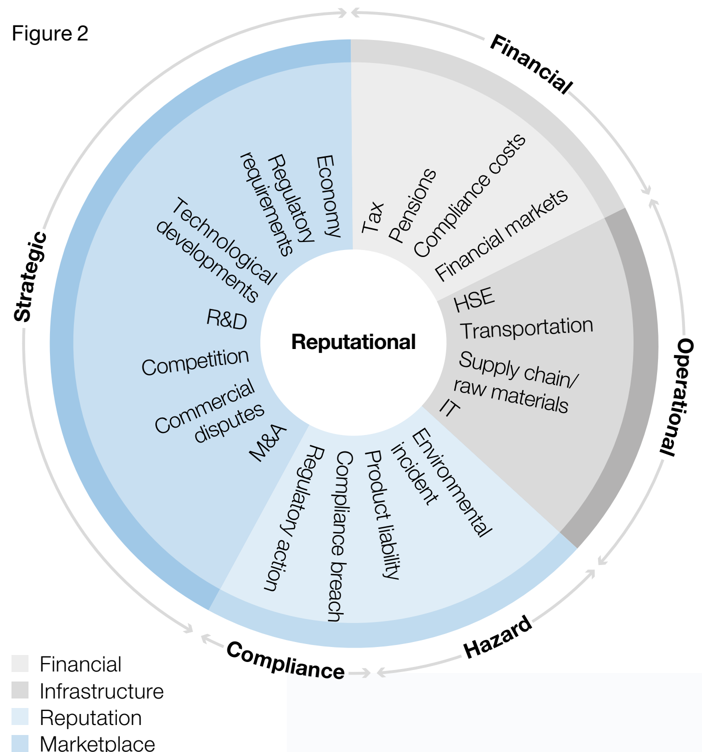
The principal risks and uncertainties identified by the management team and approved by the Board are shown in Figure 2 below (see also table on pages 18 and 19).

Figure 2 shows the major risks to the Group, illustrates which aspects of operations they can potentially impact and groups the different risks together using the FIRM risk scorecard approach[1].

The risks disclosed are broadly the same as disclosed in previous years, with little change in risk profile and no new material risks identified. The Group monitors a broad Top 20 risk grouping, analysing the risk profile for each (whether it is increasing, decreasing or stable, by reference to probability and severity of impact pre and post mitigation). The composition of this broad grouping is fairly stable. Management understands the businesses well and the associated risks and opportunities, although benchmarking and use of survey studies are used to retain a fresh perspective.

The risks shown in Figure 2 and the associated mitigation actions were discussed by the management team and reviewed by the Board. To assist shareholders to understand better how these risks can impact the Group and its businesses, the following commentary is given to provide further context.

Figure 2



1 A structural approach to Enterprise Risk Management (ERM) and the requirements of ISO 31000, AIRMIC, Alarm, IRM, 2010.

Safety and environmental compliance is a key priority and, as a chemicals manufacturer, our facilities are subject to many regulations and managed to an even higher standard. Of our 18 operating facilities, 5 have achieved ISO 14001 certification, 3 have achieved OSHA's 18001 certification and our other sites are managed to similarly high standards. An example of where we have gone beyond regulatory requirements is at our principal chromium facility in Castle Hayne, North Carolina, which has achieved the comprehensive performance based criteria to be accredited in the STAR programme. This accomplishment is the highest recognition level under OSHA's voluntary protection programme, which recognises employees and employers who have achieved exemplary occupational safety and health. Our performance in the 'Corporate responsibility' report shows that we manage HSE risks to a high standard and this will continue to be one of our main priorities.

Supply chain risk is another major focus of the business since the ability to supply customers can be affected by disruptions due to economic uncertainties or caused by severe weather patterns. However, we have developed close relationships with our supply chain partners and taken action to broaden our supplier base. For example, in recent years we have broadened the number of chrome ore suppliers to the business. Another example of risk mitigation concerns our hectorite mine in Southern California which experienced 2 instances of severe flooding over the past 15 years, the last being in 2005. 2 years ago we installed drainage pumps inside the mine which will help to restore operations more quickly and minimise business disruption. We also maintain strategic holdings of key raw materials, such as chrome ore and hectorite clay, and carry business interruption insurance.

The main climate change risks are more frequent and severe hurricanes on the east coast of the US and typhoons in China and Taiwan. However, our businesses have procedures in place, including implementing a planned shutdown, and business continuity plans are maintained and rehearsed to mitigate the consequences of these events. An example of a recent event is that our Anji facility in China was impacted by Typhoon Fitow last year which disrupted operations for 3 to 4 weeks. However, for incidents like this, the Company carries business interruption insurance.

Marketplace risks, as shown, cover a wide range of risks. The risk having the highest potential impact on the Group financially is the economic environment. However, the Group has a broad geographic presence, mitigating the impact of economic changes in any one country. One of our principal priorities is staying focussed and delivering our customers with tailored differentiated solutions, a strategy that has helped us remain competitive. This has been boosted by our innovation model which has developed products to enable us to reach new customers, markets and geographies. Major investments and capital expenditure items are subject to authority limits and review by management and the Board.

Financial and compliance risks are well defined, understood and managed; further details are described in the Audit Committee report.

Our approach to taxation is to ensure that profits are earned in the countries in which economic activities are undertaken and that those profits are properly subject to tax in accordance with the tax legislation which applies in each jurisdiction. We aim to comply fully with the requirements and expectations of each of the relevant tax authorities and to ensure that we deal with these authorities in an open and transparent manner.

The table below describes risk management responsibilities in the Group.

Areas of focus

	Board	Management team	Business leadership	Operational management	All employees
Risk appetite and tolerance	●				
Risk management culture, resources and organisation		●			
Risk communication and identification		●	●	●	●
Risk assessment and analysis		●	●	●	●
Risk mitigation and control		●	●	●	
Reporting and monitoring performance	●	●	●	●	
Risk assurance	●	●			
Reviewing risk management framework	●	●			
Strategic risk	●	●	●		
Operational risk		●	●	●	
Financial risk	●	●	●		
Compliance risk	●	●	●		
Hazard risk			●	●	●
Reputational risk	●	●	●		

Our flat management structure and holistic approach allow for a high degree of communication and control throughout the organisation. This multi-purpose, multi-focus business review approach to risk by different layers of management is augmented by external support and compliance audits where appropriate. For example, our insurance programme includes an annual programme of rolling property inspections and our HSE performance is also subject to periodic external audit by HSE third parties. The Group's internal audit programme is another key aspect of our compliance monitoring and assurance process, focussing mainly on financial, operational and compliance controls.

In terms of keeping the views of our major shareholders under consideration, Elementis has robust procedures in place to ensure that the views of shareholders are known. These include regular management meetings with major shareholders and maintaining a strong flow of information from the Group's corporate brokers to the Board, to ensure that market expectations and the views of major shareholders and analysts are taken into consideration by the Board when setting priorities. Two important issues in this regard are executive remuneration and decisions concerning accounting policies and disclosures. These are more fully explained in the respective reports of the Remuneration and Audit Committees.

Risk management report continued

Principal risks and uncertainties

Risk	Impact	Mitigation
1. Global economic conditions and competitive pressure in the marketplace.	• Sub-optimal global economic conditions can affect sales, capacity utilisation and cash generation, as well as increase competitive pressure in the marketplace, impacting profitability and operating margins. • The resultant non-delivery of operating plans can lead to market expectations of Group earnings not being met.	• Specialty Products is well positioned against a deterioration in economic conditions due to its balanced geographic footprint, broad differentiated product offering and the broad application of its technology across different sectors. • Chromium business model is flexible and can be adapted to respond to variances in regional demand patterns. • Financial performance (including monthly sales, profit and cash flows) is closely monitored with full year forecasts updated three times a year and variances explained and investigated. • Contingency and cost reduction plans can be implemented in the event of an economic downturn to reduce operating costs, including freezing salaries and non-essential capital expenditure items.
2. Growth opportunities (including acquisitions) and product innovation may not materialise.	• As above.	• Organic and acquisitive growth is a priority for the Board and a key area of focus for the management team. • Experienced Board and management team, robust due diligence processes and support of professional advisers. • Capacity expansion programmes are being implemented to ensure the business can supply to high growth markets. • Regular Board reports on new product pipeline and progress on R&D projects.
3. Raw materials/ supply chain.	• Disruption to supply chain, key raw materials, infrastructure (eg IT networks or transportation) and energy price stability can impact capacity utilisation and add to operating costs.	• Raw materials are sourced from a broad and diverse supplier base. • Strategic holding of key raw materials. • Transport and carrier mitigation plans and insurance in place. • Energy costs are hedged where possible.
4. Major regulatory enforcement action, litigation and/or other claims arising from products and/ or historical and ongoing operations.	• Can lead to higher operating costs and reputational damage.	• Active compliance and risk management programmes in place (including policies, procedures and training). • Insurance programme and risk transfer strategy in place to mitigate financial losses. • Experienced General Counsel supported by in-house and external legal teams. • Regular reviews of litigation and compliance reports by the Board and role of the Audit Committee, as well as the internal audit programme, help ensure these key risks are managed effectively.
5. UK pension fund.	• Volatile financial markets, poor investment returns and increased life expectancy can all result in higher funding costs.	• Pension investment strategy includes significant element of liability matching, including the use of interest rate and inflation hedging instruments. • Options for pension de-risking periodically reviewed. • Deficit funding plan agreed with UK pension scheme trustees through to 2018.

Risk	Impact	Mitigation
6. Regulation/ technological advances.	• New technology, methods of production or processes can give competitors a market advantage. • New regulations restricting the use or carriage of chemicals can lead to loss of applications and sales and/or add to operating costs.	• R&D team aims to develop new products and technologies for use in an evolving market to meet the changing needs of our sophisticated customers. • Active REACh programme in which the businesses participate in industry consortia, providing data and information to regulators and experts, to support safety reviews of our products in a broad range of applications.
7. Major event or catastrophe (eg IT failure or operations incident).	• Such incidents can impact capacity utilisation and add to operating costs.	• Good housekeeping, preventative maintenance and other safety procedures help to mitigate the effects of a major incident. • Reliance on hectorite mine and flood risk mitigated by the installation of drainage pumps at the mine in 2011. • Insurance programme and business continuity plans that are tested regularly help to mitigate the effects of a major incident. • HSE management programme with environmental compliance audits in place.
8. Major disruption to global or regional banking systems.	• Volatile financial markets and/or major disruptions to global or regional banking systems can affect liquidity, the ability to access cash, make payments and fund operations, and lead to higher operating costs.	• Company was in a net cash position at the year end with extensive borrowing facilities in place, so any impact is unlikely to materially impact on the ability to trade and fund operations. • Company cash is deposited with a syndicate of banks with high credit approval ratings. • Company has a strong unleveraged balance sheet so could raise alternative sources of funding in emergencies. • Treasury policies implemented and compliance monitored, strong focus on cash management with weekly cash reports so that cash requirements are known in advance.

These principal risks and uncertainties should be read in conjunction with the note on contingent liabilities on page 88.

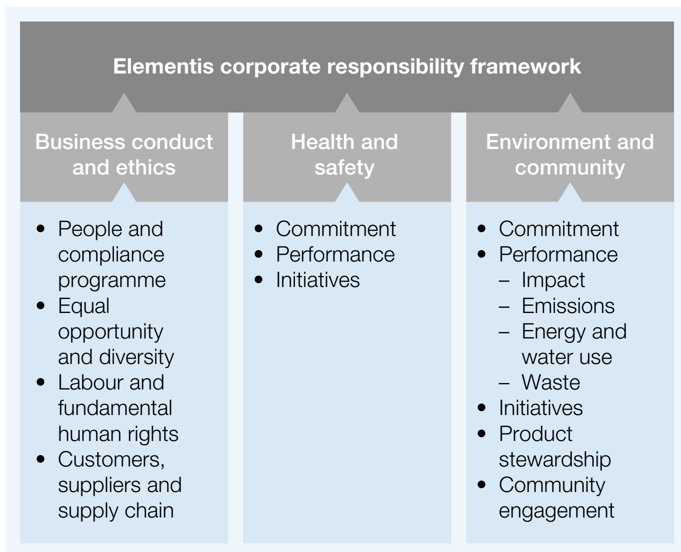
Brian Taylorson
Finance Director
25 February 2014

Corporate responsibility report

Introduction
Elementis recognises that corporate responsibility ('CR') is a fundamental part of the Company's business activities, which is why the Chief Executive is responsible at Board level for all CR matters.

FTSE4Good

The Company has since September 2009 been a member of the FTSE4Good Index, a leading global responsible investment index, which demonstrates the Company's commitment to CR and that its activities and aspirations are aligned with the principles of the UN Global Compact on human rights, labour, environment and anti-corruption. Below is an illustration of the Company's CR framework.



Business conduct and ethics

People
The long term success of the Group depends on the passion, attitude, commitment and work ethic of all our employees around the world. It is our people who remain our most valuable asset and are a key differentiator between Elementis and its competitors.

The high expectations Elementis has for all of its employees around the world are set out in the Group's Code of Business Conduct and Ethics (the 'Code'). The Code is supplemented by policies, processes and guidelines covering a wide range of compliance matters, such as anti-bribery and corruption, conflicts of interest and compliance with local laws and regulations, which are supported by whistleblowing procedures including an anti-retaliation policy. All employees are required to undertake training on the Code and certify that they understand and agree to be bound by its provisions. The Board and management team consider the Code to be critical to the Group's continuing success and in how it meets its corporate responsibilities.

In 2013, our training programme on the Code was translated into a sixth language, Portuguese, to extend its accessibility to our employees in Brazil and bi-annual refresher training was provided to nearly 50 per cent of our global workforce to help employees stay up to date with their responsibilities under the Code.

Policies are updated as necessary and new ones implemented to take account of the changing business environment with associated training provided. For 2014, training will focus on a number of updated policies including the Global anti-corruption policy and a new Group computer usage and social media policy.

Diversity
Elementis is fully committed to equality of opportunity. We apply a policy of non-discrimination throughout the Group and to all aspects of our employment policies, except as it relates to a person's ability or potential in relation to the needs of a job. A summary of our employment policies appears on page 49 of the Directors' report. We have a total workforce (including contractors and temporary workers) of over 1,300 in three regions (44 per cent in the Americas, 25 per cent in Europe and 31 per cent in Asia). In terms of gender diversity, out of our total workforce (excluding contractors and temporary workers) as at the year end, 963 were male (76 per cent) and 312 were female (24 per cent). Of these female employees, 50 (16 per cent) held managerial positions and nearly 40 (13 per cent) held an executive management position (within the four tiers below Board level). At Board level 5 directors were male and 1 was female and at senior manager level (as defined under the prescribed regulations) 19 were male and 1 female. The Group does not consider targets or quotas to be appropriate for increasing the percentage of women in management positions. Staff turnover across the Group, for 2013, was under 1.2 per cent (2012: 0.5 per cent).

Human rights
Elementis supports fundamental human rights, such as the right to privacy, safety and to be treated fairly, with dignity and respect. These fundamental principles are supported by Group policies, such as our anti-harassment policy and grievance procedures. Our employment policies reflect the UN Global Compact principles concerning the prohibition of child and forced labour, freedom of association, equality of treatment and non-discrimination. Currently over 40 per cent of our employees are union members and over a fifth are subject to collective bargaining agreements.

Further information on the Code, the Group's compliance programme and human rights at Elementis can be found on our website at: **www.elementisplc.com/governance-responsibility**

Customers, suppliers and supply chain
Each of our business strategies has as its cornerstone an intense focus on our customers with the goal of offering value added, high quality solutions that are supported by strong technical service. Best in class technical service and innovative product development are critical elements in helping our customers be successful and in how we differentiate ourselves from our competitors. Our success is driven by our close customer relationships, key account business process and participation in trade shows and industry forums.

We have continued to address questions from our customers on social responsibility and environmental awareness programmes and have successfully completed a number of surveys and informal audits. Training worldwide for all procurement members continues to ensure compliance and adherence to our Purchasing Code of Practice and anti-corruption policy. Suppliers are likewise expected to affirm their conformity to international labour laws, social and environmental responsible legislation and best practices. Conflict minerals continue to be absent from our supply chain.

Use of natural products within our supply chain grew by $1.3 million in 2013 and is now up to $17.1 million annually. This represents a rise of 8 per cent from 2012 ($15.8 million).

Health, safety and environment

Elementis takes active steps to protect the health and safety of its employees, contractors and visitors, and to preserve the environment. Biodiversity is protected wherever possible by reducing the potential for significant damage to sensitive species, habitats and ecosystems. The Group also recognises a shared responsibility globally for conserving natural resources and reducing greenhouse gas emissions.

The Group has a well established health, safety and environment ('HSE') management system that is aligned with international standards which includes: corporate policy, annual objectives, internal and external auditing, incident reporting and investigation, metrics, management review and emergency preparedness. See also page 17.

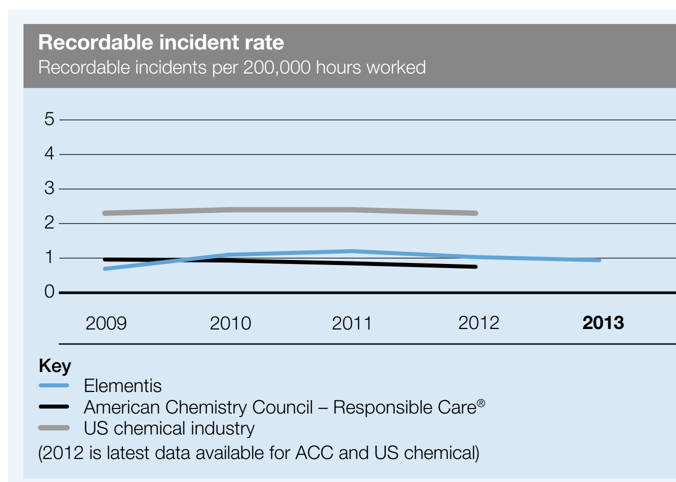
Further information about the Group's approach to health, safety and environmental matters can be found on our website at: **www.elementisplc.com/governance-responsibility/health-safety-and-environment-policy-values/**

Health and safety performance

The Company continually strives to eliminate accidents and injuries within the workplace. This is achieved through maintaining our strong focus on, and commitment to, safety design, a safe environment, setting and communicating safety standards, training, encouraging safe behaviours and developing a safety culture.

The Group uses recordable incidents as its principal measure of safety performance. Recordable incidents (as defined by the US Occupational Safety and Health Administration) are basically work related injuries and illnesses that require medical treatment beyond first aid, work restrictions to normal duties or time away from work. To monitor performance and trends among more serious injuries and illnesses, the Group also records lost time accidents ('LTAs') that require greater than three days away from work not including the day of incident. The number of recordable incidents across the Group in 2013 was 12 (2012: 13 – restated). Of the 12 recordable incidents only three required time away from work greater than three days (2012: two). Of particular note is our hectorite mine in Newberry Springs, California, which has achieved 22 years without a lost time accident, and the Chromium facility at Corpus Christi, Texas, which has achieved 10 years without a recordable injury or illness.

As well as the total number of recordable and lost time incidents, the Board uses the overall recordable incident rate as a performance indicator. The total recordable incident rate in 2013 was 0.95 per 200,000 hours worked (2012: 1.03 – restated). Within the chemical industry, the sustained performance of Elementis is comparable to companies that are generally viewed as having 'industry best' safety performance (based on data for the American Chemistry Council – Responsible Care® members, 0.75 in 2012), which is significantly better than the general chemical industry in the US (2.3 in 2012 based on latest data available from the US Bureau of Labor Statistics).



Elementis sites use contractors regularly and their safety is just as important as the safety of employees and they are required to comply with the same policy and procedures. In 2013, contractors suffered five recordable injuries (2012: zero), which equated to an incident rate of 2.35 per 200,000 hours worked. None of the contractors sustained serious injury.

Health and safety initiatives

During 2013, our health and safety leadership team has continued to work on a number of improvement initiatives, such as a further roll out of our 'Basic Safety Process' programme, process hazard analysis for all our site operations and focussing on hazard recognition skills at employee level including the use of visible operational metrics and HSE scorecards.

Environmental performance

Elementis seeks to minimise the impact of its operations on the environment and contribute to a more sustainable future. 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 throughout the supply chain.

Elementis records and categorises environmental incidents into tiers based on the severity 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 and where enforcement action is likely. 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.

In 2013, Elementis had no Tier 3 or Tier 2 incidents (2012: zero).

Environmental impact

Elementis monitors key environmental statistics of each facility, such as emissions, effluent and disposal and reports the significant aspects. These results are affected by changes in the fuel, processes, product mix and plant efficiencies, which may change with production volume. As is standard practice in the chemical industry, emission values may be calculated from energy use or based on representative sampling, as well as continuous monitoring. It should be noted that water and energy consumption, emissions, discharges and waste generated are all influenced by production output and special events. An increase or decrease does not necessarily mean performance in these areas has or has not improved.

Emissions to air

The Group is committed to reducing emissions to air that pollute or have a global warming potential.

Emissions of the oxides of sulphur and nitrogen and volatile organic compounds ('VOCs') arising from the Group's operations are controlled to comply with regulatory permits. As the volumes are not considered to be significant, they are not reported separately here. Any emissions to air above regulatory permitted levels would be reported as environmental incidents.

Corporate responsibility report
continued

Greenhouse gas emissions

Elementis now reports greenhouse gas ('GHG') emissions for its global operations in a more comprehensive way than previously. In addition to emissions arising from fuel combustion and process reactions, emissions associated with the use of electricity and steam are also reported (Scope 1 and Scope 2 emissions respectively under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013). In this first year (2013 being designated as the base year) there is no comparison with previous years. Future years will show comparisons with the previous year and the base year.

The principal GHG due to operations at Elementis locations are carbon dioxide, with a negligible quantity of nitrous oxide. GHG emissions have been converted into carbon dioxide equivalent ('CO_2e') using official data provided by DEFRA. GHG emissions are reported for all 20 manufacturing sites including principal offices and laboratories. A number of much smaller sales offices have been excluded because the level of CO_2e emissions were deemed to be too immaterial.

Elementis is providing two intensity ratios. Tonnes CO_2e per tonne of production and tonnes CO_2e per kWh of energy consumed. Both will provide in future years an indication of energy efficiency improvements including cleaner fuels consumed. These ratios are subject to variations due to changes in the mix of products manufactured, volumes and energy efficiency improvements. For example in 2013 the Specialty Products site at Livingston, Scotland, made energy efficiency improvements that resulted in site savings in CO_2 emissions of 5.7 per cent on a year on year basis, or a 7.2 per cent reduction on a production adjusted basis. 100 per cent of the electricity supply to the Livingston site in 2014 will be from renewable sources.

GHG emissions for 2013 are shown below.

Greenhouse gas emissions		
Scope 1: Combustion of fuel and operation of facilities	221,076	tonnes CO_2e
Scope 2: Electricity and steam purchased for own use	89,500	tonnes CO_2e
TOTAL – Scopes 1 & 2	**310,576**	**tonnes CO_2e**
Intensity ratio: tonnes CO_2e/tonne production ('t/t')	0.773	t/t
Supplementary intensity ratio: kg CO_2e/kWh energy consumed ('kg/kWh')	0.270	kg/kWh

The Group is committed to reducing its consumption of energy derived from fossil fuels as a contribution towards reducing GHG emissions and the consequent impact on global warming. There is nevertheless an energy requirement for production, so the Group has taken steps to move towards cleaner energy sources, such as natural gas in place of oil. In 2013 natural gas represented 95 per cent of fuel consumption. 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.

Discharges to water

Maintaining the water quality of the areas in which we operate is a regulatory issue and vital to protect the local ecosystems and communities. The Group's production activity generates process effluent that is routinely tested to ensure that the quality meets strict permit limits prior to discharge. Typical analysis includes chemical and biological oxygen demand and total suspended solids. The volumes of these discharges are not considered to be significant and are not reported here. However, any discharges to water above regulatory permitted levels would be reported under environmental incidents.

Water consumption

Generally 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.

Water consumption is related to production output, product mix, plant utilisation and cleaning activities. Water consumption was slightly lower in 2013 despite an increase in production output.

Water consumption

	2013		2012		2011	
	Absolute (000s)	**Per tonne of production**	Absolute (000s)	Per tonne of production	Absolute (000s)	Per tonne of production
Water consumed (m^3)	**1,908**	**7.48**	1,928	7.97	1,889	6.97

Energy consumption

The energy requirement per tonne of production remained stable with consumption increasing slightly, in line with production output.

Energy consumption

	2013		2012		2011	
	Absolute (000s)	**Per tonne of production**	Absolute (000s)	Per tonne of production	Absolute (000s)	Per tonne of production
Energy consumed (GJ)	**5,102**	**13.0**	4,910	12.9	4,862	12.1

Examples of energy reduction initiatives

The Specialty Products site at Delden in the Netherlands has an energy efficiency plan for the period 2013–2016. The facility has identified several process efficiency measures where it is committing to reduce energy usage by an estimated 6 per cent over the four years, with an additional 6 per cent over the same period subject to further study and investment. Areas where such improvements are anticipated include ventilation, replacement of the nitrogen supply and through the activities of an 'Operational Excellence' initiative.

The Specialty Products site at Livingston, Scotland, has replaced three steam boilers with two high efficiency boilers. This resulted in a 5.2 per cent absolute reduction in natural gas usage on a year on year basis, or a 6.3 per cent reduction on a production adjusted basis. The site has also made a combination of changes in operating practice including the installation of variable frequency drives on large electric motors which resulted in a 6.5 per cent absolute reduction in usage on a year on year basis, or a 7.5 per cent reduction on a production adjusted basis.

Our executive management headquarters in East Windsor, New Jersey, is implementing a building optimisation programme in 2014 to monitor energy use throughout the building. Linking this to an energy management system will reduce energy costs through rapid response to demand. Annual savings are projected to be in excess of $100,000.

Solid and liquid waste

As part of our commitment to sustainable development, Elementis seeks to reduce the quantity of all types of waste. The first concern is to reduce the amount of waste that is classed as hazardous. Beyond that non-hazardous waste is minimised and recycled. Non-hazardous waste is predominantly the inert residue from the chromate kiln operations, which is deposited in permitted impoundments and licensed landfill sites adjacent to the manufacturing facilities.

Hazardous waste decreased in 2013 (see table below) due partly to changes in solvent management and recycling initiatives at the Specialty Products site in Jersey City, New Jersey, and partly due to the intermittent nature of equipment cleaning and refractory brick disposal at Elementis Chromium sites.

The overburden clay from the hectorite mine provides a good example of recycling and reducing the impact on the land. Residual clay is recovered from the discharge water and blended back into the process with the hectorite ore feedstock. Tailings with minor clay content are sold for use as liner for recreation ponds, fish rearing lakes and in 2013 a sizeable amount was sold for a sewage lagoon liner project and recreational fishing ponds. Brown overburden clay is also being sold for soil improvement in the central valley of California. Selling overburden and optimising stockpile height has the additional benefit of reducing the overall area impacted at the mine.

Waste disposal

	2013		2012		2011	
	Absolute (000s)	**Per 1,000 tonnes of production**	Absolute (000s)	Per 1,000 tonnes of production	Absolute (000s)	Per 1,000 tonnes of production
Hazardous waste disposed (tonnes)	**0.93**	**3.64**	1.70	7.01	1.54	5.67
Non-hazardous waste disposed (tonnes)	**105**	**410**	104	430	116	431

R&D and sustainability

Our R&D efforts support and contribute to a more sustainable future with the global R&D team continuing to drive its research towards:

- Reduction in the use of materials that contribute to greenhouse gases.
- Development of new biodegradable products for use in aqueous environments.
- Expanded use of bio-based materials in our products.
- Facilitating the migration of decorative coatings to aqueous solutions from solvent based systems.

New rheological additive technology was introduced that facilitated the development of higher solids, solvent borne coatings for use in high performance applications. New adhesion technology was developed that facilitates the adhesion of aqueous coatings to plastic substrates. Both developments led to reduced use of greenhouse gas precursors.

Our portfolio of zero VOC additives was further enhanced with new products that address long term industry performance needs, while earlier product launches continued to expand their geographical reach.

Product stewardship

Our global product stewardship team is responsible for ensuring our products are safe for intended use, transport and to people and the environment throughout the products' entire life cycle and that we are contributing to a more sustainable future.

During 2013 Elementis continued to be fully engaged in the European REACh programme and successfully delivered on its 2013 Tier 2 REACh obligations with the registration of 23 substances key to the Elementis product portfolio. In 2013 our REACh programme was reviewed by a regulatory authority of an EU member state and found to be in full compliance. As Elementis moves forward in 2014, we have begun preparations for registrations of those substances that will cross volume bands due to increased product sales, including work for the registration of over 100 substances for the 2018 Tier 3 REACh obligations.

In addition to complying with the REACh regulatory requirements for our products during 2013, Elementis continued to focus on compliance with the United Nations GHS (Globally Harmonized System) hazard communications standard as it is implemented around the world. In 2013 Elementis made significant investment in its regulatory compliance software system, Wercs, to more fully automate compliance and prepare for the implementation of GHS in the US by the end of 2014. Additional functionality has been added to meet the proliferation of GHS standards in several South American, Eastern European and Asian countries from 2014 to 2017.

During 2013, in order to meet OSHA's mandate to provide GHS training to all US employees, Elementis instituted a more robust internal product stewardship audit programme at all US plants. This programme was extended to our European operations in late 2013 and will be further extended to our Asian operations in 2014.

Finally, in 2013 Elementis brought online an enhanced Export Control Management System to ensure compliance with the extensive and strict export regulations of both the US and the EU. Key components of this system include strong internal written policies and proactive external auditing of Elementis' freight forwarders and export brokers.

Further information on product stewardship at Elementis can be found on our website at:
www.elementisplc.com/governance-responsibility/product-stewardship-social-ethical-matters/

Community

Our community programme remains centred on encouraging and supporting employees to be active in their communities through volunteer work or fundraising. The Group understands the need to work with local communities and be a responsible neighbour, such as continuing to be a sponsoring partner of the Mojave Environmental Education Consortium in California, which provides many environmental education programmes and resources for teachers and students. Our Newberry Springs mine is located near the Mojave desert.

Approval of Strategic report

The Strategic report comprises the following sections: 'Chairman's statement', 'Group Chief Executive's overview', 'Our objectives, strategies and business model', 'Our businesses', 'Finance report' (incorporating Key performance indicators and the Risk management report) and 'Corporate responsibility report' (which incorporates information relating to greenhouse gas emissions required to be included in the Directors' report). The Strategic report was approved by the Board and has been signed on its behalf by:

Brian Taylorson
Finance Director
25 February 2014

Board of directors

Non-executive directors

Ian Brindle
Chairman
Committee membership: A, N(c)

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 became Chairman of the Board on 1 August 2013. He was senior partner of Price Waterhouse from 1991 to 1998 and UK chairman of PricewaterhouseCoopers until 2001. He was also 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 senior independent director and chairman of the audit committee of Spirent Communications plc. He was non-executive chairman of Sherborne Investors (Guernsey) A Limited and Sherborne Investors (Guernsey) B Limited, a non-executive director of 4imprint Group plc from October 2003 to June 2012, where he was also the senior independent director, and a non-executive director of F&C Asset Management plc from February 2011 to May 2013.

Anne Hyland
Committee membership: A(c), N, R

Anne Hyland was appointed a non-executive director on 1 June 2013 and Chairman of the Audit Committee on 1 August 2013. Between 2002 and June 2013, she was CFO and company secretary of FTSE-listed Vectura Group plc. She stood down from that role in June 2013. Prior to Vectura, she held a number of senior finance positions (including director of corporate finance) at then FTSE 100 Celltech Group plc, Medeva plc and KPMG. She is a Chartered Accountant (FCA), a Corporate Tax Adviser (CTA – AITI) and holds a degree in business studies from Trinity College, Dublin. She is also a trustee of the charity Sustrans which campaigns for national cycling networks in the UK.

Andrew Christie
Committee membership: A, N, R(c)

Andrew Christie was appointed a non-executive director in August 2008 and Chairman of the Remuneration Committee on 1 October 2013. He has over 25 years of investment banking and international corporate finance experience. He is a partner of Smith Square Partners LLP, a corporate finance advisory firm, and before that 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, he held the same position with Barclays de Zoete Wedd. He is a non-executive director of Helios Underwriting plc and holds an MBA and a Bachelor of Science degree in engineering.

Kevin Matthews
Committee membership: A, N, R

Kevin Matthews was appointed a non-executive director in February 2005 and served as Chairman of the Remuneration Committee from April 2008 until the end of September 2013. 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 is a non-executive director of Cellectricon AB, a Swedish private biotechnology business, and holds a D.Phil in chemistry.

Executive directors

David Dutro
Group Chief Executive

David Dutro was appointed Group Chief Executive in January 2007. He joined Elementis in November 1998 as President of Elementis Pigments and 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 US and holds a Bachelor of Science degree in marketing.

Brian Taylorson
Finance Director

Brian Taylorson was appointed Finance Director in April 2002. Before joining Elementis he was head of the 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 finance positions over a period of 17 years, living and working in several countries including the UK, South Africa, Switzerland, Canada and the US. He holds an MA degree in engineering 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 was a non-executive director of Fiberweb plc between September 2006 and August 2012.

Key: **A** – Audit Committee **N** – Nomination Committee **R** – Remuneration Committee **(c)** – Chairman of Committee

Senior executives

Greg McClatchy
President of Elementis Specialties (comprising Elementis Specialty Products and Elementis Surfactants)

Greg McClatchy was appointed President of Elementis Specialties in January 2007. He joined Elementis Pigments in 1999, served as managing director of its Durham UK operations, and was appointed President of Specialty Rubber in 2002 and President of Elementis 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.

Dennis Valentino
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 vice president of manufacturing and vice president of its North America Coatings business. Dennis Valentino completed his undergraduate studies in chemical engineering at the University of Missouri – Rolla, and obtained his MBA from St. Louis University.

Walker Allen
General Counsel and Chief Compliance Officer

Walker Allen joined Elementis as General Counsel in 1999 and was appointed General Counsel and Chief Compliance Officer in 2006. Prior to joining Elementis, he was associate general counsel with GE Americom (a GE Capital company) and before that senior business counsel with GE Plastics (a division of General Electric Company). He began his legal career as a lawyer in private practice with two leading New York City law firms, where he specialised in corporate law, securities and mergers and acquisitions. Walker Allen is a member of the New York Bar and is admitted as in-house counsel in New Jersey.

Wai Wong
Company Secretary

Wai Wong joined Elementis and was appointed Company Secretary in May 2007. He is a Fellow of the Institute of Chartered Secretaries and Administrators ('ICSA') and a member and accredited practitioner of the Chartered Institute of Public Relations. Prior to joining Elementis, he held a number of senior company secretarial positions including at John Menzies plc, ICSA and PricewaterhouseCoopers. He has a Bachelor's degree in commerce and law from the University of Edinburgh and a Master's degree in corporate and commercial law from Queen Mary College, University of London.

Daniel Hughes
Chief Information Officer

Daniel Hughes was appointed Chief Information Officer in September 2013. He has held various senior leadership roles in Elementis Specialties since February 2007. Primarily he has served as Vice President, Global Procurement and Supply Chain and been deeply engaged in our worldwide end to end business transactions. He also served as integration manager for our Deuchem, Yuhong, Fancor, Watercryl and Hi-Mar acquisitions. He holds a BA (Honours) degree from the University of East London and, prior to joining Elementis, held various senior procurement and supply chain positions at Engelhard Corporation and Ford Motor Company.

Corporate governance report

Chairman's letter on governance
Fundamental to the success of any organisation is the way it is governed and, for Elementis, this means the effectiveness of the Board and our governance arrangements.

The Board plays a critical role in defining the strategy and priorities of the Company whilst the management team, led by the Chief Executive, is responsible for executing strategy in attainment of set objectives and priorities. The Board is accountable to shareholders, and under law to other stakeholders, for the stewardship of the Company's assets and for the generation and preservation of value over the longer term. This means being responsible for the decisions that are made about how the Company is funded and how its financial resources are invested. It also means being responsible for: (i) reviewing management and financial performance, (ii) how our business activities affect others (including the environment), (iii) the level of risk the Board is prepared to take in order to achieve strategic objectives and (iv) the way we conduct our business, which is in compliance with all applicable laws and regulations and in accordance with the expectations of our shareholders, stakeholders and often the wider societies in which we operate.

In other parts of this Annual Report, we give an account of the financial performance of the Company and our businesses, as well as the Group's performance in relation to health, safety and environmental matters. Our Corporate responsibility report also describes other areas that shareholders are increasingly interested in, such as workforce diversity, wider human rights (including employment rights) and supply chain matters. Core to all these areas are the values and standards set by the Board and the policies and structures put in place so that all our activities are appropriately managed, monitored and reported. Our culture – which is one of performance, innovation, customer service, accountability and responsibility, compliance, openness and transparency – is something that is fostered by the Chief Executive, embedded throughout our global operations and binds our values, standards, policies and performance together.

Effective governance starts at the top, with clear roles, responsibilities and lines of reporting. Directors have to operate within applicable laws and regulations, which include corporate governance rules. In addition, directors have to operate within the mandate given to them from shareholders, for example, in the Company's Articles of Association. On a more practical level, the directors also operate under agreed Board protocols and procedures, such as: (i) the schedule of matters reserved to the Board for decision, (ii) the role descriptions of the Chairman, Chief Executive and Senior Independent Director and (iii) service contracts and appointment letters.

The Board is supported in carrying out its duties and responsibilities by a number of Board Committees, with defined terms of reference and, of course, an important aspect of effectiveness is the quality of the executive and senior management team. Skills, knowledge, experience and qualifications all contribute to the effectiveness of the Board and the executive management team.

The primary groupwide governance document is our Group Code of Business Conduct and Ethics which sets out in writing our values and the standards we expect of our employees and third party contractors. This document, together with other Group policies, govern how we conduct our business and the standards and responsibilities expected of all our employees. Group policies set the standards that drive performance. Compliance training and our culture help to enforce this. Board oversight, business reviews and compliance audits form part of the monitoring and supervision process.

Table 1 below provides a high level overview of the Elementis governance framework and shows how the Corporate Governance Code's main principles have been applied.

Statement of compliance
The Board is of the view that it has applied fully throughout 2013 all of the provisions of the UK Corporate Governance Code (both the 2010 and 2012 versions).

Ian Brindle
Chairman
25 February 2014

Table 1 – Elementis governance framework: application of Corporate Governance Code main principles

Shareholders	Chairman	CEO (supported by the management team)	Board	Audit Committee	Nomination Committee	Remuneration Committee
Leadership						
Re-elect the Board annually.	Leads the Board, is responsible for all aspects of governance arrangements and provides advice and support to the CEO and Finance Director.	Manages the businesses, develops and executes strategy, generates and preserves shareholder value, fosters corporate culture and monitors risk and compliance.	Provides strategic oversight of management, business performance and the values and standards for the Group, and retains a formal schedule of matters reserved for its decision.	Monitors the integrity of the financial statements, disclosures, reporting and controls, and oversees the role and work of the internal and external auditors.	Monitors Board composition, structure and overall effectiveness and is responsible for carrying out annual performance reviews, succession planning and making recommendations on new Board appointments.	Sets the policy for executive remuneration, determines and monitors overall level of remuneration and makes awards under all incentive plans including setting performance targets.

Shareholders	Chairman	CEO (supported by the management team)	Board	Audit Committee	Nomination Committee	Remuneration Committee
Effectiveness						
Hold the Board to account for its stewardship of the Company and its assets.	Ensures all aspects of the Board's operation (including information and support) and the relationship between executives and non-executives are effective, supported by the Company Secretary, policies and procedures.	Operates a transparent, no surprises culture and within a schedule of delegated authorities; reports regularly to the Board to keep all directors informed on all key aspects of the businesses: financial performance, major risks, opportunities and compliance issues, HSE performance and investor relations.	Programme of meetings, operational site visits, regular presentations from and interaction with the businesses, tailored induction with annual performance evaluation and on-going training and development activities all help Board members to contribute effectively.	Clear terms of reference define roles and responsibilities, programme of meetings support their work and all directors attend meetings so there is total transparency and a collective understanding of all major issues.		
					No directors vote on matters concerning themselves.	Executive directors do not decide/vote on their own remuneration or on performance targets.
Accountability						
Approve the Annual Report & Accounts.	Regular contact with and reports from CEO and Finance Director.	Ensures programme and processes effective for keeping the Board fully informed on all material aspects of the Group's operations.	Oversight of financial reports, trading statements, other market communications, principal risks and uncertainties, and compliance and internal controls.	Report to the Board but Chairmen of Committees are accountable to shareholders for the work of the Committees.		
Remuneration						
Give a binding vote on the Remuneration policy report and an advisory vote on the rest of the Directors' remuneration report.	Determines with the executive directors the level of fees for the non-executives and is consulted by the Remuneration Committee over executive remuneration.	Determines with the Chairman the level of fees for the non-executives.	N/A	N/A	N/A	Determines the level of executive remuneration and the Chairman's fee and consults with the Chairman, major shareholders and shareholder representative bodies on executive remuneration proposals.
Shareholder engagement						
AGM, meetings with management and, where necessary, the Chairman or SID.	Maintains an appropriate level of engagement with shareholders and, in his absence or where inappropriate, the SID is available to shareholders if they have any concerns.	Maintains a programme of meetings with major shareholders to stay informed of investors' views and ensures appropriate relations are kept with the financial press and market analysts.	Ensures processes are in place for the Board to be kept informed of investors' views and market expectations; alternative channels exist for major shareholders to raise any issue of concern with the Board.	Report to shareholders through the medium of the annual report and also the platform of the AGM.		
						Consults major shareholders and their representative bodies when proposing changes to executive remuneration.

Corporate governance report
continued

Board composition
As identified on page 24, the Board comprises 2 executive directors (Chief Executive and Finance Director) and 4 non-executive directors (Chairman and 3 other non-executive directors). The number of non-executives will increase following the appointment of Andrew Duff on 1 April 2014. Information about the executive directors' service contracts with the Company is set out in the Directors' remuneration report. All non-executive directors are appointed for three year terms that can be renewed by mutual agreement, subject to annual re-election by shareholders, satisfactory performance and meeting independence requirements. Non-executive directors who do not meet independence requirements under the Corporate Governance Code are appointed to hold office for 1 year at a time.

When Robert Beeston retired as Chairman on 31 July 2013, Ian Brindle was appointed Chairman on 1 August 2013 until a more permanent replacement was recruited. During this period, Ian Brindle was both the Chairman and Senior Independent Director. When Andrew Duff becomes Chairman after the AGM on 24 April 2014, Ian Brindle will continue in his role as the Senior Independent Director. Further details about the non-executive directors' terms of appointment (including fee levels) are set out in the Directors' remuneration report. Changes are expected to be made to the Board's composition this year, as described elsewhere in the Annual Report, in connection with the Board's succession plans.

Board diversity
The Board's policy on gender diversity is that appointments will be made on the basis of qualification and a preference for a woman would only be given in the event that two candidates are equally matched in all other respects in relation to the role specification. In respect of the recommendations of the Davies Review into 'Women on Boards' in 2011, the Board has not set a minimum target for the percentage of the Board to be female. Since the Board is undergoing a refreshment process, this position will be kept under review during 2014. Gender diversity below Board level is discussed in the Corporate responsibility report.

Board independence
The Board considers all the non-executive directors to be independent in character and judgement throughout 2013. The Board is satisfied that each director exercises independent judgement and believes no individual or group dominates decision making.

Board operation
As well as the summary in Table 1 on pages 26 and 27 the Board maintains a schedule of matters reserved to itself for decision which includes: approval of strategic and annual operating plans; approval of financial statements, acquisitions and disposals; risk compliance and management programmes, as well as insurance arrangements; major non-recurring projects and major capital expenditures; and major legal settlements and litigation. The Board reviews the business, financial and operational ('HSE') performance of the Group at each of its formal meetings, including major business initiatives, threats and opportunities, as well as progress on product innovation and new customers.

To assist the Board in carrying out its duties, information of an appropriate quality is issued in a timely manner ahead of Board and committee meetings. If there are any unresolved matters concerning Board decisions, of which there were none in 2013, these would be recorded in the minutes of meetings. A programme exists to ensure new directors receive appropriate induction tailored to their needs. A tailored programme of induction was agreed with Anne Hyland on her appointment which included meeting the internal and external auditors, members of the management and business leadership teams, as well as the Company's joint corporate brokers. All directors 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.

Director attendance in 2013

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Ian Brindle	8/8	4/4	6/6[1]	–
David Dutro	8/8	–	–	–
Brian Taylorson	8/8	–	–	–
Andrew Christie	8/8	4/4	6/6	8/8[2]
Anne Hyland	5/5	3/3[3]	4/4	5/5
Kevin Matthews	8/8	4/4	6/6	8/8
Former directors				
Robert Beeston	3/5	–	2/3	–
Chris Girling	4/5	2/3	2/3	4/5

1 Ian Brindle became Chairman of the Nomination Committee on 1 August 2013.
2 Andrew Christie became Chairman of the Remuneration Committee on 1 October 2013, a role previously held by Kevin Matthews until then.
3 Anne Hyland became Chairman of the Audit Committee on 1 August 2013, a role previously held by Chris Girling until then.

Communications with shareholders
A formal programme of activities is maintained throughout the year to ensure there is effective communications with shareholders, analysts and the financial press that include stock exchange announcements, investor meetings, the Annual Report and updates on the corporate website. In addition, the AGM gives institutional and private shareholders the opportunity to speak with the directors; the Chairmen of the Audit and Remuneration Committees are available to answer questions.

The Board receives regular feedback reports from shareholders following meetings with management in results and other investor roadshows. Analysts' forecasts and research reports about the Company and the wider chemicals sector, as well as presentations and reports from the Company's joint corporate brokers, are provided to all directors on a timely basis, helping non-executive directors to develop a clear understanding of the views of major shareholders. The Chairman and Senior Independent Director are available for contact by shareholders at any time.

From time to time, where appropriate, the Chairman and, in connection with remuneration proposals, the Chairman of the Remuneration Committee will organise a programme of meetings with major shareholders to update them on any significant developments in business strategy, corporate governance matters or consult them on proposals for executive remuneration.

By order of the Board

Wai Wong
Company Secretary
25 February 2014

Audit Committee report

Chairman's letter

This is my first report to shareholders and relates principally to the year end audit for 2013. In this introductory section, I provide a high level overview of the work of the Audit Committee (the 'Committee') in relation to the three principal areas of focus under the Corporate Governance Code:

- How, if any, significant accounting issues were considered and addressed.
- Evaluation of the effectiveness of the auditors.
- The reappointment of the auditors and safeguarding their objectivity and independence, particularly in relation to non-audit services.

A more detailed commentary on these and other areas is set out elsewhere in this report.

Significant accounting issues

The primary areas of accounting judgement considered by the Committee in relation to the 2013 financial statements are listed below:

- **Provisions**
  The Committee reviewed a number of structural changes affecting the calculation of environmental provisions recorded in the 'Consolidated balance sheet'. These included the expiration of a legacy indemnity given to a third party, a gradual change in the duration of project spending leading to a review of appropriate discount rates and progress updates on a number of key projects. The Committee concluded that several changes should be made to the calculation of environmental provisions in 2013 and these are more fully described in Note 15 to the 'Consolidated financial statements'.

- **Assumptions used to value pension scheme liabilities**
  The Committee reviewed the assumptions used to value the liabilities of the UK, US and Dutch defined benefit pension schemes, as well as the US post retirement medical plan, which the Group's actuarial advisers for each plan considered to be appropriate given the characteristics of each plan.

- **Revisions to IAS 19 Accounting for Employee Benefits**
  The Committee reviewed the impact of the revised accounting standard on the Group's financial statements, with particular emphasis on the new requirement to record pension plan administration costs in the 'Consolidated income statement' at the time those costs are incurred. The Committee considered the nature of these costs as well as the main characteristics of the Group's relationship and interactions with its pension plans, noting that the majority of them are legacy schemes. As a result, the Committee concluded that shareholders and other stakeholders would gain a clearer understanding of the Group's performance if, in recording pension administration costs in the 'Consolidated income statement', these costs were not included in 'Operating profit' but rather shown as a separate item described as 'Other expenses'.

- **Exceptional items**
  The Committee reviewed a number of items recorded in the 'Consolidated income statement' which it considered should be separately disclosed because of their size, nature and incidence, thereby providing the reader with a better understanding of the financial information presented. It concluded that these items should be shown separately in the 'Consolidated income statement' under a column headed 'Exceptional items'. Further details of these items are included in Note 5 to the 'Consolidated financial statements'.

Audit effectiveness

Judging the effectiveness of an audit can be a subjective matter, although performance is evaluated according to objective criteria. As Chairman of the Committee I meet with the audit partner frequently, including for both audit planning and review meetings. The Committee meets the audit partner and the senior manager at all four of its formal meetings but it is the Finance Director and finance teams who have most exposure to the audit team.

One part of the evaluation process therefore involves the impressions and perceptions that are made and formed as a result of interactions between the Committee and senior members of the audit team, as well as the views and opinions of members of the management team. In addition to the above, Committee members are able to obtain a better understanding of the role and performance of the auditor through reviewing the quality of the work and materials presented by the auditors, as well as its quality and independence procedures. An important part of our process is the annual audit evaluation questionnaire which all Group finance managers are asked to complete and the result of which is then used by the Committee to assess audit effectiveness. The questionnaire used is the template produced by KPMG's Audit Committee Institute which considers comprehensively different aspects of the audit process. Another way in which audit effectiveness can be monitored by the Committee is Audit Quality Inspection reports published by the FRC.

The Committee considers the auditor's performance to be satisfactory and that the audit is effective as measured against their letter of engagement and the scope of services agreed.

Audit reappointment, objectivity and independence

KPMG were appointed as the Group's auditor in 2004 and its first audit was in respect of the 2004 financial year, making the 2013 audit the firm's tenth consecutive audit. Due to the length of service an audit tender was considered and it was concluded that a tender process was not necessary at this time as, during its 10 years in office, KPMG has rotated 3 lead audit partners and one US audit partner, as well as the senior manager and audit team leaders periodically (every 3 to 4 years). This includes the appointment of a new lead audit partner in 2013.

Current guidelines suggest that the Committee should undertake an audit tender process before 2018 (within 5 years of a change of partner). The Committee will keep this position under annual review and intends to carry out an audit tender process by 2018.

The comments concerning audit effectiveness also apply to audit objectivity and independence. The Committee is of the view that the auditors are objective and independent notwithstanding the level of non-audit services provided. The Company's policy on non-audit services is more fully set out and explained in the next section.

Fair, balanced and understandable

The Board and the Committee have been briefed internally and by the auditors on governance requirements for the Annual Report, taken as a whole, to be fair, balanced and understandable. The Board and Committee understand that 'fair' should mean reasonable and impartial, 'balanced' should mean even-handed in terms of being positive and negative and 'understandable' should mean simple, clear and free from jargon or unnecessary clutter.

The Board and Committee consider the Annual Report for 2013, taken as a whole, to be fair, balanced and understandable, with appropriate signposting and emphasis being made, throughout the various sections, to assist shareholders understand the information and disclosures contained within them.

Anne Hyland
Chairman, Audit Committee
25 February 2014

Audit Committee report
continued

Information about the Committee
The composition of the Committee and biographical information about each member is shown on page 24. Both Anne Hyland and Ian Brindle are considered to have the necessary financial experience under governance requirements and all Committee members are considered to be independent. The table on page 28 shows the number of meetings that were held in 2013 together with directors' attendance records.

The Committee's principal responsibilities are to:

- Monitor the integrity of Group financial statements and financial reporting and related statements, as well as the clarity and completeness of disclosures (including in narrative reports and governance statements accompanying financial statements and related statements).
- Ensure the appropriateness of accounting policies, any changes to them and any significant estimates and judgements made.
- Review the effectiveness of internal control, compliance and risk management systems (including whistleblowing arrangements).
- Oversee all aspects of the relationship with the internal and external auditors, such as their terms of appointment, the scope, manner and programme of work, resourcing (where appropriate), performance and effectiveness, independence and objectivity (where appropriate) and dismissal.

A copy of the Committee's terms of reference is available on the Company's website.

Operation of the Committee
An important aspect of the work of the Committee is the role of its Chairman who maintains close relationships with the Finance Director, General Counsel (who is also Chief Compliance officer) and both lead partners from the internal and external auditors. Thus, as well as formal meetings and presentations from these individuals to the Committee, the Chairman of the Committee is able to discuss any matter on an individual basis outside of formal meetings and report any issue to the Committee as appropriate. Another relevant feature is that Committee meetings are attended by all directors, as well as the external auditors, which helps ensure transparency, share knowledge and improve understanding. The Committee also meets with the external auditors once a year without management being present.

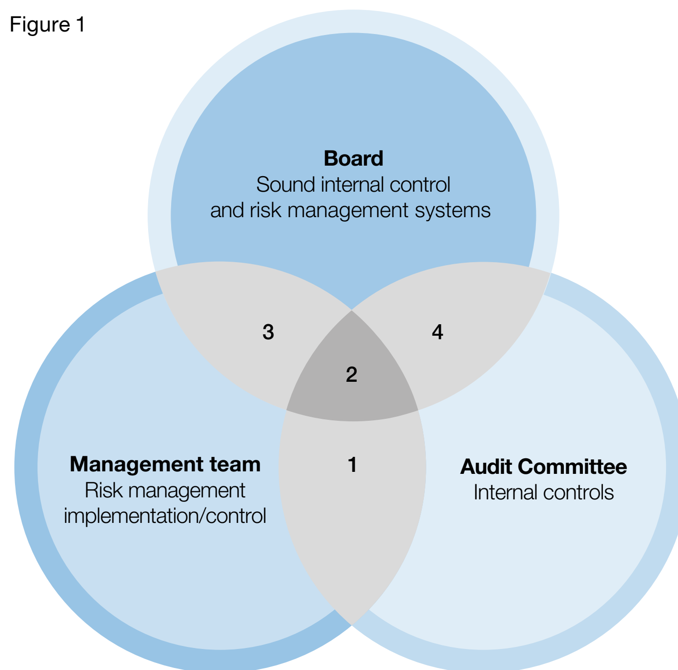
While the Committee's remit includes reviewing the effectiveness of the internal control, compliance and risk management systems, the Board retains responsibility for risk management – see 'Risk management report' for further details. The Committee's focus therefore is on financial, operational and compliance risks and the internal audit function, which is outsourced to PricewaterhouseCoopers ('PwC'), plays a significant role in the Group's internal control process.

The Committee's priorities are to monitor and keep under review our internal control and risk management system which is designed for the purposes of preventing material financial loss and fraud, safeguarding the value of assets (including reputation) and ensuring compliance with laws, regulations and Group policies.

The relationship between the Board, Audit Committee and management is shown in Figure 1.

Internal control and risk management system
The Group's internal control and risk management system is only designed to manage, rather than eliminate, the risk of failure to achieve business objectives and therefore the Board can only provide reasonable, and not absolute, assurance against material mis-statement or loss. The Board is of the view that an on-going 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. No significant internal control failings or weaknesses were reported last year so none is disclosed here.

Figure 1



Key:
1 – Internal audit programme
2 – Oversight of Internal control and risk management system
3 – Risk review process
4 – Oversight of external auditors

Set out below is a summary of the key features of the Group's internal control system.

Control environment
The Group has policies and procedures that set out the responsibilities of business and site management, including authority levels, reporting disciplines and responsibility for risk management and internal control. In addition annual compliance statements on internal control are certified by each operating division.

Risk identification and review
A formal risk review process exists for the identification, evaluation and monitoring of risks. See separate 'Risk management report'.

Financial reporting
The Group operates a comprehensive financial reporting system including forecasts, consolidation and monthly reporting. Board reports include full management accounts, comprising monthly and year to date profit and loss statements, cash flow statements and balance sheet, with segmental and individual business performance analyses, as well as relevant performance indicators. Actual monthly results are monitored against budget, forecasts and the previous year's results. Any significant variances are investigated and acted upon as appropriate. As well as monthly management accounts, 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.

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.

Internal audit programme

An internal audit programme is proposed by PwC in consultation with the Finance Director and approved by the Audit Committee each year, setting out a programme of audits over the course of the next 12 months. The programme covers the monitoring of the effectiveness of internal controls and the design of processes to test the effectiveness of controls.

Controls assurance

The controls assurance framework at Elementis is threefold:

- Board leadership supported by an open and transparent culture of 'no surprises', good governance and compliance. This means knowing and understanding the businesses, quality interactions between the Board, management and business leadership teams (including a regular programme of presentations and reports to the Board, as well as operational site visits).
- Internal and external audit programme, regular litigation and compliance reviews with the General Counsel and a programme of compliance audits, regulatory inspections, environmental reviews and property surveys by external specialists.
- Code of Business Conduct and Ethics in which all employees are given training on and are required to self-certify compliance with, supplemented by an online compliance training programme, an anti-bribery and corruption policy, which contractors are also required to sign up to, whistleblowing arrangements and an anti-retaliation policy.

Non-audit services

In 2013, non-audit services of $0.6 million from KPMG were approved by the Committee (2012: $0.8 million). These services consisted mainly of tax advisory services in relation to the US, UK, the Netherlands, Germany, China, Taiwan and Brazil. KPMG's knowledge of the business meant it could provide these services cost effectively and the safeguards explained previously mean the Committee does not consider the provision of these services to affect the auditor's independence and objectivity.

The Company's policy on non-audit services contains guidance on the types of non-audit work that the external auditors may be considered for. This guidance is in addition to other specified factors that must be taken into consideration, such as the expertise and resources of the firm, whether the services could risk jeopardising audit independence and the fee relative to the audit fee. Examples of services that the external auditors may and may not be allowed to perform under the policy can be found on the Company's website under 'governance/board committees/related information'.

Under the policy, the Finance Director may approve individual engagements where the fee is up to 15 per cent of the Group's audit fee for the previous year, provided that the total non-audit fees in the year do not exceed 50 per cent of that Group audit fee. Decisions above these thresholds must be referred to the Committee for determination.

Programme of work

The table below summarises the Committee's programme of work in 2013 and gives a descriptive account of how the Committee discharged its responsibilities.

February	Reviewed the 2012 Annual Report (and associated press release accompanying the preliminary results statement), management representation letter to the auditors, internal control and going concern statements, litigation and compliance reports (including on whistleblowing), the effectiveness, independence and objectivity of the auditors, considered the year end tax report, approved the description of the work of Committee in the Annual Report and recommended the reappointment of the external auditors.
June	Reviewed half year report from the internal auditors (PwC) including reporting arrangements, considered a risk management report from management on business continuity planning, considered the Committee's activities and the resources available to it and also training undertaken by Committee members and discussed tendering of the internal and external audit and tax adviser roles.
July	Reviewed the 2013 interim results announcement (incorporating the management report and condensed financial statements and notes), management representation letter to the auditors and the half year litigation, compliance and tax reports.
December	Reviewed year end report from the internal auditors and the effectiveness of the internal audit programme, approved the reappointment of PwC as internal auditors and agreed fees and a programme of work for 2014, considered the external audit plan for 2013, reviewed the external auditors' quality control procedures, independence and objectivity, considered their length of tenure, rotation of key partners and the audit market, reviewed also the Group's policy on non-audit services and the level of expenditure incurred on non-audit services with the external auditors and approved the level of fees for and the letter of engagement with the external auditors.

Nomination Committee report

The Chairman and members of the Nomination Committee (the 'Committee') are shown on page 24, together with their biographical information. Six meetings were held during 2013 and the attendance records of Committee members are shown on page 28.

A copy of the Committee's terms of reference is available on the Company's website and the following is a summary of its responsibilities:

- Reviewing the size and composition of the Board, together with the skills, knowledge, experience and diversity of its members and making recommendations for change as necessary.
- Carrying out an annual performance evaluation of the Board, its committees and individual members.
- Keeping succession planning for the Board and senior executive team under review.

The following is a description of the work of the Committee to show how it has discharged its responsibilities in 2013:

- Discussed and made a recommendation to the Board on the candidates for the role of Chairman of the Audit Committee.
- Held a meeting of directors without the executives present to discuss the performance of the executive directors and the strategic direction and priorities of the Company.
- Met to consider: (i) Robert Beeston's retirement as Chairman, (ii) plans for initiating a search for a new Chairman, including the appointment of Korn/Ferry Whitehead Mann ('Korn/Ferry') to assist in the process and (iii) approving a Chairman's role specification. The process was led by Ian Brindle who was the Senior Independent Director prior to his appointment as Chairman on 1 August 2014. Korn/Ferry has no connections with the Company other than as the retained recruitment adviser.
- Received presentations from Korn/Ferry concerning a long-list and short-list of potential Chairman candidates, discussed these lists and selected from the short-list candidates for interview.
- Carried out a questionnaire based evaluation of the performance of the Board, its Committees and individual directors (including any training needs). The questionnaire was designed in-house and feedback from the evaluation was discussed which concerned mainly the Board refreshment programme and the Group's strategy, growth plans and business KPIs. Following this evaluation, the Board considers that each director continues to perform effectively and demonstrates appropriate commitment to his/her role. Shareholders are therefore asked to support the election/re-election of all directors at the AGM.
- Reviewed and approved a draft Chairman's letter of appointment and a list of topics and materials for inclusion in a tailored induction programme for a new Chairman.
- Discussed the progress on recruiting a new Chairman and made a recommendation to the Board on the appointment of a new Chairman.

Shareholders may find the biographical information provided on page 24 useful to help them understand how a director's background or experience shapes or influences the contribution he or she makes to the operation and effectiveness of the Board. This will also assist shareholders in assessing the skills and experience of the Board, as a whole, when determining how to vote on certain resolutions at the AGM.

As explained in my Chairman's statement, further changes will be made to the Board during 2014 and Korn/Ferry has been retained to assist the Board in the process.

Ian Brindle
Chairman
25 February 2014

Directors' remuneration report

Chairman's annual statement on remuneration

Introduction

I am pleased to introduce the Directors' remuneration report for 2013 which has been prepared on behalf of the Board by the Remuneration Committee (the 'Committee').

As discussed elsewhere in this Annual Report, the Board is undergoing a refreshment process that will likely lead to a review of our Group strategy and how executive remuneration should be aligned with this strategy. Accordingly, the Committee has decided to make only limited changes this year, following a 3 yearly review flagged in last year's remuneration report and carried out with assistance from New Bridge Street. The changes that are being implemented in 2014 concern mainly salaries and pensions, whilst variable remuneration (annual bonus scheme and long term incentive plan ('LTIP')) will be reviewed in 2014 and any change in policy will be submitted to shareholders for approval at the 2015 AGM, after consultation with major shareholders and shareholder consultative bodies.

Remuneration policy

The over-riding objective of the Committee in determining the Company's remuneration policy is to ensure that the Company can attract and retain individuals of the highest calibre who individually and collectively contribute to the long term success of the Group and the creation of shareholder value. We are very aware that as an international company with our operational headquarters in the US and operations throughout the world, we are very often competing for talent in a global market where remuneration practices may be different from the UK. This is especially true for our US-based employees. The principles and values that underpin our remuneration policy are applied on a consistent basis for all Group employees, whilst recognising geographic differences in such an international organisation.

There is a strong link between the remuneration policy and our business strategy. In particular, the performance metrics used for the annual bonus scheme and long term incentive plan are a subset of the Company's key performance indicators.

2013 overview

The Group delivered another year of solid financial performance in challenging market conditions which will result in the executive directors receiving bonus payments equal to 55.91 per cent of their basic salaries.

Under the LTIP, performance periods for the awards granted in 2011 ended in 2013 and the EPS and TSR measures were met in full. Elementis delivered shareholder return over the three year period of 131 per cent, ranking the Company amongst the top 15 per cent of companies in the FTSE All Share Index (excluding investment trusts). EPS growth over the same period was 67 per cent. The Committee believes that this reward outcome is fully justified based on the Company's performance over the period.

2014 policy changes

The following summarises the application of our remuneration policy in the current year:

- A remuneration review was carried out last year to examine whether our executive remuneration levels remain market competitive. For our Chief Executive, who is a US national and is based in the US, this required examining remuneration levels and practices in both the US and the UK. Since the last review was carried out in 2010, the size of the Company and the complexity of both the CEO's and Finance Director's roles have increased considerably. Our market capitalisation has increased by more than threefold from the time of the last review to the end of 2013 and the performance of the CEO has been critical to this improvement.
- The Committee has therefore awarded David Dutro a salary increase of 10.8 per cent with effect from January 2014, to bring his salary closer to market levels against other US-listed specialty chemicals companies with a broadly similar level of turnover and market capitalisation. The increased salary is also within the range for CEOs of comparable UK companies.
- Based on our review, the Committee also decided to award Brian Taylorson an increase (also for 2014) of 3 per cent which is in line with the increase for the workforce as a whole.
- For the Chief Executive, variable pay opportunity is below market against comparable US companies. However, in the light of the pending Board changes mentioned, at this time the structure and operation of the annual bonus scheme and LTIP for 2014 will remain substantially the same.
- LTIP awards to be made will be subject to the same mix of challenging EPS and TSR based performance conditions as the awards made in 2013.
- The annual bonus scheme will also operate on the same basis as in 2013 except that a H1 bonus based on H1 performance will no longer be included. In addition, the AWC metric (25 per cent weighting, 75 per cent being EPS) will be simplified for 2014, with a single target figure for 100 per cent vesting under this metric as opposed to the sliding scale that applied in previous years. The single target figure will be based on prior year performance. The Committee has set the target at a level that is consistent with the 2014 operating plan and to encourage achievement of growth objectives.
- During 2013 Brian Taylorson opted out of future pension accrual under the UK defined benefit pension scheme and, instead, received a cash salary supplement. Following a review later in the year, the Committee decided to simplify his pension provision and from 2014 he receives an annual single cash supplement equivalent to the value of his previous pension arrangements (74 per cent of his salary). This commitment will last until the end of November 2015. Further details are given on page 42.
- A 3 yearly review of fees for the Chairman and other non-executive directors was also carried out last year which resulted in an increase to the total amount of fees payable in 2014. This increase brings fees up to a level commensurate with market practice, the size of Elementis and the responsibilities and time commitment of the roles. The last review was carried out in December 2010.

The Committee consulted with its major shareholders, the ABI and ISS on changes to remuneration.

Your directors were very pleased to receive a significant level of support for our Remuneration report from shareholders at last year's AGM. We hope you will vote for the two resolutions on the Directors' remuneration report (being a binding vote on the remuneration policy and an advisory vote on the rest of this report) and thank you for your continuing support.

Andrew Christie
Chairman, Remuneration Committee
25 February 2014

Directors' remuneration report
continued

Remuneration policy report

Effective date and duration of remuneration policy
This part of the Directors' remuneration report (the 'Remuneration policy report') sets out the remuneration policy for the directors of the Company that is being put to a binding shareholder vote at the 2014 AGM. Subject to receiving majority shareholder support, this Remuneration policy report will be effective from the date of approval at the AGM on 24 April 2014 and apply until shareholders next consider and vote on a new Remuneration policy report which may be as early as the 2015 AGM as noted above.

Link between policy, strategy and structure
Our remuneration policy is principally designed to attract, motivate and retain the executive directors and business presidents to execute effectively our corporate and business strategies in order to deliver our annual operating plans and sustainable year on year profitable growth, as well as to generate and preserve value for our shareholders over the longer term, without encouraging excessive levels of risk taking. The principles and values that underpin our remuneration strategy are applied on a consistent basis for all our Group employees. It is our policy to reward all employees fairly, responsibly and by reference to local market practices, by providing an appropriate balance between fixed and variable remuneration.

The Committee's policy is to adequately reward the directors if they meet or exceed the targets set under the variable components of their remuneration packages.

The remuneration structure for executive directors is made up of two elements: fixed remuneration (consisting of basic salary, benefits (including for example non-contributory health insurance and life assurance) and pension provision) and variable remuneration (annual bonus scheme and long term share incentives).

Policy table
The information in the table below sets out the remuneration policy for the different elements that make up total remuneration applying to directors.

Basic salary	
Purpose and link to Company's strategy	Targeted at a level to attract and retain the world class executives who are essential to drive the business forward and deliver the Company's strategic goals.
How it operates in practice	Formal salary review normally every three years, with benchmarking analysis utilised for reference purposes against relevant market comparators as appropriate, taking into account the size of the Company (revenue and market capitalisation), complexity of the roles (including changes to both size and roles) and individual performance. Annual salary increases that are broadly in line with the local workforce (in percentage of salary terms), subject to Committee approval. Increases beyond the average of those granted to the local workforce (in percentage of salary terms) may be awarded in certain circumstances, such as where there is a material change in responsibility or experience of the individual, to recognise exceptional performance over a sustained period or a significant increase in the complexity, size or value of the Company. Where new joiners or recent promotions have been placed on a below market rate of pay initially, a series of increases above those granted to the local workforce (in percentage of salary terms) may be given over the following few years subject to individual performance and development in the role. Salaries are normally reviewed in December and any changes are effective from 1 January in the following year.
Maximum potential value	There is no prescribed maximum for salary increases. The Committee will be guided by the general increase for the local workforce and/or broader workforce as a whole, as well as the circumstances listed above. Salaries for 2014: Chief Executive $850,000 Finance Director £328,364

Benefits	
Purpose and link to Company's strategy	To aid retention and to remain competitive in the marketplace. Healthcare benefits in order to minimise business disruption. Executive directors may also participate along with other employees in the Group's HMRC approved SAYE, or other equivalent savings based, share schemes to share in the success of the Group.
How it operates in practice	Life assurance and private medical health insurance are provided. Provision of either a company car (for business and personal purposes) or a car allowance, in both cases having a value that is consistent and commensurate with the executive's status and seniority. Participation in all employee/savings based share option schemes as above. In addition benefits in the US, where it is standard, include cover for dental costs, accidental death and disablement, long term disability and club membership.
Maximum potential value	SAYE/savings-based schemes are subject to individual limits. These are $2,000 per month in the US and in the UK up to the HMRC prescribed limit (currently £250 per month and from April 2014 £500 per month). Other benefits: the Committee will determine the level of benefit it considers as appropriate, taking into consideration local market practice.

Annual cash bonus scheme	
Purpose and link to Company's strategy	To incentivise the senior management team to exceed the annual operating plans approved by the Board at the start of each financial year. To ensure that a significant proportion of an executive's total remuneration is based on corporate/business financial performance that is linked to the Company's annual operating plan.
How it operates in practice	An annual cash bonus is earned based on over-performance against selected performance measures which are linked to the Company's key performance indicators. Bonus payments are paid following the approval of full year results. Payments are based on salaries at the time of payment. The Committee may claw back bonuses paid that are later found to have been based on performance that was mis-stated or incorrectly calculated.
Maximum potential value	1 times basic salary.

Directors' remuneration report
continued

Remuneration policy report (continued)

Annual cash bonus scheme (continued)

Framework used to assess performance	Bonus is based on the achievement of challenging financial targets which are set relative to the annual operating plan, taking into account general GDP factors, consensus brokers' forecasts and current and past performance of the businesses, together with any organic or acquisitive growth plans. The Company's bonus is determined on performance against key performance indicators. The bonus measures may include (and are not limited to): • Earnings per share ('EPS') or other measures of profitability. • Group average trade working capital to sales ratio expressed as a percentage ('AWC') or other cash flow performance measures. For profit related performance measures, targets are set at threshold, plan and stretch level with bonus accruing from 0 per cent to 100 per cent (increasing on a straight line basis) for performance between threshold and stretch. The Committee keeps performance metrics under review on an annual basis to ensure they continue to remain appropriate and has the discretion to amend the weighting. The precise metrics chosen and weighting ascribed to each may vary, as detailed in the policy above, in line with the Company's evolving strategy. The profit related element of annual bonus shall not be less than 50 per cent of total bonus opportunity.

Long term incentives

Purpose and link to Company's strategy	The LTIP is the sole long term incentive mechanism and is intended to align the interests of the executives with the Group's long term performance, business strategy and broader interests of shareholders. When granting awards under the LTIP the Committee generally takes into consideration the need to motivate and retain the executive directors and other participants. The number of options/conditional shares awarded, up to the maximum limit, is based on the average mid-market closing price of a share on the date preceding the date of award.
How it operates in practice	Nil cost options or conditional shares are awarded annually. Options are exercisable 3 years from, and within 10 years of, the date of award. Share awards vest on the 3rd anniversary of the date of award. Awards are subject to the achievement of challenging performance conditions and normally subject to continued service over the vesting period. Tax rules mean US participants will generally exercise and sell at least part of any options/ shares that vest on the date of vesting, in order to meet tax liabilities.
Maximum potential value	In the case of the Chief Executive, the maximum award is limited to 150 per cent of his basic salary at the time of the award. For other executive directors, the maximum value of any award under the LTIP is 1 times an individual's basic salary, plus up to 50 per cent of the Chief Executive's basic salary (fixed at its 2010 level but this base level is re-valued annually (on a compound basis) by the same percentage increase each participant receives on his own basic salary in each subsequent year).

Long term incentives	
Framework used to assess performance	Awards are subject to achievement of financial (EPS, ROCE or any other relevant company financial KPI) and/or relative TSR performance conditions measured over 3 financial years beginning with the financial year in which the award is made. TSR will be measured against a broad equity index, or a bespoke group of appropriate comparator companies. In determining the target range for any financial measures that may apply, the Committee ensures they are challenging by taking into account current and anticipated trading conditions, the long term business plan and external market expectations. For any financial performance condition, threshold vesting will start from 0 per cent and for any relative TSR performance condition, threshold vesting will start at 3.85 per cent. In both cases this will increase on a straight line basis with 100 per cent vesting for achieving the stretch targets, which for the TSR performance condition will require at least upper quartile performance.

Pension	
Purpose and link to Company's strategy	To aid retention and remain competitive in the marketplace. To provide appropriate retirement benefits commensurate with local market practice, seniority of the role and tenure with the Company together with giving the executives an opportunity to contribute to their own retirement.
How it operates in practice	Policy for new recruits is for a pension contribution and/or cash in lieu. The policy for the current Chief Executive and Finance Director is set out below. **Group Chief Executive** David Dutro receives an annual salary supplement of 20 per cent of his basic salary as part of his contractual entitlement and as a US employee he also participates in two defined contribution schemes being: (i) a US 401(k) Plan, which is similar to a money purchase scheme, and (ii) a Non-Qualified Deferred Compensation Plan (the 'Defined Contribution plans'). The latter plan mirrors the 401(k) Plan except it allows for contributions in respect of pensionable remuneration over an annual compensation limit set by the US Internal Revenue Service (2013: $255,000). The employer match under these two plans includes a regular match of up to 4 per cent of total pensionable remuneration and a supplemental match of up to 4 per cent, based on age and length of service. **Finance Director** Brian Taylorson receives a single annual salary supplement which broadly matches the value of his previous pension provision.
Maximum potential value	The policy for new executives is for a company contribution of up to 30 per cent of salary. Under the policy the maximum for the CEO is 20 per cent of his salary and up to 8 per cent of pensionable remuneration depending on the amount of personal contributions made into the Defined Contribution plans. The maximum for the Finance Director, under the policy, is a salary supplement of 74 per cent of his salary until he reaches his 60th birthday. Thereafter, the Committee will consider, as appropriate, a new arrangement in line with market practice at the time. Legacy arrangements exist for existing employees.

Directors' remuneration report
continued

Remuneration policy report (continued)

Share ownership guidelines	
Purpose and link to Company's strategy	To align an executive's interests with those of shareholders and to encourage executives to participate and share in the success of the Group.
How it operates in practice	Executive directors are expected to build up a stake in the Company that is equal in value to one times their basic annual salary. The Committee monitors compliance with these guidelines and can make changes to them from time to time.

Non-executive Chairman and directors' fees	
Purpose and link to Company's strategy	To attract individuals with the relevant skills, knowledge and experience that the Board considers necessary in order to maintain an optimal mix that ensures the effectiveness of the Board as a whole in carrying out its duties and responsibilities.
How it operates in practice	Non-executive directors' fees are determined by the Chairman and the executive directors, having regard to fees paid to non-executive directors in other UK quoted companies and the time commitment and responsibilities of the role. In the case of the Chairman, the fee level is determined by the Committee. As well as taking into consideration the above factors, the Committee sets the fee at an appropriate level necessary to attract a role holder qualified to effectively lead the board of a company of a similar size and prestige as Elementis. Fees are normally reviewed every 3 years with changes taking effect from 1 January in the following year. Fees are payable in cash and non-executive directors are not eligible to participate in any pension, bonus or share incentive schemes. No individual is allowed to vote on his/her own remuneration.

Choice of performance measures and approach to target setting

The performance metrics that are used for annual bonus and long term incentive plans are a subset of the Company's key performance indicators.

In terms of annual performance targets, EPS is a clear measure of the Company's earnings growth, AWC encourages the most efficient use of working capital and cash flow ensures earnings are turned into cash. These metrics are aligned with the Company's objectives and strategy.

With regards to long term performance targets, EPS growth or ROCE targets may be used and these are aligned with the long term levels of profitability and growth of the Company. A relative TSR condition ensures that there is clear alignment between shareholders and executives.

Where appropriate, targets are set based on sliding scales that take account of internal planning and external market expectations for the Company. Only modest rewards are available for delivering performance at threshold levels or above with maximum rewards requiring substantial out-performance of our challenging plans approved at the start of each year.

The intended targets for awards to be granted under the Long Term Incentive Plan in 2014 are consistent with the policy set out in the policy table and are set out in the 'Annual report on remuneration' on page 42.

The Committee does not incorporate corporate or business performance in environmental, social and governance matters when setting targets in the variable parts of remuneration. 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. Governance standards are set by the Board as a whole.

Differences in executive remuneration policy compared to other employees

The Committee is made aware of pay structures across the wider Company when setting the remuneration policy for executive directors. The Committee considers the general basic salary increase for the broader Company and, in particular the UK and US based employees, when determining salary increases for the executive directors.

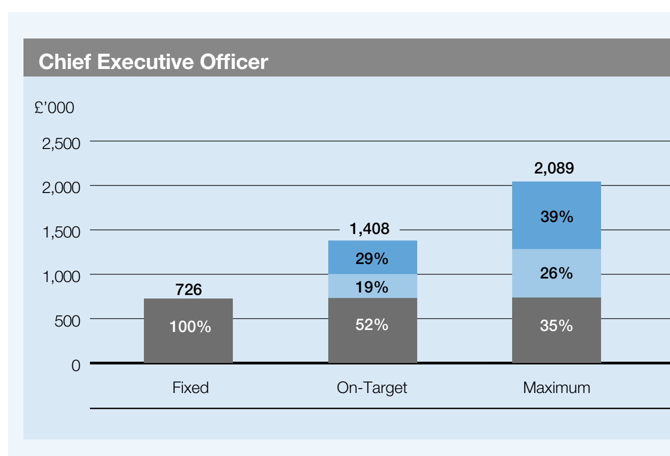
The same principles and values behind the design of remuneration for the executive directors and business presidents apply to other senior managers and employees throughout the rest of the Group, with modifications to reflect local market practice and the level of seniority and ability to influence Group performance. Overall, the remuneration policy for executive directors is more heavily weighted towards variable pay than for other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the executive directors given it is the executive directors who are considered to have the greatest potential to influence shareholder value creation.

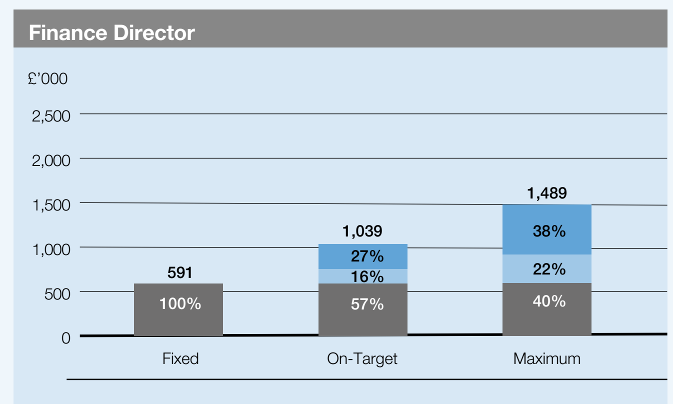
The level of variable pay varies by level of employee within the Company and is informed by the specific responsibilities of each role and local market practice as appropriate.

How the views of employees are taken into account

The Company does not actively consult with employees on executive remuneration. The Group has a diverse workforce operating in nine different countries, with various local pay practices, which would make any cost effective consultation impractical. However, as noted above, when setting the remuneration policy for executive directors, the Committee takes into account the pay and employment conditions for other employees in the Group. This process ensures that any annual increase to the basic pay of executive directors is not out of proportion with that proposed for other employees.

Reward scenario analysis





The tables above illustrate the potential pay opportunities for the executive directors under three different scenarios for 2014. The CEO's remuneration has been converted into pounds sterling using the average exchange rate for 2013 ($1.56:£1).

1. Fixed: Comprises fixed pay being the value of salary, benefits and pension (benefits and, for the CEO, the employer's matching contribution to Defined Contribution plans are included at their 2013 level).
2. On-Target: The amount receivable assumes performance in which 50 per cent of annual bonus is payable and 50 per cent of long term incentive awards vest.
3. Maximum: the maximum amount receivable should all stretch targets be met and vesting under both the annual bonus scheme and LTIP is 100 per cent.

When valuing the LTIP options under the On-Target and Maximum scenarios, no account of any share price appreciation is taken into account.

Directors' remuneration report
continued

Remuneration policy report (continued)

Recruitment policy
For executive director recruitment and/or promotion situations, the Committee will follow the policy outlined below.

Element	Policy
Basic salary	Basic salary levels will be set in accordance with the Company's remuneration policy, taking into account the experience and calibre of the individual (eg typically around market rates prevalent in companies of comparable size and complexity) or salary levels may be set below this level (eg if the individual was promoted to the Board). Where it is appropriate to offer a below market rate of pay initially, a series of increases to the desired salary positioning may be given over the following few years subject to individual performance and development in the role.
Benefits	New directors may be entitled to benefits such as life assurance, private medical health insurance, cover for dental costs, accidental death and disablement, long term disability, club membership and provision of either a company car (for business and personal purposes) or a car allowance or any other appropriate benefit. Where necessary the Committee may approve the payment of reasonable relocation expenses for a maximum period of 12 months to facilitate recruitment.
Pension	A company contribution into a pension plan and/or cash supplement of up to 30 per cent of salary. Legacy pension arrangements for promotees which may include defined benefit or US style arrangements may continue to operate on their existing terms.
Annual bonus	The annual bonus would operate as outlined for current executive directors, with the respective maximum opportunity, albeit pro-rated for the proportion of the year served. Depending on the timing and responsibilities of the appointment it may be necessary to set different performance measures and targets initially.
Long term incentives	Awards under the LTIP will be granted in line with the policy outlined for the current executive directors on an annual basis. An award may be made shortly after an appointment (subject to the Company not being in a prohibited period). For an internal hire, existing awards would continue over their original vesting period and remain subject to their terms as at the date of grant. In addition, if the grant of awards for that individual precedes his or her appointment as a Board director for that financial year, the Committee's policy would include flexibility to top up awards for that year (subject to the overall individual salary limit) based on the executive's new salary.
Buy-out awards	In the case of external hire, if it is necessary to buy-out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer), this would be provided for taking into account the form (cash or shares) and timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. Replacement share awards may be granted using the Company's LTIP (up to the individual limit) or outside of the LTIP if necessary and as permitted under the Listing Rules.

Outside board appointments
The Company's policy is to support an executive should they wish to take on an external board appointment, provided that there is no conflict of interest and any role does not interfere with the executive's commitment or duties. If an executive does take on an external appointment they may retain any fees paid and will be restricted generally to only one such external appointment.

Service contracts
Executive directors' service contracts contain a termination notice period not exceeding 12 months.

Name	Date of contract	Notice period
David Dutro, CEO	16 January 2007	12 months
Brian Taylorson, Finance Director	5 June 2005	12 months

Policy on payment for loss of office
For the existing executive directors, the terms covering termination were agreed at the date their contracts were made. The Finance Director is required, however, to mitigate his loss in the event of loss of office by making efforts to secure a new position. Payments in lieu of notice to both the Chief Executive and Finance Director may be reduced or ceased if they secure a new position. In the case of the Chief Executive, the payments will only be ceased if his salary in his new position is equal to or more than his salary on termination; if not his monthly payments will be reduced by the gross salary earned by the Chief Executive in his new position each month.

For any new appointments, it is the Company's policy to follow current market practice and preclude the inclusion of any payment (benefits, bonus or pension) other than basic salary in the calculation of termination payments

(being one year's salary) and a notice period of 12 months. Payments will be phased on a monthly basis over the remaining notice period and the Committee's position is to ensure a director mitigates the loss to the Company.

Termination payments

Group Chief Executive

The maximum amount payable under David Dutro's contract is basic salary during his notice period (12 months) and any bonus he may be eligible to receive for the period he was employed, subject to performance.

Alternatively the Company may pay compensation in lieu of the notice period of a lump sum of 50 per cent of his basic salary, with up to a further 50 per cent payable in six monthly instalments after six months (in both cases pro-rated for the actual notice period). This would apply if the Company terminates his contract for any reason other than for cause or if he invokes a 'good leaver' reason for terminating his contract (ie, upon a change of control in which the successor company is not bound to honour his service contract).

Finance Director

The maximum amount that would be payable to Brian Taylorson for payment in lieu of notice by the Company for any reason other than for cause is an initial lump sum of 50 per cent of his basic salary and other benefits described below and up to a further 50 per cent payable in a lump sum after six months, subject to the Committee being satisfied that reasonable efforts to secure a new position have been made during the six months following termination. Other benefits comprise: (i) the sums that would normally be payable to him in respect of his pension benefits pro-rated according to notice period being given/served, (ii) the cost of providing private medical insurance for him, his spouse and any children under 21 for the 12 months following termination and (iii) his monthly car allowance for a 12 month period.

The above summary only addresses contractual rights to payments in lieu of notice, or during the relevant director's notice period, and may not reflect any settlement or compromise sums which are separately agreed at the point of termination.

Committee discretion with regard to incentive plans

For any outstanding LTIP awards, these are governed by rules of the plan and only in limited circumstances is discretion permitted. In such circumstances, the Committee retains the use of discretion in its administration of the LTIP as contained in the plan rules.

In the specific event of loss of office any discretion exercised would depend on the circumstances at that time and the performance achieved during the performance period. In the event of the death of an executive director and an award has not yet vested the Committee, acting in its absolute discretion, may determine vesting from maturity rather than date of death. If an executive director ceases employment due to injury, ill health, disability, redundancy, transfer out of the Group/sale of business or retirement with employer's consent and an award has not yet vested the Committee, acting in its absolute discretion, may allow early vesting at the date of cessation rather than at date of vesting. All such awards would still be subject to performance conditions, which the Committee may not waive, as well as pro-rating for time which the Committee, acting fairly and reasonably, may waive in part or in full if it considers acting fairly and reasonably it is appropriate to do so.

Similar provisions apply in the event of a change of control, with performance measured up to the date of the relevant event and normally scaling back pro rata for time.

It is the Committee's policy to exercise these discretions in a way that would be in the best interests of the Company and depending on the individual circumstances of each case.

If an executive director resigns or is dismissed LTIP awards lapse and the Committee has no discretion under the rules.

The Company operates an annual cash bonus scheme in which participation and payments are made subject to the discretion of the Committee. However, under his service contract, the Chief Executive may be eligible to receive a bonus relating to the Company's financial performance during his 12 month notice period, provided all performance conditions have been met. Where the Committee has any discretion, its policy is to exercise any discretion in the Company's best interests and depending on the individual circumstances of each case.

Legacy matters

Once adopted, this Remuneration policy report will apply from the date of approval by shareholders at the 2014 AGM. However, legacy awards or other commitments, including those made prior to 27 June 2012 but not modified or renewed after that date, to current or former directors may still be paid notwithstanding that they have only been incorporated by reference and not been fully described in this Remuneration policy report. These legacy awards and commitments comprise the LTIP awards made in 2012 and 2013, as more fully described in the 'Annual report on remuneration'.

Non-executive directors' terms of appointment

Non-executive directors are appointed for a three year term, subject to annual re-election by shareholders. For non-executive directors who have served for nine years or more, they may be appointed for a further year at a time. Each letter of appointment provides that the director's appointment can be terminated by the Company on six months' notice on any grounds without claim for compensation.

Non-executive directors are not eligible to participate in any pension, bonus or share incentive schemes. No individual is allowed to vote on his/her own remuneration.

The table below provides further details of the letters of appointment that the non-executive directors held with the Company during 2013.

Name	Date of appointment	Date of last reappointment	Date of expiry
Non-executive directors			
I Brindle[1]	06/06/05	06/06/11	05/06/14
A Christie	11/08/08	11/08/11	10/08/14
A Hyland	01/06/13	N/A	31/05/16
K Matthews[2]	16/02/05	16/02/14	15/02/15
Past directors			
R Beeston[3]	21/09/06	21/09/12	N/A
C Girling[3]	29/04/05	29/04/11	N/A

1 Subject to his re-election at the 2014 AGM, it is intended that Ian Brindle will be reappointed for another year from 6 June 2014.
2 Kevin Matthews' letter of appointment expired on 15 February 2014 and he was reappointed for a further 1 year term.
3 Retired on 31 July 2013.

Copies of the executive directors' service contracts and all letters of appointment of non-executive directors are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the AGM.

Shareholder engagement

The Committee encourages dialogue with the Company's shareholders and would consult with major shareholders ahead of any significant future changes to remuneration policy. Major shareholders and shareholder representative bodies were consulted on the changes summarised in the 'Chairman's annual statement on remuneration'.

Directors' remuneration report
continued

Annual report on remuneration

This Annual report on remuneration shows how the Company's policies and practices on directors' remuneration will be applied in 2014 and how they were applied in relation to payments in respect of the financial year ended 2013. This report and the Chairman's annual statement on remuneration will be put to an advisory shareholder vote at the 2014 AGM.

Implementation of remuneration policy for 2014

This first section of the Annual report on remuneration describes how the Committee intends to implement the remuneration policy for the financial year ending 31 December 2014.

Basic salaries

The Committee considered carefully salary increases for 2014 and it was decided to increase David Dutro's salary to $850,000. The increase reflects the significant increase in size and complexity of the business, the strong performance of our Chief Executive and his criticality to the success of the Company. Reflecting the global workplace from which we recruit our top talent, particularly the US influence, the new salary brings David Dutro closer to market levels. The Committee also decided to award Brian Taylorson with a salary increase of 3 per cent which is in line with the levels of increases across the Group as a whole.

	Salary as at 1 January 2014	Salary as at 1 January 2013	Increase
David Dutro	$850,000	$767,112	10.8%
Brian Taylorson	£328,364	£318,800	3.0%

Pension and benefits

For the year to 31 December 2014, David Dutro will continue to participate in the pension arrangements and receive the same benefits as for 2013 as set out in the 'Remuneration policy report'.

Brian Taylorson will receive a salary supplement of 74 per cent of his basic salary in lieu of any other pension benefits. His other benefits for 2014 will be the same as that for 2013 as set out in the 'Remuneration policy report'.

Background to changes to Brian Taylorson's pension provision

During 2013 the Committee agreed to changes in Brian Taylorson's pension arrangements. In making the changes, the Committee considered the commitment that was made to him when he became Finance Director in 2002 and sought to maintain a benefit that is broadly comparable, whilst fixing the liability of the Company. From 2014 onwards his provision was replaced with a single cash salary supplement of 74 per cent of his basic salary which is equivalent to the value of the previous arrangements.

The new arrangement will run for less than two years, in line with his previous arrangements, until the end of November 2015 when he reaches his 60th birthday. Shareholders are asked to support this change because the new arrangement is more transparent, clearer and simpler to understand and removes any element of risk or uncertainty as to how the previous salary supplements were to be calculated.

Relevant to the above is that the Committee had agreed to an interim adjustment to Brian Taylorson's pension provision during 2013. From 1 September 2013 he voluntarily opted out of future accrual under the UK defined benefit pension scheme and instead received a monthly salary supplement equivalent to the pro-rated annual IAS 19 cost to the Company of funding his accrued pension (reduced for employer NIC) had he remained in the pension scheme. This change was cost neutral to the Company. The change to a single salary supplement for 2014 replaces both this interim adjustment and the previous salary supplement for earnings above the former HMRC cap that was in place prior to 2002. These amounts are set out and explained clearly in the 'Directors' retirement benefits' table that follows.

Annual bonus

For the year to 31 December 2014, the maximum bonus opportunity for executive directors will remain unchanged at 100 per cent of basic salary. The following describes how the scheme is applied to the executive directors.

Any bonus will be payable dependent on the achievement of EPS (75 per cent) and AWC targets (25 per cent). For the EPS condition, the targets are set at threshold, plan and stretch level, with threshold being previous year actual and the plan and stretch targets set at a level considered to be sufficiently challenging above the prior year out-turn. Bonus accrual (as a percentage of basic salary) is linear between threshold and stretch.

The AWC condition for 2014 has a single target figure based on prior year performance which if met results in 100 per cent of the bonus subject to that condition vesting, except that the AWC condition would only be operative if the EPS target at plan level has been met.

Bonus payments are based on salaries at the time of payment and will be determined by reference to performance against the full year targets.

The Committee considers that the targets themselves are commercially sensitive and therefore plans to disclose them only on a retrospective basis. Full details of the targets and actual out-turn will be disclosed in next year's Directors' remuneration report.

All employee share plans

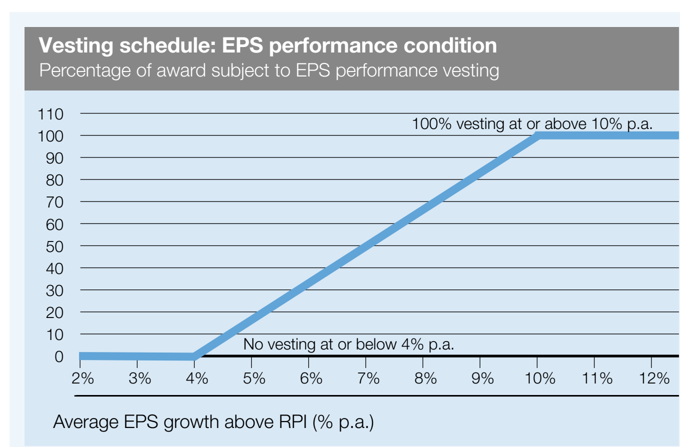
Executive directors will be entitled to participate in any all employee share plans on the same terms as any other eligible employee.

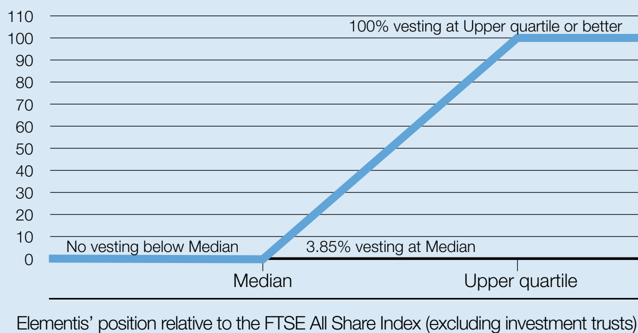
LTIP

For the year to 31 December 2014, the CEO's award will be 150 per cent of basic salary. The Finance Director's award will be 100 per cent of salary plus 50 per cent of the CEO's 2010 salary uplifted for any annual salary increases that he has received since then (which in total for his 2014 awards will be approximately 174 per cent of his salary).

The performance targets that are intended to apply to the awards to be granted in the current year are the same as for 2013 as set out below.

For the EPS condition, the chart shows that awards will vest on a linear scale from 0 per cent to 100 per cent for average annual EPS growth of RPI + 4 per cent to RPI + 10 per cent, respectively. For the TSR condition, the chart shows that awards will vest on a linear scale from 3.85 per cent to 100 per cent for median to upper quartile performance, respectively. The TSR condition will be measured against the companies comprising the FTSE All Share Index (excluding investment trusts).





Non-executive directors' remuneration

Following a 3 yearly review of fees, increases were awarded from 2014 to bring these to a level commensurate with the size of the Company, the responsibilities and time commitment of the roles involved and in line with market practice.

For the year to 31 December 2014, the fees payable to the Chairman and non-executive directors will be as follows:

	2014 £	2013 £
Chairman	175,000	137,150
Non-executive director	46,000	40,000
Additional fees:		
Senior Independent Director	8,000	5,000
Chairman of Audit or Remuneration Committee	8,000	5,000

Remuneration payable to directors for 2013

Although the Company reports its results in US dollars the remainder of this report on remuneration is presented in pounds sterling because the majority of the directors are UK based and paid in pounds sterling.

A breakdown of the directors' emoluments for the year ended 31 December 2013 is set out in the table below:

£'000	Year	Fixed Salary/fees	Benefits	Pension	Sub-total	Performance related Bonus	LTIP	Sub-total	Total
Executive directors									
David Dutro[1]	**2013**	**492**	**23**	**146**	**661**	**305**	**1,142**	**1,447**	**2,108**
	2012	468	22	148	638	388	2,534	2,922	3,560
Brian Taylorson[2]	**2013**	**319**	**19**	**251**	**589**	**184**	**870**	**1,054**	**1,643**
	2012	310	18	248	576	257	1,969	2,226	2,802
Non-executive directors									
Ian Brindle[3] (Chairman)	**2013**	**83**	**–**	**–**	**83**	**–**	**–**	**–**	**83**
	2012	45	–	–	45	–	–	–	45
Andrew Christie[4]	**2013**	**41**	**–**	**–**	**41**	**–**	**–**	**–**	**41**
	2012	40	–	–	40	–	–	–	40
Anne Hyland[5]	**2013**	**25**	**–**	**–**	**25**	**–**	**–**	**–**	**25**
	2012	–	–	–	–	–	–	–	–
Kevin Matthews[4]	**2013**	**44**	**–**	**–**	**44**	**–**	**–**	**–**	**44**
	2012	45	–	–	45	–	–	–	45
Past directors									
Robert Beeston[6]	**2013**	**80**	**–**	**–**	**80**	**–**	**–**	**–**	**80**
	2012	137	–	–	137	–	–	–	137
Chris Girling[7]	**2013**	**26**	**–**	**–**	**26**	**–**	**–**	**–**	**26**
	2012	45	–	–	45	–	–	–	45
Total	**2013**	**1,110**	**42**	**397**	**1,549**	**489**	**2,012**	**2,501**	**4,050**
Total	2012	1,090	40	396	1,526	645	4,503	5,148	6,674

Notes
1 David Dutro as Group Chief Executive, who is based in the US and receives his salary in US dollars, received a salary of $767,112 (2012: $744,769). His pension comprises 20 per cent of his salary and employer contributions to defined contribution pension schemes.
2 Brian Taylorson's pension comprises salary supplements paid as compensation for the limitation of pension rights to the former HM Revenue and Customs' earnings cap and a pro-rated amount in lieu of future accrual under the UK defined benefit scheme ('DB scheme'), as well as the pro-rated amount of accrued pension in the year valued using the HMRC method (accrued benefit net of inflation times a factor of 20 less member's contributions).
3 Ian Brindle, who was appointed Chairman on 1 August 2013, received seven months of his non-executive director fee (£40,000 p.a.) and Senior Independent Director fee (£5,000 p.a.) and five months of the Chairman's fee (£137,150 p.a.).
4 Andrew Christie replaced Kevin Matthews as Chairman of the Remuneration Committee on 1 October 2013 and their fees reflect their non-executive director fee and the additional Committee Chairman fee on a pro-rated basis.
5 Anne Hyland joined the Board on 1 June 2013 and was appointed Chairman of the Audit Committee on 1 August 2013. Her fees reflect her non-executive director fee and additional fee as Chairman of the Audit Committee on a pro-rated basis.
6 Robert Beeston, who retired from the Board on 31 July 2013, received seven months of the Chairman's fee (£137,150 p.a.).
7 Chris Girling retired from the Board on 31 July 2013 and his fee reflects his non-executive director fee and additional fee as Chairman of the Audit Committee on a pro-rated basis.

Directors' remuneration report
continued

Annual report on remuneration (continued)

Determination of annual bonus outcome for performance in 2013

This section shows the performance targets set in respect of the 2013 annual bonus scheme, the level of performance achieved and the resultant payments to directors. In 2013, as in prior years, the bonus targets were tested against the half year and full year results. The H1 bonus payment would ordinarily be paid in August and the full year bonus payment, which takes into consideration any H1 bonus already paid, will be paid in March 2014. The maximum full year bonus opportunity is 100 per cent of basic salary and the maximum H1 bonus is restricted to 35 per cent of the full year amount. As explained earlier, from 2014, the bonus will be determined on the basis of the full year results only.

Full year bonus	Relative weighting of performance conditions	FY 2013 bonus plan targets				Bonus received as % of basic salary	
		Threshold	Plan	Stretch	**Actual result**	Chief Executive	Finance Director
EPS (cents)	75%	23.3	23.6	26.1	**25.4***	55.91%	55.91%
AWC (%)	25%	20.00	19.50	19.00	**20.40**	nil%	nil%
Total full year payment	100%	–	–	–	**–**	55.91%	55.91%

H1 bonus	Relative weighting of performance conditions	H1 2013 bonus plan targets				Bonus received as % of basic salary	
		Threshold	Plan	Stretch	**Actual result**	Chief Executive	Finance Director
EPS (cents)	75%	12.2	12.2	13.7	**12.5***	nil%	nil%
AWC (%)	25%	19.8	19.3	18.8	**20.20**	nil%	nil%
Total H1 payment	100%	–	–	–	**–**	nil%	nil%

* The 2013 threshold, plan and stretch targets for H1 and the full year disclosed are as originally set and have not been restated for the impact of revised IAS 19. However, in order that the performance measurement can be made on a consistent basis, following the adoption of revised IAS 19, the actual result for 2013 has been adjusted from 23.0 cents to 25.4 cents. No payment was made for H1 performance and the result shown has also been restated from the H1 reported number of 11.3 cents. See page 13 in the Finance report under 'Other expenses' and page 29 in the Audit Committee report under 'Significant accounting issues'.

Bonus payments under both performance conditions increase on a linear basis with 0 per cent payable for threshold performance and 100 per cent for stretch performance. No discretion other than to adjust for revised IAS 19 (which was agreed at the time the targets were set last year) was exercised in respect of the above payments and there are no deferral requirements under the bonus scheme rules.

Directors' share based awards

Determination of 2011 LTIP awards

The awards made in 2011, shown in the table on page 46 headed 'Directors' share and scheme interests', have a vesting date of 4 April 2014. The performance conditions (EPS and TSR, split 50:50) relate to performance over the three financial years ended 31 December 2013. Under the EPS condition, all of the awards subject to that condition would have vested in full if EPS grew during the three financial years ended 2013 by RPI + 10 per cent p.a. or more. Under the TSR condition, all of the awards subject to that condition would have vested in full if the Company's TSR performance (against the FTSE All Share Index excluding investment trusts) in the three financial years ended 31 December 2013 was at or above upper quartile. Over the performance period, the Company's EPS grew by 67 per cent and its TSR performance was 131 per cent which placed it in the top 15 per cent of companies in the FTSE All Share Index. Accordingly, all of the 2011 awards have achieved the maximum performance threshold and, subject to continued employment, will vest in full on 4 April 2014. For the purpose of the calculation of the LTIP component of the total remuneration figure in the table on page 43, the awards have been valued using the average mid-market closing share price for the three months period from 1 October 2013 to 31 December 2013.

LTIP awards granted in the year

LTIP awards made in 2013 are set out in the table below and are subject to EPS and TSR performance conditions (split 50:50) over the three years to 31 December 2015. The vesting schedule and the performance conditions are the same as for the awards to be made in 2014 as shown on pages 42 and 43.

	Type of share award	Grant date	Number of awards	Face value of award at grant £'000s[1]	Percentage that would vest at threshold performance	The end date of the performance period	A summary of performance targets and measures
David Dutro	Nil cost option	02.04.13	289,750	755	0% of the award subject to the EPS condition and 3.85% of the award subject to the TSR condition	31.12.15	As above
Brian Taylorson	Nil cost option	02.04.13	214,398	559	0% of the award subject to the EPS condition and 3.85% of the award subject to the TSR condition	31.12.15	As above

1 For David Dutro this equates to 150 per cent of basic salary and for Brian Taylorson this equates to 100 per cent of his basic salary plus 50 per cent of the CEO's 2010 basic salary (re-valued for annual increases to his own salary). For further details, see page 36 of the Remuneration policy report. The share price used to determine the number of awards granted was 260.70p being the average mid-market closing share price on the dealing day preceding the date of grant.

Details of awards in savings-based share schemes are shown in the table overleaf.

Sourcing shares for our share plans

Employee share plans comply with ABI guidelines on dilution which provide that overall issuance of shares under all plans should not exceed an amount equivalent to 10 per cent of the Company's issued share capital over any ten year period, with a further limitation of 5 per cent in any ten year period on discretionary plans. Based on the number of awards that remain outstanding as at the year end, the Company's headroom for all plans is 5.2 per cent and for discretionary plans 4.2 per cent of issued share capital.

Directors' remuneration report
continued

Annual report on remuneration (continued)

Directors' share and scheme interests

The interests of the persons who were directors during the year in the issued shares of the Company were:

				Scheme interests					
	Interest type	Grant date	Option price (p)	01.01.13	Granted during 2013	Exercised during 2013	Lapsed during 2013	31.12.13	Vested but unexercised share options
Executive directors									
David Dutro	A	26.08.2011	119.34	4,929	–	4,929[1]	–	–	Nil
	A	30.08.2012	184.62	13,144	–	–	–	13,144	Nil
	A	23.08.2013	227.55	–	2,722	–	–	2,722	Nil
	B	22.04.2010	–	988,149	–	988,149[1]	–	–	Nil
	B	04.04.2011	–	451,350	–	–	–	451,350	Nil
	B	26.06.2012	–	359,846	–	–	–	359,846	Nil
	B	02.04.2013	–	–	289,750	–	–	289,750	Nil
Total scheme interests				**1,817,418**	**292,472**	**993,078**	**–**	**1,116,812**	**Nil**
Brian Taylorson	A	01.10.2009	35.52	43,778	–	–	–	43,778	Nil
	B	22.04.2010	–	768,103	–	768,103[2]	–	–	Nil
	B	04.04.2011	–	343,951	–	–	–	343,951	Nil
	B	26.06.2012	–	273,693	–	–	–	273,693	Nil
	B	02.04.2013	–	–	214,398	–	–	214,398	Nil
Total scheme interests				**1,429,525**	**214,398**	**768,103**	**–**	**875,820**	**Nil**

				Share interests					
	Interest type			01.01.13				31.12.13	Guideline holding[4] met as at 31.12.13
Executive directors									
David Dutro	C	–	–	294,912	–	–	–	299,841	Yes
Brian Taylorson	C	–	–	331,096	–	–	–	400,000	Yes
Non-executive directors									
Ian Brindle	C	–	–	31,172	–	–	–	31,172	N/A
Andrew Christie	C	–	–	10,000	–	–	–	10,000	N/A
Anne Hyland	C	–	–	Nil	–	–	–	10,000	N/A
Kevin Matthews	C	–	–	11,633	–	–	–	11,633	N/A
Past directors									
Robert Beeston[3]	C	–	–	50,000	–	–	–	50,000	N/A
Chris Girling[3]	C	–	–	5,000	–	–	–	5,000	N/A

A. Savings based share options schemes are not subject to performance conditions. David Dutro's options are held under the US sharesave scheme and would ordinarily vest on the second anniversary of the grant date and expire three months thereafter. During 2013 he was granted 2,722 savings based options. The option price shown is based on the mid-market closing share price on the date of grant, giving a face value of £6.2k. The options granted to Brian Taylorson in 2009 are five year options held under the UK SAYE scheme and would ordinarily vest on the fifth anniversary of the grant date and expire six months thereafter. Further details on these schemes are show in Note 24 to the 'Consolidated financial statements' on page 85.

B. LTIP awards are subject to performance conditions. The same EPS growth and relative TSR performance conditions apply in respect of the awards made in 2011, 2012 and 2013, as described in the Remuneration policy report. These options ordinarily vest on the third anniversary of the grant date and would expire on the tenth anniversary.

C. Interest in shares, including of connected persons.

1 David Dutro retained 4,929 shares (2012: 30,688) following the exercise of savings based share options in 2013. The price on the date of exercise was 252.10 pence per share with a notional gain of c. £6.5k. In addition, he exercised and sold 988,149 shares granted under the LTIP in 2010 which vested in full at a price of 252.23 pence per share, with a pre-tax gain of c. £2.5m.

2 Brian Taylorson retained 68,904 shares (2012: nil) following the exercise and partial sale of 768,103 shares also granted under the LTIP in 2010 which vested in full. The price on the date of exercise was 252.23 pence per share with a pre-tax gain on the shares sold of c. £1.76m and a notional gain on the shares retained of c. £0.17m.

3 Shares shown are held from the beginning of the year up until the date of their retirement on 31 July 2013.

4 Guideline holding is one times salary.

The market price of ordinary shares at 31 December 2013 was 268.9 pence (2012: 232.5 pence) and the range during 2013 was 210.2 pence to 275.0 pence (2012: 135.1 pence to 240.3 pence).

As at 25 February 2014, the Trustee of the Company's Employee Share Ownership Trust ('ESOT') held nil shares (2012: nil). 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 25 February 2014, 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 2013 and 25 February 2014 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.

Other than their service contracts, letters of appointment and letters of indemnity 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.

Retirement benefits

The table below shows the breakdown of the retirement benefits of the executive directors, comprising employer contributions to defined contribution plans, benefits under defined benefit schemes and salary supplements paid in cash.

The amount shown for David Dutro under defined contribution plans reflects total employer contributions in 2013. The amounts paid under these plans were £47,460 (2012: £53,848) equivalent to 6.0 per cent (2012: 6.3 per cent) of his total pensionable remuneration in 2013. The payment of a salary supplement is explained in the 'Remuneration policy report' on page 37. In addition, as a US salaried executive director, David Dutro participated in the Elementis Career Reward Retirement Plan ('ECRRP') for US employees. On 1 May 2006, the plan was frozen (closed to future accruals). 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 also shown in the table. David Dutro's normal retirement date under all his pension arrangements is 65. The normal pensionable retirement age under the DB scheme for Brian Taylorson is 60.

Directors' retirement benefits

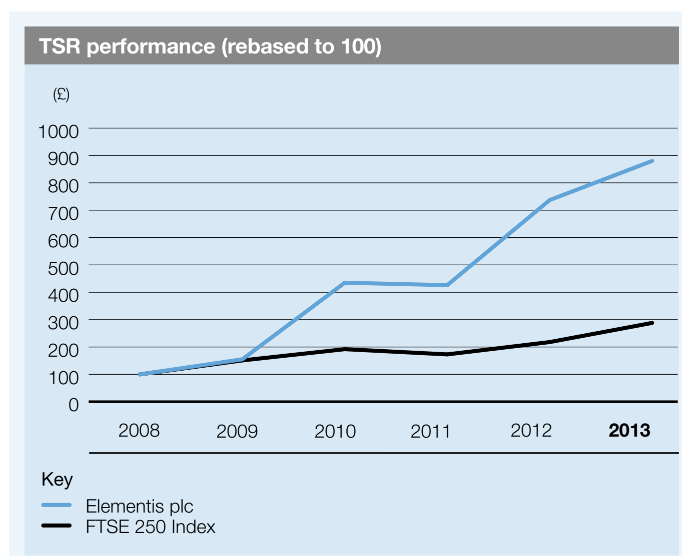
	Defined contribution plans		Salary supplements				Defined benefit schemes				
			Contractual		HMRC notional earnings cap						
							Accrued benefits	Accrued benefits	Increase in accrued benefits (net of inflation)	Pension related benefits to be included in total remuneration	Pension benefit if director retires early
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000	**31.12.13 £'000**	31.12.12 £'000	**2013 £'000**	**2013 £'000**	**2013 £'000**
David Dutro	**47**	54	**99**	94	**–**	–	**9**	9	**–**	–	9
Brian Taylorson	**–**	–	**29[1]**	–	**152[2]**	160	**55**	50	**4**	**70[3]**	43

1 This salary supplement is in lieu of future accrual under the UK DB scheme from 1 September 2013 and is equivalent to the IAS 19 cost (adjusted for employers' NIC) to the Company of funding his accrued pension in the year had he not opted-out of future accrual and the amount shown is pro-rated for the four month period (£29,280).
2 This amount relates to the limitation of pension rights due to the former HMRC's notional earnings cap equating to the pre-tax value of 44 per cent of basic salary.
3 The accrued benefit under the DB scheme in the year is valued using the HMRC method (accrued benefit net of inflation times 20, less member contributions) to give £69,530 and added to the salary supplements (£152,276 and £29,280) to arrive at the total pension benefit (£251,086) for Brian Taylorson in the 'Directors' remuneration table' on page 43. The same methodology has been used to provide the comparative pension figure for 2012 in that table.

Total shareholder return performance and change in CEO's pay

The graph below illustrates the Company's total shareholder return for the five years ended 31 December 2013, relative to the FTSE 250 Index, along with a table illustrating the change in CEO pay over the same period. The table also details the varying award vesting rates year on year for the annual bonus scheme and LTIP.

As the Company's shares are denominated and listed in pence, the graph below looks at the total return to the end of 2013 of £100 invested in Elementis on 31 December 2008 compared with that of the total return of £100 invested in the FTSE 250 Index. This index was selected for the purpose of providing a relative comparison of performance because the Company is a member of it.



	2009	2010	2011	2012	**2013**
CEO pay (total remuneration – £'000)	576[1]	1,031	2,964	3,560	**2,108**
Annual bonus award against maximum opportunity	0%	100%	100%	81.25%	**55.91%**
LTIP vesting against maximum opportunity	88%[1]	0%[2]	100%	100%	**100%**

1 Prior to being appointed CEO in 2007 David Dutro as COO was awarded ESOS options in 2006 which vested in part in 2009 (as shown). However, these options were underwater on the vesting date so have been valued at nil in line with FRC Lab guidelines.
2 This also relates to ESOS options that were awarded to David Dutro in 2007 which all lapsed due to performance conditions not being met.

Directors' remuneration report
continued

Annual report on remuneration (continued)

Relative importance of the spend on pay

The table below shows the total remuneration paid across the Group together with the total dividends paid in respect of 2013 and the preceding financial year.

Remuneration against distributions

	2013 £million	2012 £million	change
Remuneration paid to all employees (see Note 8 to the 'Consolidated financial statements')[1]	**67.1**	62.1	8%
Total dividends paid in the year	**38.0**[2]	20.5	85%

1 The amounts for 2013 and 2012 have been converted from dollar into pounds sterling using the average $:£ exchange rate for those years.
2 2013 includes a special dividend payment of $22 million (£14.4 million).

Percentage change in CEO's pay

The following table shows the change from 2012 to 2013 of the CEO's pay with regard to the three elements set out below and the corresponding change in these elements across all employees within the Group.

	% Change from 2012 to 2013		
	Salaries	Benefits	Bonus*
CEO pay (total remuneration)	3	5	(21)
All employees	8	8	8

* change in bonus relates to payments in respect of the relevant financial years

Statement of shareholder voting

The resolution to approve the 2012 Directors' remuneration report was passed on a show of hands at the Company's last AGM held on 25 April 2013. Set out in the table below is the votes cast by proxy in respect of that resolution.

Approval of Directors' remuneration report for 2012

Votes for	% For	Votes against	% Against	Votes withheld
346,299,708	99.73%	938,723	0.27%	2,357,277

Other information about the Committee's membership and operation

Committee composition

The Chairman and members of the Committee are shown on page 24, together with their biographical information. Eight meetings were held during 2013 and the attendance records of Committee members are shown on page 28. All meetings were also attended by the Chairman of the Company and the Senior Independent Director, to ensure that all non-executive Board members were kept fully informed on the operation and work of the Committee. Both executive directors also attend meetings by invitation, as appropriate, although they are not present when their own remuneration arrangements are discussed or, if they are, they do not participate in the decision making process.

Terms of reference

A full description of the Committee's terms of reference is available on the Company's website and the following is a summary of its responsibilities:

- Determining the levels of remuneration for the Chairman and executive directors and keeping these under review.
- Making awards under the annual bonus scheme and LTIP, including setting performance targets.
- Monitoring and making recommendations on the structure and level of remuneration for senior executives, ensuring that these are appropriately linked to the Group's strategy and aligned with the Board's risk profile.

Evaluation, training and development

On an annual basis the Committee's effectiveness is reviewed as part of the evaluation of the Board. Following the evaluation last year, there were no major issues to report.

During 2013 Committee members attended various external seminars on the latest developments on executive remuneration and all Board members received briefings from the Company Secretary and the Committee's remuneration advisers throughout the year, to keep them updated on topical matters and developments relating to executive remuneration.

Remuneration advisers

The Committee's external advisers are New Bridge Street ('NBS') who were appointed after a tender in 2008. This was reviewed again last year and as a result they were retained as advisers. The Committee is satisfied that there is no over-reliance on NBS, who have no connection with the Company other than as remuneration advisers. Total fees paid to NBS in 2013 amounted to c.£40,000 for advisory services mainly in connection with the review of executive remuneration, non-executive directors' fees and the Director's remuneration report for compliance with the new regulations.

Auditable sections of the Directors' remuneration report

The sections of the 'Annual report on remuneration' that are required to be audited by law are as follows: 'Remuneration payable to directors for 2013' and 'Retirement benefits'; and tables headed 'LTIP awards granted in the year', 'Directors' share and scheme interests' and 'Directors' retirement benefits'.

Directors' report

Report and financial statements
The directors submit their report and the audited financial statements for the year ended 31 December 2013.

This Directors' report includes the Corporate governance reports from page 26 to 48.

Strategic report, future development, GHG emissions and R&D
The 'Strategic report' which the Company is required under law to prepare can be found on pages 2 to 23. That report also includes information required in this Directors' report about: (a) future developments in the business of the Group and (b) greenhouse gas emissions.

The Group undertakes, on a continuing basis, R&D activities for new products and to improve existing products.

Takeover directive disclosures
The management report, for the purposes of the UK Listing Authority's Disclosure and Transparency Rules, comprises the following sections: the 'Strategic report', this Directors' report, the 'Directors' responsibility statement' and the biographical information on the directors on page 24.

Dividend
Details about the final dividend for the year, as well as a special dividend, are disclosed in the Chairman's statement on page 2.

Directors and their share interests
The directors of the Company who served during 2013 were Robert Beeston, Ian Brindle, Andrew Christie, David Dutro, Chris Girling, Anne Hyland, Kevin Matthews and Brian Taylorson. Anne Hyland joined the Board on 1 June 2013 and Robert Beeston and Chris Girling retired from the Board on 31 July 2013. Otherwise, all of the directors served on the Board throughout the financial year. Biographical information about each director as at the year end is shown on page 24.

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

Employment policies and equal opportunities
The Group is an inclusive and equal opportunity employer that relies on HR specialists throughout its worldwide locations to ensure compliance with all applicable laws governing employment practices and to advise on all HR policies and practices, including recruitment and selection, training and development, and promotion and retirement.

Elementis policies seek to create a workplace that has an open atmosphere of trust, honesty and respect. Harassment or discrimination of any kind based on race, colour, religion, gender, age, national origin, citizenship, mental or physical disabilities, sexual orientation, veteran status, or any other similarly protected status is not tolerated. This principle applies to all aspects of employment from recruitment and promotion through to termination and all other terms and conditions of employment.

It is Group policy 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. Employees are free to join a trade union or participate in collective bargaining arrangements.

It is also Group policy, for employees who have a disability, to provide continuing employment under normal terms and conditions, where practicable, and to provide training, career development and promotion, as appropriate.

Elementis supports the wider fundamental human rights of its employees worldwide, as well as those of our customers and suppliers, and further details are set out in the Corporate responsibility report.

Employee communications and involvement
The Group has processes in place for communicating with all its employees. Employee communications include information about the performance of the Group, on major matters affecting their work, employment or workplace and to encourage them to get involved in social or community events.

As is common practice, the Company operates savings-based share option schemes in the US and UK to encourage employees to become shareholders and share in the success of the Group. Further details of these schemes are set out on page 85.

Going concern
In assessing the Group as a going concern, the directors have given consideration to the factors likely to affect its future performance and development, the Group's financial position and the principal risks and uncertainties facing the Group, including the Group's exposure to credit, liquidity and market risk and the mechanisms for dealing with these risks.

The Group had a net cash position at the year end of $54.1 million and also had access to a syndicated revolving credit facility of $100 million, which expires in October 2018. There is a mechanism in the agreement for the facility to be increased by a further $100 million subject to other terms.

Under the borrowing facility, the Group has to perform covenant tests for net debt:EBITDA ratio, interest cover and net worth. No breaches in the required covenant tests were reported during the year. The Group uses various short and medium term forecasts to monitor anticipated future compliance and these include stress testing assumptions to identify the headroom on the covenant tests.

After evaluating the covenant compliance modelling and the trading of the businesses, the directors are satisfied that the Group and the Company 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 'Parent company financial statements' on page 92. 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 2013 the Trust held no shares in the Company (2012: nil). A dividend waiver is in place in respect of all shares that may become held by the Trust.

Directors, Articles and purchase of shares
The directors' powers are conferred on them by UK legislation and by the Company's Articles. Rules about the appointment and replacement of directors are also set out in 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.

Directors' report
continued

Significant agreements – change of control
There are few significant agreements which the Company is party to that take effect, alter or terminate in the event of change of control of the Company. The Company is a guarantor under the Group's $100 million revolving credit facility and, in the event of a change of control, any lender among the facility syndicate, of which there are four with commitments ranging from $20 million to $30 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 page 41 of the Directors' remuneration report apply to him.

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 would 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.

Substantial shareholders
As at 25 February 2014 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
AXA Investment Managers SA	28,739,014	6.26
BlackRock, Inc.	23,211,191	5.06
Ameriprise Financial, Inc. and its group	22,734,503	4.95
Schroders plc	22,517,387	4.91
Norges Bank	18,117,062	3.95

Auditor
A resolution to appoint KPMG LLP as auditors of the Company will be proposed at the forthcoming AGM to be held on 24 April 2014. Details about this proposal are set out in the Notice of Meeting accompanying the Annual Report.

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

Political donations
The Group made no political donations during the year (2012: nil).

Directors' and officers' liability insurance
The Company maintains liability insurance for the directors and officers of the Company and its subsidiaries. Since 2008, the directors of the Company have been in receipt of an indemnity from the Company in respect of 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' conflicts of interest
Since 2008, Brian Taylorson, who is Finance Director and a trustee of the DB scheme, has been the only director who is in receipt of a conflict authorisation from the Company. The conflict authorisation enables him to continue to act as a trustee notwithstanding that this role could give rise to a situation in which there is a conflict of interest. The conflict authorisation is subject to annual review by the Board and was renewed during 2013 for another year. The terms of the conflict authorisation have remained unchanged since 2008 and details can be found in the 2012 Annual Report.

Other information
Information about financial risk management and exposure to financial market risks are set out in Note 21 to the 'Consolidated financial statements' on page 74.

Annual General Meeting
The seventeenth AGM of the Company will be held on Thursday 24 April 2014. The Notice of Meeting is included in a separate document sent to shareholders.

By order of the Board

Wai Wong
Company Secretary
25 February 2014

Directors' responsibility statement

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

Company law requires the directors to prepare consolidated and parent company financial statements for each financial year. Under that law they are required to prepare the 'Consolidated 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.

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 consolidated and parent company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- For the 'Consolidated 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'.

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 Strategic report, Directors' report, Directors' remuneration report and Corporate governance report 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 24, 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.
- The management 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.

By order of the Board

Brian Taylorson
Finance Director
25 February 2014

Independent auditor's report to the members of Elementis plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Elementis plc for the year ended 31 December 2013 set out on pages 54 to 93. 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 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- 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.

2. Our assessment of risks of material mis-statement

In arriving at our audit opinion above on the financial statements, the risks of material mis-statement that had the greatest effect on our audit were as follows:

Provisions ($38.1 million)
Refer to page 29 (Audit Committee report), page 58 (accounting policy) and page 71 (financial disclosures).

- The risk – As a chemicals company, the possibility of legal proceedings and environmental issues are inherent within the business. Elementis has numerous operating and legacy sites worldwide with provisions recognised for the future cost of the environmental issues. The amounts involved are potentially significant and future cash flows are uncertain whilst the application of accounting standards to determine the amount of liability to recognise or release, if any, for individual issues is inherently subjective.
- Our response – Our audit procedures included, among others, correspondence with the Group's external consultants on the current situation and risks regarding all identified significant environmental issues. We inspected the consultants' reports documenting the forecast future cash flows with regard to these issues. We challenged the Company's discount rate against external market data and assessed the unwinding of the provision recognised in finance costs through analytical procedures. A sample, selected using statistical sampling methodology, of the cash flows incurred in the year relating to the provisions were agreed to the underlying documentation. We considered the consistency of forecast cash flows with previous estimates by comparing the most recent estimates with the prior year external report. In addition, we inspected the group litigation and compliance reports and held discussions with the Group's internal counsel for all significant issues. We also assessed whether the Group's disclosures detailing significant provisions and contingent liabilities adequately disclose the potential liabilities of the Group.

Post retirement benefits ($99.3 million)
Refer to page 29 (Audit Committee report), page 58 (accounting policy) and pages 80 to 85 (financial disclosures).

- The risk – Significant estimates are made in valuing the Group's post retirement defined benefit schemes and small changes in assumptions and estimates used to value the Group's net pension deficit would have a significant effect on the results and financial position of the Group.
- Our response – In this area our audit procedures included, among others, testing a sample of the UK and US schemes' membership data to the source documentation. With the support of our own actuarial specialists, we then challenged the key assumptions applied to those data to determine the Group's net deficit, being the discount rate, inflation rate and mortality/life expectancy. This included a comparison of these key assumptions against externally derived data. Cash flows and funding arrangements have been agreed to the underlying documentation, whilst asset values have been agreed to external confirmations. We also considered the adequacy of the Group's disclosures in respect of IAS 19.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at $6.5 million. This has been determined with reference to a benchmark of Group profit before taxation of $136.0 million before exceptionals (of which it represents 4.8%) which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the Group.

We agreed with the audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of $0.325 million, in addition to other audit mis-statements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for group reporting purposes were performed by component auditors at the key reporting components in the following countries: US, the Netherlands, Taiwan and China, and by the group audit team in the following countries: UK. In addition, specified audit procedures were performed by component auditors in Germany at the shared service centre.

These group procedures covered 98% of total group revenue; 95% of group profit before taxation[1]; and 94% of total group assets.

The audits undertaken for group reporting purposes at the key reporting components of the Group were all performed to materiality levels set by, or agreed with, the group audit team. These materiality levels were set individually for each component and ranged from $1.2 million to $4.0 million.

Detailed audit instructions were sent to all the auditors in these locations. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material mis-statement detailed above) and set out the information required to be reported back to the group audit team. Members of the group audit team visited the following locations: US and Taiwan. Telephone meetings were also held with the auditors at this location and the other locations that were not physically visited.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material mis-statement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee report does not appropriately address matters communicated by us to the Audit and Risk Committee.

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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 49, in relation to going concern;
- the part of the Corporate governance report on page 26 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

[1] using an absolute measure due to some head office cost components recognising losses

Scope and responsibilities

As explained more fully in the Directors' responsibility statement set out on page 51, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate**. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at **www.kpmg.com/uk/auditscopeukco2013a**, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Lynton Richmond
(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
25 February 2014

Consolidated income statement

for the year ended 31 December 2013

	Note	2013 Before exceptional items $million	2013 Exceptional items (note 5) $million	2013 After exceptional items $million	2012 Before exceptional items restated* $million	2012 Exceptional items (note 5) $million	2012 After exceptional items restated* $million
Revenue	2	**776.8**	**–**	**776.8**	757.0	–	757.0
Cost of sales		**(487.7)**	**–**	**(487.7)**	(465.6)	–	(465.6)
Gross profit		**289.1**	**–**	**289.1**	291.4	–	291.4
Distribution costs		**(83.6)**	**–**	**(83.6)**	(80.6)	–	(80.6)
Administrative expenses		**(58.9)**	**(1.7)**	**(60.6)**	(66.9)	–	(66.9)
Operating profit	2	**146.6**	**(1.7)**	**144.9**	143.9	–	143.9
Other expenses		**(2.0)**	**–**	**(2.0)**	(2.5)		(2.5)
Finance income	3	**0.2**	**–**	**0.2**	0.8	–	0.8
Finance costs	4	**(8.8)**	**–**	**(8.8)**	(8.8)	–	(8.8)
Profit before income tax		**136.0**	**(1.7)**	**134.3**	133.4	–	133.4
Tax	6	**(29.4)**	**1.8**	**(27.6)**	(33.1)	–	(33.1)
Profit for the year		**106.6**	**0.1**	**106.7**	100.3	–	100.3
Attributable to:							
Equity holders of the parent		**106.6**	**0.1**	**106.7**	100.3	–	100.3
Non-controlling interests		**–**	**–**	**–**	–	–	–
		106.6	**0.1**	**106.7**	100.3	–	100.3
Earnings per share							
Basic (cents)	9			**23.3**			22.2
Diluted (cents)	9			**23.0**			21.8

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

Consolidated statement of comprehensive income

for the year ended 31 December 2013

	2013 $million	2012 restated* $million
Profit for the year	**106.7**	100.3
Other comprehensive income:		
Items that will not be reclassified subsequently to profit and loss:		
Remeasurements of retirement benefit obligations	**19.3**	(60.3)
Deferred tax associated with retirement benefit obligations	**(10.3)**	4.1
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	**(1.2)**	1.4
Effective portion of changes in fair value of cash flow hedges	**0.3**	(0.5)
Fair value of cash flow hedges transferred to income statement	**0.5**	0.8
Tax benefit associated with exercise of share options	**4.4**	–
Other comprehensive income	**13.0**	(54.5)
Total comprehensive income for the year	**119.7**	45.8
Attributable to:		
Equity holders of the parent	**119.7**	45.8
Non-controlling interests	**–**	–
Total comprehensive income for the year	**119.7**	45.8

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

Consolidated balance sheet
at 31 December 2013

	Note	2013 31 December $million	2012 31 December restated* $million
Non-current assets			
Goodwill and other intangible assets	10	**382.1**	356.7
Property, plant and equipment	11	**202.6**	186.8
Deferred tax assets	16	**8.6**	12.4
Total non-current assets		**593.3**	555.9
Current assets			
Inventories	12	**128.3**	128.6
Trade and other receivables	13	**126.2**	119.1
Derivatives		**0.4**	–
Cash and cash equivalents	20	**64.5**	63.1
Total current assets		**319.4**	310.8
Total assets		**912.7**	866.7
Current liabilities			
Bank overdrafts and loans	19	**(8.7)**	(5.6)
Trade and other payables	14	**(111.1)**	(100.0)
Derivatives		**(0.1)**	(0.4)
Current tax liabilities		**(14.4)**	(9.0)
Provisions	15	**(6.0)**	(6.6)
Total current liabilities		**(140.3)**	(121.6)
Non-current liabilities			
Loans and borrowings	19	**(1.7)**	(13.5)
Retirement benefit obligations	23	**(99.3)**	(137.4)
Deferred tax liabilities	16	**(93.5)**	(78.9)
Provisions	15	**(32.1)**	(33.9)
Government grants		**(0.3)**	(0.6)
Total non-current liabilities		**(226.9)**	(264.3)
Total liabilities		**(367.2)**	(385.9)
Net assets		**545.5**	480.8
Equity			
Share capital	17	**44.1**	43.7
Share premium		**16.7**	14.7
Other reserves	18	**129.9**	130.3
Retained earnings		**353.2**	290.5
Total equity attributable to equity holders of the parent		**543.9**	479.2
Non-controlling interests		**1.6**	1.6
Total equity		**545.5**	480.8

* restated following the adoption of revised IAS 19 Employee Benefits standard and for updated provisional fair value adjustment

The financial statements on pages 54 to 88 were approved by the Board on 25 February 2014 and signed on its behalf by:

David Dutro
Group Chief Executive

Brian Taylorson
Finance Director

Consolidated statement of changes in equity

for the year ended 31 December 2013

	Share capital $million	Share premium $million	Translation reserve $million	Hedging reserve $million	Other reserves $million	Retained earnings restated* $million	Total restated* $million	Non-controlling interest $million	Total equity restated* $million
Balance at 1 January 2012	43.4	12.7	(29.0)	(7.8)	162.6	266.7	448.6	1.6	450.2
Comprehensive income									
Profit for the year	–	–	–	–	–	100.3	100.3	–	100.3
Other comprehensive income									
Exchange differences	–	–	1.4	–	–	–	1.4	–	1.4
Fair value of cash flow hedges transferred to the income statement	–	–	–	0.8	–	–	0.8	–	0.8
Effective portion of changes in fair value of cash flow hedges	–	–	–	(0.5)	–	–	(0.5)	–	(0.5)
Remeasurements of retirement benefit obligations	–	–	–	–	–	(60.3)	(60.3)	–	(60.3)
Tax credit on actuarial loss on pension scheme	–	–	–	–	–	4.1	4.1	–	4.1
Transfer	–	–	–	–	(0.8)	0.8	–	–	–
Total other comprehensive income	–	–	1.4	0.3	(0.8)	(55.4)	(54.5)	–	(54.5)
Total comprehensive income	–	–	1.4	0.3	(0.8)	44.9	45.8	–	45.8
Transactions with owners									
Issue of shares by the Company and the ESOT	0.3	2.0	–	–	–	0.5	2.8	–	2.8
Share based payments	–	–	–	–	3.6	–	3.6	–	3.6
Deferred tax on share based payments recognised within equity	–	–	–	–	–	10.6	10.6	–	10.6
Dividends paid	–	–	–	–	–	(32.2)	(32.2)	–	(32.2)
Total transactions with owners	0.3	2.0	–	–	3.6	(21.1)	(15.2)	–	(15.2)
Balance at 31 December 2012	43.7	14.7	(27.6)	(7.5)	165.4	290.5	479.2	1.6	480.8
Balance at 1 January 2013	**43.7**	**14.7**	**(27.6)**	**(7.5)**	**165.4**	**290.5**	**479.2**	**1.6**	**480.8**
Comprehensive income									
Profit for the year	**–**	**–**	**–**	**–**	**–**	**106.7**	**106.7**	**–**	**106.7**
Other comprehensive income									
Exchange differences	**–**	**–**	**(1.2)**	**–**	**–**	**–**	**(1.2)**	**–**	**(1.2)**
Fair value of cash flow hedges transferred to the income statement	**–**	**–**	**–**	**0.5**	**–**	**–**	**0.5**	**–**	**0.5**
Effective portion of changes in fair value of cash flow hedges	**–**	**–**	**–**	**0.3**	**–**	**–**	**0.3**	**–**	**0.3**
Remeasurements of retirement benefit obligations	**–**	**–**	**–**	**–**	**–**	**19.3**	**19.3**	**–**	**19.3**
Tax benefit associated with exercise of share options	**–**	**–**	**–**	**–**	**–**	**4.4**	**4.4**	**–**	**4.4**
Deferred tax adjustment on pension scheme deficit	**–**	**–**	**–**	**–**	**–**	**(10.3)**	**(10.3)**	**–**	**(10.3)**
Transfer	**–**	**–**	**–**	**–**	**(3.2)**	**3.2**	**–**	**–**	**–**
Total other comprehensive income	**–**	**–**	**(1.2)**	**0.8**	**(3.2)**	**16.6**	**13.0**	**–**	**13.0**
Total comprehensive income	**–**	**–**	**(1.2)**	**0.8**	**(3.2)**	**123.3**	**119.7**	**–**	**119.7**
Transactions with owners									
Issue of shares by the Company	**0.4**	**2.0**	**–**	**–**	**(0.2)**	**–**	**2.2**	**–**	**2.2**
Share based payments	**–**	**–**	**–**	**–**	**3.4**	**–**	**3.4**	**–**	**3.4**
Deferred tax on share based payments recognised within equity	**–**	**–**	**–**	**–**	**–**	**(2.5)**	**(2.5)**	**–**	**(2.5)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(58.1)**	**(58.1)**	**–**	**(58.1)**
Total transactions with owners	**0.4**	**2.0**	**–**	**–**	**3.2**	**(60.6)**	**(55.0)**	**–**	**(55.0)**
Balance at 31 December 2013	**44.1**	**16.7**	**(28.8)**	**(6.7)**	**165.4**	**353.2**	**543.9**	**1.6**	**545.5**

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

Consolidated cash flow statement

for the year ended 31 December 2013

	Note	2013 $million	2012 restated* $million
Operating activities:			
Profit for the year		106.7	100.3
Adjustments for:			
Other expenses		2.0	2.5
Finance income		(0.2)	(0.8)
Finance costs		8.8	8.8
Tax charge		27.6	33.1
Depreciation and amortisation		23.9	21.3
Decrease in provisions		(1.5)	(1.9)
Pension payments net of current service cost		(26.8)	(27.9)
Share based payments		3.4	4.2
Exceptional items		1.7	–
Cash flow in respect of exceptional items excluding pensions		(3.9)	(3.7)
Operating cash flow before movement in working capital		141.7	135.9
Decrease/(increase) in inventories		2.8	(6.1)
Increase in trade and other receivables		(4.3)	(16.2)
Increase in trade and other payables		8.0	9.4
Cash generated by operations		148.2	123.0
Income taxes paid		(12.3)	(13.1)
Interest paid		(2.8)	(3.6)
Net cash flow from operating activities		133.1	106.3
Investing activities:			
Interest received		0.5	1.1
Disposal of property, plant and equipment		0.6	1.5
Purchase of property, plant and equipment		(34.1)	(38.3)
Purchase of business		(32.8)	(24.0)
Acquisition of intangible assets		(1.5)	(0.7)
Net cash flow from investing activities		(67.3)	(60.4)
Financing activities:			
Issue of shares by the Company and the ESOT		2.2	2.8
Dividends paid		(58.3)	(32.2)
Receipt of unclaimed dividends		0.2	0.3
Decrease in borrowings		(8.7)	(3.3)
Net cash used in financing activities		(64.6)	(32.4)
Net increase in cash and cash equivalents		1.2	13.5
Cash and cash equivalents at 1 January		63.1	48.2
Foreign exchange on cash and cash equivalents		0.2	1.4
Cash and cash equivalents at 31 December	20	64.5	63.1

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

Notes to the Consolidated financial statements

for the year ended 31 December 2013

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 89 to 93.

Basis of preparation The financial statements have been prepared on the historical cost basis except that derivative financial instruments and financial instruments held for trading or available for sale are stated at their fair value. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. The 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.

The financial statements have been prepared on a going concern basis.The rationale for adopting this basis is discussed in the Directors' report on page 49.

Reporting currency As a consequence of the majority of the Group's sales and earnings originating in US dollars or US dollar linked currencies, the Group has chosen the US dollar as its reporting currency. This aligns the Group's external reporting with the profile of the Group, as well as with internal management reporting.

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. It is considered that the Group's critical accounting policies are limited to those described below. The development of the estimates and disclosures related to each of these matters has been discussed by the Audit Committee.

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

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

(b) **Pension and other post retirement benefits** In respect of the Group's defined benefit schemes, the Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. Pension and post retirement liabilities are calculated by qualified actuaries using the projected unit credit method. Following the introduction of the revised IAS19 Employee Benefits standard, the net interest on the defined benefit liability now consists of the interest cost on the defined benefit obligation and the interest income on plan assets, both calculated by reference to the discount rate used to measure the defined benefit obligation at the start of the period. Previously the Group determined interest income on plan assets using an expected long term rate of return.

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 remeasurements 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.

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.

The Group adopted IFRS 3 (revised), Business Combinations, for business combinations where the acquisition date was on or after 1 January 2010. This measures goodwill at the acquisition date as the fair value of the consideration transferred, the recognised amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less the fair value of the identifiable assets acquired and liabilities assumed. Acquisition costs are accounted for as an expense in the period incurred. For acquisitions that were made by the Group between its initial adoption of IFRS in 2005 and 31 December 2009 goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

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.

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 may hedge a portion of the translation of its overseas net assets through pounds sterling 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.

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.

Property, plant and equipment Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Freehold land is not depreciated. Leasehold property is depreciated over the period of the lease. Freehold buildings, plant and machinery, 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
Fixtures, fittings and equipment	2–20 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 on the result for the year.

Intangible assets

(a) **Goodwill** All business combinations since the transition to IFRS on 1 January 2004 are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since the transition date, goodwill represents the difference between the cost of the 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.

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

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

(d) **Amortisation** Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite. 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, comprising customer lists, trademarks, patents and non-compete clauses, are amortised over their estimated useful lives which range from 5–10 years.

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.

Notes to the Consolidated financial statements
for the year ended 31 December 2013 continued

1 Accounting policies (continued)
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.

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.

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.

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.

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 geographic 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.

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 by the Company are classified as treasury shares and are presented as a deduction from total equity.

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

(a) **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.

(b) **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).

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.

Revenue Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and rebates. Revenue is recognised in the income statement only where there is evidence, usually in the form of a sales agreement, that the significant risks and rewards of ownership have been transferred to the customer and where the collectability of revenue is reasonably assured.

Exceptional items 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 degree of judgement.

Other expenses Other expenses are administration costs incurred and paid by the Group's pension schemes, which relate primarily to former employees of legacy businesses.

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.

Income tax Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively 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 substantively 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.

Share based payments The fair value of equity settled share options, cash settled shadow options and LTIP awards 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/awards. The fair value of the options/awards granted is measured using a binomial model, taking into account the terms and conditions upon which the options/awards were granted. The amount recognised as an employee expense is adjusted to reflect the actual number of share options/awards that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Notes to the Consolidated financial statements

for the year ended 31 December 2013 continued

1 Accounting policies (continued)

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 ESOT's purchases of shares in the Company are charged directly to equity.

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 2013, and have not been applied in preparing these consolidated financial statements, but that become mandatory for the Group's 2014 financial statements are as follows:

IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities
These standards relate to consolidation and the accounting for subsidiaries, joint arrangements and associates.

IAS 28 Investments in Associates and Joint Ventures (2011)
This standard amends IAS 28 (2008) in respect of the treatment of associates and joint ventures when held for sale and for when changes in interests occur.

Offsetting Financial Assets and Liabilities – Amendments to IAS 32
The amendments clarify the offsetting criteria when an entity has a legal right of set-off and when gross settlement is equivalent to net settlement.

The Group has not yet determined the potential impact of these new standards and interpretations on the 2014 financial statements.

2 Operating segments

Business 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. In accordance with the provisions of IFRS 8, the Group's chief operating decision maker is the Board of Directors. 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 with Specialty Products, separate management structures. 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.

The inter-segment revenue identified below represents the sale of these products from the Chromium to the Specialty Products business. Inter-segment pricing is set at a level that equates to the manufacturing cost of the product plus a commercially appropriate mark up.

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 2013

	2013					
	Specialty Products $million	Surfactants $million	Chromium $million	Segment totals $million	Central costs $million	Total $million
Revenue	502.8	72.2	214.8	789.8	–	789.8
Internal revenue	–	–	(13.0)	(13.0)	–	(13.0)
Revenue from external customers	502.8	72.2	201.8	776.8	–	776.8
Operating profit before exceptionals	100.9	5.9	56.0	162.8	(16.2)	146.6
Head office cost allocations	(1.8)	(0.3)	(0.9)	(3.0)	3.0	–
Exceptionals	0.7	1.3	(10.5)	(8.5)	6.8	(1.7)
Profit/(loss) before interest	99.8	6.9	44.6	151.3	(6.4)	144.9
Other expenses	–	–	–	–	(2.0)	(2.0)
Finance income	–	–	–	–	0.2	0.2
Finance expense	–	–	–	–	(8.8)	(8.8)
Taxation – pre-exceptional	–	–	–	–	(29.4)	(29.4)
Taxation – exceptional	–	–	–	–	1.8	1.8
Profit/(loss) for the period	**99.8**	**6.9**	**44.6**	**151.3**	**(44.6)**	**106.7**
Fixed assets	506.5	22.0	66.9	595.4	(10.7)	584.7
Inventories	70.2	7.6	50.5	128.3	–	128.3
Trade and other receivables	69.7	12.1	34.4	116.2	10.0	126.2
Deferred tax assets	–	–	–	–	8.6	8.6
Derivatives	–	–	–	–	0.4	0.4
Cash and cash equivalents	–	–	–	–	64.5	64.5
Segment assets	**646.4**	**41.7**	**151.8**	**839.9**	**72.8**	**912.7**
Trade and other payables	(61.8)	(14.1)	(21.7)	(97.6)	(13.5)	(111.1)
Operating provisions	–	–	–	–	(26.3)	(26.3)
Other liabilities	–	–	(11.8)	(11.8)	–	(11.8)
Bank overdrafts and loans	–	–	–	–	(10.4)	(10.4)
Derivatives	–	–	–	–	(0.1)	(0.1)
Current tax liabilities	–	–	–	–	(14.4)	(14.4)
Retirement benefit obligations	–	–	–	–	(99.3)	(99.3)
Deferred tax liabilities	–	–	–	–	(93.5)	(93.5)
Government grants	–	–	–	–	(0.3)	(0.3)
Segment liabilities	**(61.8)**	**(14.1)**	**(33.5)**	**(109.4)**	**(257.8)**	**(367.2)**
Net assets	**584.6**	**27.6**	**118.3**	**730.5**	**(185.0)**	**545.5**
Capital additions	22.4	4.9	7.2	34.5	1.2	35.7
Depreciation and amortisation	(13.8)	(2.1)	(7.4)	(23.3)	(0.6)	(23.9)

Information by geographic area	North America $million	United Kingdom $million	Rest of Europe $million	Rest of the World $million	Total $million
Revenue from external customers	273.9	33.6	201.1	268.2	776.8
Non-current assets	434.0	44.1	39.0	67.6	584.7
Capital additions	24.4	1.1	7.1	3.1	35.7
Depreciation and amortisation	(15.8)	(1.2)	(3.1)	(3.8)	(23.9)

Notes to the Consolidated financial statements

for the year ended 31 December 2013 continued

2 Operating segments (continued)

Segmental analysis for the year ended 31 December 2012

	2012					
	Specialty Products restated* $million	Surfactants $million	Chromium $million	Segment totals $million	Central costs restated** $million	Total restated** $million
Revenue	458.7	72.5	240.1	771.3	–	771.3
Internal revenue	–	–	(14.3)	(14.3)	–	(14.3)
Revenue from external customers	458.7	72.5	225.8	757.0	–	757.0
Operating profit	90.4	5.1	63.7	159.2	(15.3)	143.9
Head office cost allocations	(0.3)	(0.3)	(0.9)	(1.5)	1.5	–
Profit before interest	90.1	4.8	62.8	157.7	(13.8)	143.9
Other expenses	–	–	–	–	(2.5)	(2.5)
Finance income	–	–	–	–	0.8	0.8
Finance expense	–	–	–	–	(8.8)	(8.8)
Taxation	–	–	–	–	(33.1)	(33.1)
Profit/(loss) for the period	90.1	4.8	62.8	157.7	(57.4)	100.3
Fixed assets	469.3	18.5	66.9	554.7	(11.2)	543.5
Inventories	67.5	7.0	54.1	128.6	–	128.6
Trade and other receivables	62.8	11.2	38.4	112.4	6.7	119.1
Deferred tax assets	–	–	–	–	12.4	12.4
Cash and cash equivalents	–	–	–	–	63.1	63.1
Segment assets	599.6	36.7	159.4	795.7	71.0	866.7
Trade and other payables	(46.1)	(12.8)	(29.4)	(88.3)	(11.7)	(100.0)
Operating provisions	–	–	–	–	(28.6)	(28.6)
Other liabilities	–	–	(11.9)	(11.9)	–	(11.9)
Bank overdrafts and loans	–	–	–	–	(19.1)	(19.1)
Derivatives	–	–	–	–	(0.4)	(0.4)
Current tax liabilities	–	–	–	–	(9.0)	(9.0)
Retirement benefit obligations	–	–	–	–	(137.4)	(137.4)
Deferred tax liabilities	–	–	–	–	(78.9)	(78.9)
Government grants	–	–	–	–	(0.6)	(0.6)
Segment liabilities	(46.1)	(12.8)	(41.3)	(100.2)	(285.7)	(385.9)
Net assets	553.5	23.9	118.1	695.5	(214.7)	480.8
Capital additions	26.3	3.4	7.8	37.5	1.5	39.0
Depreciation and amortisation	(11.9)	(2.3)	(6.6)	(20.8)	(0.5)	(21.3)

* restated for updated provisional fair value adjustment

** restated following the adoption of revised IAS 19 Employee Benefits standard and for updated provisional fair value adjustment

Information by geographic area	North America $million	United Kingdom $million	Rest of Europe $million	Rest of the World $million	Total $million
Revenue from external customers	274.5	31.7	196.3	254.5	757.0
Non-current assets	394.4	43.7	33.6	71.8	543.5
Capital additions	30.3	2.3	4.9	1.5	39.0
Depreciation and amortisation	(13.5)	(1.0)	(3.3)	(3.5)	(21.3)

3 Finance income

	2013 $million	2012 $million
Interest on bank deposits	**0.2**	0.8

4 Finance costs

	2013 $million	2012 restated* $million
Interest on bank loans	2.5	3.4
Pension and other post retirement liabilities	4.5	4.1
Unwind of discount on provisions	1.8	1.3
	8.8	8.8

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

5 Exceptional items

	2013 $million	2012 $million
Post employment benefits	0.1	–
Environmental provisions	(0.2)	–
Other	(1.6)	
	(1.7)	–
Deferred tax credit	1.8	–
	0.1	–

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.

Post employment benefits
In 2013 the Group settled a 2009 claim made by a group of its Dutch pensioners and released the balance of a provision made at the time the claim was lodged, resulting in a credit of $3.3 million being recorded. Following the closure of the Eaglescliffe site there remain a number of post employment payments to former employees that will continue for a period of time. The Group has concluded that it would be appropriate to make a provision for these payments under IAS 19 and has therefore recorded an exceptional charge of $3.2 million.

Environmental provisions
A number of structural changes were made to the Group's provisions in 2013. A fixed term indemnity given by the Group to a third party in 1998 expired and, as a result, the related balance sheet provision of $9.8 million was released.

During the year the closure plan for the Eaglescliffe chromium plant was finalised in consultation with regulatory authorities and an additional $5.0 million provision for closure costs was made.

Following a review of the provisioning methodology and timing of the Group's anticipated spend on environmental matters the Group concluded that it would be appropriate to reduce the discount rate being used to calculate the current liability and this resulted in a charge of $5.8 million.

Other adjustments to existing environmental provisions resulted in a credit of $0.8 million. There was a deferred tax credit of $1.8 million relating to the adjustments to environmental provisions. Details of the Group's environmental provisions are included in Note 15.

Other adjustments
In 2013 the Group exited a long term office lease, resulting in a charge of $0.6 million. The Group also increased its provision for a 2002 dispute relating to the filing of an industry report with the US Environmental Protection Agency, resulting in a charge of $1.0 million.

Notes to the Consolidated financial statements

for the year ended 31 December 2013 continued

6 Income tax expense

	2013 $million	2012 restated* $million
Current tax:		
Overseas corporation tax	**21.3**	15.6
Adjustments in respect of prior years:		
Overseas	**(0.5)**	(1.1)
Total current tax	**20.8**	14.5
Deferred tax:		
United Kingdom	**0.9**	3.7
Adjustment in respect of prior year	**0.4**	–
Overseas	**4.1**	14.1
Adjustments in respect of prior years	**1.4**	0.8
Total deferred tax	**6.8**	18.6
Income tax expense for the year	**27.6**	33.1
Comprising:		
Before exceptional items	**29.4**	33.1
Exceptional items**	**(1.8)**	–
	27.6	33.1

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

** see Note 5

The tax charge on profit represents an effective tax rate on profit before exceptional items for the year ended 31 December 2013 of 21.6 per cent (2012: 24.8 per cent). 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:

	2013 $million	2013 per cent	2012 restated* $million	2012 restated* per cent
Profit before tax	**134.3**	**–**	133.4	–
Tax on ordinary activities at 23.25 per cent (2012: 24.5 per cent)**	**31.2**	**23.3**	32.7	24.5
Difference in overseas effective tax rates	**10.9**	**8.1**	15.2	11.4
Income not chargeable for tax purposes	**(9.8)**	**(7.3)**	(5.8)	(4.3)
Expenses not deductible for tax purposes	**0.5**	**0.4**	0.2	0.1
Tax losses and other deductions	**(6.1)**	**(4.5)**	(8.7)	(6.5)
Tax rate adjustments to deferred tax	**–**	**–**	1.8	1.3
Adjustments in respect of prior years	**0.9**	**0.6**	(0.3)	(0.2)
Share options tax credit	**–**	**–**	(2.0)	(1.5)
Tax charge and effective tax rate for the year	**27.6**	**20.6**	33.1	24.8

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

** tax rate reflects reduction in UK corporation tax rate from 24 per cent to 23 per cent with effect from April 2013

7 Profit for the year

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

	2013 $million	2012 $million
Employee costs	104.7	98.8
Net foreign exchange gains	(1.8)	(1.2)
Research and development costs	7.6	7.2
Government grants	(0.4)	(0.4)
Depreciation of property, plant and equipment	20.8	19.7
Amortisation of intangible assets	3.5	2.1
Total depreciation and amortisation expense	24.3	21.8
Cost of inventories recognised as expense	385.6	368.8
Fees available to the Company's auditor and its associates:		
Audit of the Company's financial statements	0.2	0.2
Audit of the Company's subsidiaries	0.5	0.5
Audit related assurance services (half year review)	0.1	0.1
Tax compliance services	0.3	0.2
Other tax advisory services	0.3	0.6

8 Employees

	2013 $million	2012 $million
Employee costs:		
Wages and salaries	92.6	87.0
Social security costs	7.6	7.6
Pension costs	4.5	4.2
	104.7	98.8

	Number	Number
Average number of FTE employees*:		
Specialty Products	946	883
Surfactants	152	161
Chromium	254	266
Central	13	13
Total	1,365	1,323

* full time equivalent including contractors

Notes to the Consolidated financial statements

for the year ended 31 December 2013 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:

	2013 $million	2012 restated* $million
Earnings:		
Earnings for the purpose of basic earnings per share	106.6	100.3
Exceptional items net of tax	0.1	–
Adjusted earnings	106.7	100.3

	2013 million	2012 million
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	456.9	451.8
Effect of dilutive share options	6.8	8.6
Weighted average number of shares for the purposes of diluted earnings per share	463.7	460.4

	2013 cents	2012 restated* cents
Earnings per share:		
Basic	23.3	22.2
Diluted	23.0	21.8
Basic before exceptional items	23.3	22.2
Diluted before exceptional items	23.0	21.8

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

10 Goodwill and other intangible assets

	Goodwill restated* $million	Brand restated* $million	Other intangible assets restated* $million	Total restated* $million
Cost:				
At 1 January 2012	304.8	17.4	20.0	342.2
Exchange differences	1.5	0.5	0.5	2.5
Acquisition of subsidiary	14.8	2.0	3.7	20.5
Additions	–	–	0.7	0.7
At 1 January 2013	321.1	19.9	24.9	365.9
Exchange differences	(0.1)	(0.4)	(0.8)	(1.3)
Acquisition of subsidiary	14.1	4.9	9.7	28.7
Additions	–	–	1.5	1.5
At 31 December 2013	**335.1**	**24.4**	**35.3**	**394.8**
Amortisation:				
At 1 January 2012	–	–	7.1	7.1
Charge for the year	–	–	2.1	2.1
At 1 January 2013	–	–	9.2	9.2
Charge for the year	–	–	3.5	3.5
At 31 December 2013	**–**	**–**	**12.7**	**12.7**
Carrying amount:				
At 31 December 2013	**335.1**	**24.4**	**22.6**	**382.1**
At 31 December 2012	321.1	19.9	15.7	356.7
At 1 January 2012	304.8	17.4	12.9	335.1

* restated for updated provisional fair value adjustment

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 $331.5 million, including $14.1 million and $14.8 million from the Hi-Mar and Watercryl acquisitions respectively (see Note 29), and Elementis Surfactants $3.6 million. There is no goodwill associated with Elementis Chromium.

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. In order to stress test the results over a wider range of conditions, management has expanded its testing to include discount rates based on a variety of equity risk premiums and different capital structures that reflect the potential variability of risk within the CGUs and the Group's long term financing options. In this exercise a range of discount rates from 10.2 per cent to 16.0 per cent (2012: 9.0 per cent to 13.8 per cent) was used.

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 seventeen years based on estimated growth rates of 0–2.5 per cent. The rates do not exceed the average long term growth rate for the relevant markets and also take into account potential, future capacity limitations for the Chromium business. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. The results of the impairment testing using the assumptions discussed show that there is no indication that goodwill might be impaired.

The brand intangibles represent the value ascribed to the trading name and reputation of the Deuchem, Fancor, Watercryl and Hi-Mar acquisitions. The Group considers these to have significant and on-going value to the business that will be maintained and it is therefore considered appropriate to assign these assets an indefinite useful life. Brand intangibles are tested annually for impairment using similar assumptions to the goodwill testing. The remaining intangible assets comprise of the value ascribed to customer lists, patents and non-compete clauses, which are being amortised over periods of 5–10 years.

Notes to the Consolidated financial statements

for the year ended 31 December 2013 continued

11 Property, plant and equipment

	Land and buildings restated* $million	Plant and machinery restated* $million	Fixtures, fittings and equipment restated* $million	Under construction $million	Total restated* $million
Cost:					
At 1 January 2012	146.2	487.0	47.3	12.1	692.6
Additions	0.1	0.3	–	37.9	38.3
Exchange differences	2.6	10.3	0.2	0.3	13.4
Acquisitions	2.6	1.8	–	–	4.4
Disposals	(9.3)	(5.0)	(7.2)	–	(21.5)
Reclassifications	6.1	17.1	3.1	(26.3)	–
At 31 December 2012	148.3	511.5	43.4	24.0	727.2
Additions	0.3	3.1	–	30.6	34.0
Exchange differences	1.2	8.8	0.6	0.1	10.7
Acquisitions	–	2.3	–	–	2.3
Disposals	(0.3)	(1.5)	(0.3)	–	(2.1)
Reclassifications	2.8	18.7	1.9	(23.4)	–
At 31 December 2013	**152.3**	**542.9**	**45.6**	**31.3**	**772.1**
Accumulated depreciation:					
At 1 January 2012	100.2	386.4	42.2	–	528.8
Charge for the year	3.5	14.9	1.3	–	19.7
Exchange differences	1.9	9.9	0.2	–	12.0
Disposals	(9.0)	(4.1)	(7.0)	–	(20.1)
Reclassifications	–	–	–	–	–
At 31 December 2012	96.6	407.1	36.7	–	540.4
Charge for the year	3.4	16.2	1.2	–	20.8
Exchange differences	1.4	8.0	0.5	–	9.9
Disposals	(0.1)	(1.2)	(0.3)	–	(1.6)
Reclassifications	–	(0.1)	0.1	–	–
At 31 December 2013	**101.3**	**430.0**	**38.2**	**–**	**569.5**
Net book value:					
At 31 December 2013	**51.0**	**112.9**	**7.4**	**31.3**	**202.6**
At 31 December 2012	51.7	104.4	6.7	24.0	186.8
At 1 January 2012	46.0	100.6	5.1	12.1	163.8

* restated for updated provisional fair value adjustment

Group capital expenditure contracted but not provided for in these financial statements amounted to $nil (2012: $nil).

Land and buildings comprised the following:

	2013 $million	2012 $million
Freehold property	**152.0**	153.0
Short leasehold properties	**0.3**	0.3
	152.3	153.3

12 Inventories

	2013 $million	2012 restated* $million
Raw materials and consumables	**63.0**	61.9
Work in progress	**11.6**	9.7
Finished goods and goods purchased for resale	**53.7**	57.0
	128.3	128.6

* restated for updated provisional fair value adjustment

Inventories are disclosed net of provisions for obsolescence of $6.4 million (2012: $7.8 million).

13 Trade and other receivables

	2013 $million	2012 $million
Trade receivables	**115.8**	108.9
Other receivables	**4.8**	4.8
Prepayments and accrued income	**5.6**	5.4
	126.2	119.1

14 Trade and other payables

	2013 $million	2012 restated* $million
Trade payables	**67.9**	47.6
Other taxes and social security	**1.2**	1.4
Other payables	**6.6**	5.2
Accruals and deferred income	**35.4**	45.8
	111.1	100.0

* restated for updated provisional fair value adjustment

15 Provisions

	Environmental $million	Chromium UK closure $million	Self-insurance $million	Total $million
At 1 January 2013	21.9	15.7	2.9	40.5
Charged/(credited) to the income statement:				
Exceptional items – additional provisions	5.6	4.4	–	10.0
Exceptional items – unused amounts reversed	(9.8)	–	–	(9.8)
Additional provisions	0.2	–	0.8	1.0
Unwinding of discount	1.0	0.8	–	1.8
Utilised during the year	(2.0)	(3.2)	(0.5)	(5.7)
Currency translation differences	0.2	0.1	–	0.3
At 31 December 2013	**17.1**	**17.8**	**3.2**	**38.1**
Due within one year	4.0	1.8	0.2	6.0
Due after one year	13.1	16.0	3.0	32.1

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.

The Chromium UK closure provision contains all anticipated costs relating to closure including environmental costs.

Self-insurance provisions at 31 December 2013 represent the aggregate of outstanding claims plus a projection of losses incurred but not reported. The self-insurance provisions are expected to be utilised within five years.

Notes to the Consolidated financial statements

for the year ended 31 December 2013 continued

16 Deferred tax

	Retirement benefit plans restated* $million	Accelerated tax depreciation $million	Amortisation of US goodwill $million	Temporary differences restated** $million	Unrelieved tax losses $million	Total restated*** $million
At 1 January 2012	19.6	(22.7)	(85.9)	1.2	27.5	(60.3)
(Charge)/credit to the income statement	(0.3)	4.6	(7.0)	(5.0)	(10.9)	(18.6)
Credit to other comprehensive income	4.1	–	–	–	–	4.1
Credit to retained earnings	–	–	–	10.6	–	10.6
Acquisition	–	–	–	(3.5)	–	(3.5)
Currency translation differences	–	(0.1)	–	1.3	–	1.2
At 1 January 2013	23.4	(18.2)	(92.9)	4.6	16.6	(66.5)
(Charge)/credit to the income statement	(3.2)	(5.4)	(0.1)	4.0	(2.1)	(6.8)
Credit to other comprehensive income	(10.3)	–		–		(10.3)
Credit to retained earnings	–	–	–	(2.5)	–	(2.5)
Currency translation differences	(0.7)	–	–	1.9	–	1.2
At 31 December 2013	**9.2**	**(23.6)**	**(93.0)**	**8.0**	**14.5**	**(84.9)**
Deferred tax assets	**1.9**	**0.1**	**–**	**5.9**	**0.7**	**8.6**
Deferred tax liabilities	**7.3**	**(23.7)**	**(93.0)**	**2.1**	**13.8**	**(93.5)**

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

** restated for updated provisional fair value adjustment

*** restated following the adoption of revised IAS 19 Employee Benefits standard and for updated provisional fair value adjustment

At 31 December 2013 the full amount of ACT previously written-off, available for offset against future UK profits, was $41.4 million (2012: $41.1 million). Additional tax losses for which no deferred tax asset has been recognised and for which there is no expiry date were $2.5 million (2012: $2.4 million). These relate to restricted losses within the UK and have reduced in the year due to the restructuring within subsidiaries.

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. There are no significant temporary differences arising in connection with interests in subsidiaries and associates.

17 Share capital

	2013 $million	2012 $million
At 1 January	**43.7**	43.4
Issue of shares	**0.4**	0.3
At 31 December	**44.1**	43.7

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

18 Other reserves

	Capital redemption reserve $million	Translation reserve $million	Hedging reserve $million	Share options reserve $million	Total $million
At 1 January 2012	158.8	(29.0)	(7.8)	3.8	125.8
Share based payments	–	–	–	3.6	3.6
Exchange differences	–	1.4	–	–	1.4
Decrease in fair value of derivatives	–	–	0.3	–	0.3
Transfer	–	–	–	(0.8)	(0.8)
At 1 January 2013	158.8	(27.6)	(7.5)	6.6	130.3
Share based payments	–	–	–	3.2	3.2
Exchange differences	–	(1.2)	–	–	(1.2)
Decrease in fair value of derivatives	–	–	0.8	–	0.8
Transfer	–	–	–	(3.2)	(3.2)
Balance at 31 December 2013	**158.8**	**(28.8)**	**(6.7)**	**6.6**	**129.9**

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.

19 Borrowings

	2013 $million	2012 $million
Bank loans	**10.4**	19.1

The borrowings are repayable as follows:

Within one year	**8.7**	5.6
In the second year	**1.5**	12.3
In the third year	**0.2**	1.0
In the fourth year	**–**	0.2
After more than five years	**–**	–
	10.4	19.1

The weighted average interest rates paid were as follows:

	2013 per cent	2012 per cent
Bank loans	**1.7**	2.0

Of the US dollar borrowings, $1.9 million was unsecured (2012: $11.0 million), bearing interest at the relevant interbank rates plus a margin. The Taiwan dollar and remaining US dollar borrowings 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	Taiwan Dollar	Total
Bank loans			
31 December 2012	13.0	6.1	19.1
31 December 2013	**3.9**	**6.5**	**10.4**

Notes to the Consolidated financial statements

for the year ended 31 December 2013 continued

20 Cash and cash equivalents

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

	2013 $million	2012 $million
Cash and cash equivalents	**64.5**	63.1

21 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.

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 through a treasury policy that imposes graduated limits on the amount of funds that can be deposited with counterparties by reference to the counterparties' credit ratings, as defined by Standard & Poor's or Moody's. Management does not expect any counterparty to fail to meet its obligations.

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 $121.0 million (2012: $203.5 million) of undrawn committed facilities, of which $102.6 million expires after more than one year.

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 uses 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 US Dollar and the Euro. The Group hedges up to 100 per cent of current and forecast trade receivables and trade payables denominated in a foreign currency. 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, but also Euro and GBP. 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 a 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. In respect of the US schemes, 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, without excessive risk taking, in order to meet partially the Group's unfunded benefit obligations; management is assisted by external advisors in this regard. In respect of the UK scheme, the investment strategy is set by the trustees and the Board is kept informed.

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 monitors the return on operating capital employed ('ROCE') including goodwill, as defined on page 15. The Group's target is to achieve a ROCE (including goodwill) in excess of our weighted average cost of capital.

The Board encourages employees to hold shares in the Company through the Group's savings related share option schemes. At present, employees including executive directors hold 0.3 per cent (2012: 0.3 per cent) of ordinary shares, or 2.0 per cent (2012: 2.7 per cent) assuming that all outstanding options vest or are exercised.

Current dividend policy is to pay a progressive dividend of approximately one third of earnings per share before exceptional items. Additionally if the Group finishes the year in a net balance sheet cash position, and there are no immediate investment plans for that cash, the Group may recommend an additional special dividend of up to 50 per cent of the net cash amount. These dividend policies remain under review to ensure that they remain appropriate to the circumstances and strategy of the Group.

	2013 $million	2012 $million
Recognised in profit or loss		
Interest income on bank deposits	**0.2**	0.8
Financial income	**0.2**	0.8
Net change in fair value of cash flow hedges transferred from equity	**–**	1.2
Interest on bank loan	**(2.5)**	(3.4)
Net pension interest	**(4.5)**	(4.1)
Financial costs	**(7.0)**	(6.3)
Net financial costs	**(6.8)**	(5.5)

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

Recognised directly in equity		
Effective portion of changes in fair value of cash flow hedge	**0.3**	(0.5)
Fair value of cash flow hedges transferred to income statement	**0.5**	0.8
Effective portion of change in fair value of net investment hedge	**(1.1)**	0.4
Foreign currency translation differences for foreign operations	**(0.1)**	1.0
Recognised in		
Hedging reserve	**0.8**	0.3
Translation reserve	**(1.2)**	1.4

Derivatives used for hedging included within current assets amounted to $0.4 million at 31 December 2013 (2012: $nil) and $0.1 million within current liabilities (2012: $0.4 million).

Notes to the Consolidated financial statements

for the year ended 31 December 2013 continued

21 Financial risk management (continued)

Loans and borrowings

	2013 $million	2012 $million
Current liabilities		
Unsecured bank loan	**1.9**	1.0
Secured bank loan	**6.8**	4.6
Non-current liabilities		
Unsecured bank loan	**–**	10.0
Secured bank loan	**1.7**	3.5

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Year of maturity	**2013 Face value $million**	**2013 Carrying amount $million**	2012 Face value $million	2012 Carrying amount $million
Unsecured bank loan	Multi	2018	**–**	**–**	10.0	10.0
Unsecured bank loan	USD	2014	**1.9**	**1.9**	1.0	1.0
Secured bank loan	USD	2014–2017	**2.1**	**2.1**	2.0	2.0
Secured bank loan	TWD	2014–2016	**6.4**	**6.4**	6.1	6.1
Total interest bearing liabilities			**10.4**	**10.4**	19.1	19.1

The multi-currency unsecured bank facility bears interest at Libor of the currency drawn down plus a margin based on the ratio of the Group's net borrowings to EBITDA (earnings before interest, tax, exceptional items, depreciation and amortisation). The remaining loans bear interest at interest rates of between 1.8 per cent and 2.4 per cent. The secured bank loans are secured against land and buildings in Taiwan with a carrying value of $9.9 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	
	2013 $million	2012 $million
Trade receivables	**115.8**	108.9
Other receivables	**4.8**	4.8
Cash and cash equivalents	**64.5**	63.1
	185.1	176.8

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

	Carrying amount	
	2013 $million	2012 $million
North America	**34.1**	29.7
Europe	**35.3**	34.9
Rest of the World	**46.4**	44.3
	115.8	108.9

Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross 2013 $million	Impairment 2013 $million	Gross 2012 $million	Impairment 2012 $million
Not past due	**105.5**	**(0.5)**	98.4	(1.0)
Past due 0–30 days	**10.1**	**–**	10.9	(0.2)
Past due 31–120 days	**0.7**	**–**	1.0	(0.2)
Past due > 1 year	**0.2**	**(0.2)**	0.3	(0.3)
Total	**116.5**	**(0.7)**	110.6	(1.7)

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

	2013 $million	2012 $million
Balance at 1 January	**1.7**	1.3
Impairment loss recognised	**(1.0)**	0.2
Acquisition fair value adjustment	**–**	0.2
Balance at 31 December	**0.7**	1.7

The provision for impairment relates primarily to customers of Elementis Chromium who, due to their payment history and geographic location, are assessed as having a higher exposure to credit risk than is acceptable. A provision is therefore deemed to be appropriate.

Liquidity risk

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

	31 December 2013				
	Carrying amount $million	Contractual cash flows $million	6 months or less $million	6–12 months $million	1 year or more $million
Non-derivative financial liabilities:					
Unsecured bank loan	**1.9**	**(1.9)**	**(1.0)**	**(0.9)**	**–**
Secured bank loan	**8.5**	**(8.5)**	**(6.8)**	**–**	**(1.7)**
Trade and other payables*	**75.7**	**(75.7)**	**(75.7)**	**–**	**–**
	86.1	**(86.1)**	**(83.5)**	**(0.9)**	**(1.7)**

* excludes derivatives

	31 December 2012				
	Carrying amount $million	Contractual cash flows $million	6 months or less $million	6–12 months $million	1 year or more $million
Non-derivative financial liabilities:					
Unsecured bank loan	11.0	(11.0)	(10.0)	(1.0)	–
Secured bank loan	8.1	(8.1)	(0.3)	(4.3)	(3.5)
Trade and other payables*	54.5	(54.5)	(54.5)	–	–
	73.6	(73.6)	(64.8)	(5.3)	(3.5)

* excludes derivatives

Bank loans have been drawn under committed facilities and can be re-financed 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 2013 continued

21 Financial risk management (continued)

Currency risk

Exposure to currency risk

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

	2013			2012		
	USD $million	Euro $million	Other $million	USD $million	Euro $million	Other $million
Trade receivables	65.1	31.4	19.3	62.7	30.1	16.1
Trade payables	(32.0)	(19.8)	(16.1)	(24.4)	(12.9)	(10.3)
Gross balance sheet exposure	33.1	11.6	3.2	38.3	17.2	5.8
Forward exchange contracts	–	(24.9)	–	–	(15.9)	–
Net exposure	–	(13.3)	3.2	–	1.3	5.8

The main exchange rates relevant to the Group are set out in the Strategic report on page 14.

Sensitivity analysis

A 10 per cent strengthening of US dollar 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 $million	Profit or loss $million
31 December 2013		
GBP	7.9	2.7
Euro	(3.2)	(2.4)
RMB	(3.2)	(1.0)
TWD	(2.4)	0.2
31 December 2012		
GBP	2.0	2.9
Euro	(1.7)	(4.0)
RMB	(3.0)	(1.1)
TWD	(3.0)	0.3

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

	Carrying amount	
	2013 $million	2012 $million
Variable rate instruments		
Financial liabilities	(0.6)	(0.6)

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.

		2013 Profit or loss		2012 Profit or loss
	100bp increase $million	100bp decrease $million	100bp increase $million	100bp decrease $million
Variable rate instruments	–	–	–	–

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 2013		31 December 2012	
	Carrying amount $million	Fair value $million	Carrying amount $million	Fair value $million
Trade and other receivables	120.6	120.6	113.7	113.7
Cash and cash equivalents	64.5	64.5	63.1	63.1
Derivative contracts used for hedging:				
Assets	0.4	0.4	–	–
Liabilities	(0.1)	(0.1)	(0.4)	(0.4)
Unsecured bank facility	(1.9)	(1.9)	(11.0)	(11.0)
Secured bank loan	(8.5)	(8.5)	(8.1)	(8.1)
Trade and other payables*	(111.1)	(111.1)	(100.0)	(100.0)
	63.9	63.9	57.3	57.3
Unrecognised gain/(loss)	–	–	–	–

* excludes derivatives

Basis for determining fair values

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 following summarises the significant methods and assumptions used in estimating the fair values of financial instruments.

Derivatives (level 2)

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.

Trade and other receivables, Trade and other payables (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:

	2013 per cent	2012 per cent
Derivatives	4.1–8.2	4.1–7.8
Borrowings	1.8–2.4	2.6–2.9

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 2. At both 31 December 2012 and 31 December 2013 there was no difference between the carrying value and fair value of financial instruments.

Notes to the Consolidated financial statements

for the year ended 31 December 2013 continued

22 Operating leases

	2013 $million	2012 $million
Minimum lease payments under operating leases recognised as an expense in the year	**3.9**	4.0

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

	2013 $million	2012 $million
Within one year	**0.4**	0.7
In the second to fifth years inclusive	**1.5**	1.8
After five years	**22.1**	23.3
	24.0	25.8

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

23 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.

Other employee benefit schemes included in the table below relate to two unfunded pension schemes and a long term service award scheme in Germany and a special benefits programme for a small number of former employees of the Eaglescliffe plant.

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, earnings per share and balance sheet for the year ended and as at 31 December 2012 is shown in the table below:

	Year ended 31 December 2012 $million
Income Statement	
Other expenses	(2.5)
Finance income	(1.2)
Finance costs	(4.1)
Decrease in profit before tax	(7.8)
Reduction in tax charge	1.0
Decrease in profit for the period	(6.8)
Consolidated Statement of Comprehensive Income	
Deferred tax associated with pension and other post retirement schemes	(1.0)
Balance Sheet	
Increase in retirement benefit obligations	(1.4)
Decrease in retained earnings	(1.4)
Earnings per share	cents
Basic	(1.5)
Diluted	(1.5)

Net defined benefit liability

The net liability was as follows:

	UK pension scheme $million	US pension schemes $million	US PRMB scheme $million	Netherlands pension scheme $million	Other $million	Total $million
2013						
Total market value of assets	765.9	107.9	–	63.7	–	937.5
Present value of scheme liabilities	(832.0)	(123.5)	(7.5)	(67.4)	(6.4)	(1,036.8)
Net liability recognised in the balance sheet	(66.1)	(15.6)	(7.5)	(3.7)	(6.4)	(99.3)

	UK pension scheme $million	US pension schemes $million	US PRMB scheme $million	Netherlands pension scheme $million	Other $million	Total $million
2012						
Total market value of assets	724.7	93.4	–	60.5	–	878.6
Present value of scheme liabilities	(797.6)	(136.2)	(8.5)	(70.4)	(3.3)	(1,016.0)
Net liability recognised in the balance sheet	(72.9)	(42.8)	(8.5)	(9.9)	(3.3)	(137.4)

Employer contributions in 2013 were $21.4 million (2012: $21.1 million) to the UK scheme; $2.9 million (2012: $7.6 million) to US schemes and $1.9 million (2012: $1.8 million) in respect of the Netherlands scheme. Contributions in 2014 are expected to be approximately $49 million. Further details on agreed future payments to the UK pension scheme are included in the Finance report.

Movement in net defined benefit liability

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit liability and its components.

	UK pension scheme $million	US pension schemes $million	US PRMB scheme $million	Netherlands pension scheme $million	Other $million	Total $million
2013						
Balance at 1 January	(72.9)	(42.8)	(8.5)	(9.9)	(3.3)	(137.4)
Included in profit or loss						
Current service cost	(0.8)	(0.5)	(0.1)	(1.6)	(0.1)	(3.1)
Past service costs	–	–	–	0.6	(3.2)	(2.6)
Running costs	(1.5)	(0.4)	–	(0.1)	–	(2.0)
Settlement	–	–	–	3.2	–	3.2
Net interest expense	(2.4)	(1.5)	(0.3)	(0.1)	(0.1)	(4.4)
	(4.7)	(2.4)	(0.4)	2.0	(3.4)	(8.9)
Included in other comprehensive income						
Remeasurements:						
Return on plan assets excluding interest income	18.0	16.6	–	(3.5)	–	31.1
Actuarial gains/losses arising from demographic assumptions	–	(0.3)	–	–	–	(0.3)
Actuarial gains/losses arising from financial assumptions	(9.0)	10.8	0.4	2.9	0.2	5.3
Actuarial gains/losses arising from experience adjustment	(17.9)	0.1	0.5	0.5	–	(16.8)
Exchange differences	(1.0)	–	–	(0.3)	(0.1)	(1.4)
	(9.9)	27.2	0.9	(0.4)	0.1	17.9
Contributions:						
Employers	21.4	2.4	0.5	4.6	0.2	29.1
Deficit in schemes at 31 December	(66.1)	(15.6)	(7.5)	(3.7)	(6.4)	(99.3)

In 2013 the Netherlands pension scheme recognised a past service gain due to the change in state pension retirement age from 65 to 67. Both the settlement credit within the Netherlands pension scheme, relating to the resolution of a 2009 claim relating to changes made to the scheme in 2005, and past service charge associated with the recognition of additional Eaglescliffe post employment benefits, have been reflected within exceptional items. Further details can be found in Note 5.

23 Retirement benefit obligations (continued)

	UK pension scheme $million	US pension schemes $million	US PRMB scheme $million	Netherlands pension scheme $million	Other $million	Total $million
2012						
Balance at 1 January	(35.0)	(41.4)	(8.2)	(9.1)	(2.7)	(96.4)
Included in profit or loss						
Current service cost	(0.8)	(0.4)	(0.1)	(0.8)	(0.1)	(2.2)
Running costs	(1.7)	(0.4)	–	(0.4)	–	(2.5)
Net interest expense	(1.3)	(1.9)	(0.4)	(0.1)	(0.1)	(3.8)
	(3.8)	(2.7)	(0.5)	(1.3)	(0.2)	(8.5)
Included in other comprehensive income						
Remeasurements:						
Return on plan assets excluding interest income	4.7	7.2	–	10.9	–	22.8
Actuarial gains/losses arising from demographic assumptions	(7.2)	(0.3)	–	–	–	(7.5)
Actuarial gains/losses arising from financial assumptions	(39.2)	(11.7)	–	(12.3)	(0.4)	(63.6)
Actuarial gains/losses arising from experience adjustment	(11.0)	(0.7)	(0.5)	0.2	–	(12.0)
Exchange differences	(2.5)	–	–	(0.1)	(0.1)	(2.7)
	(55.2)	(5.5)	(0.5)	(1.3)	(0.5)	(63.0)
Contributions:						
– Employers	21.1	6.8	0.7	1.8	0.1	30.5
Deficit in schemes at 31 December	(72.9)	(42.8)	(8.5)	(9.9)	(3.3)	(137.4)

Plan assets

Plan assets comprise:

	UK pension scheme $million	**US pension schemes $million**	**US PRMB scheme $million**	**Netherlands pension scheme $million**	**Total $million**
2013					
Equities	**330.0**	**80.5**	**–**	**–**	**410.5**
Bonds	**201.8**	**26.7**	**–**	**63.7**	**292.2**
Cash/liquidity funds	**171.8**	**0.7**	**–**	**–**	**172.5**
Other	**62.3**	**–**	**–**	**–**	**62.3**
	765.9	**107.9**	**–**	**63.7**	**937.5**

	UK pension scheme $million	US pension schemes $million	US PRMB scheme $million	Netherlands pension scheme $million	Total $million
2012					
Equities	336.9	68.0	–	–	404.9
Bonds	219.2	23.6	–	60.5	303.3
Cash/liquidity funds	162.5	1.8	–	–	164.3
Other	6.1	–	–	–	6.1
	724.7	93.4	–	60.5	878.6

All equities, bonds and liquidity funds have quoted prices in active markets. Other assets include insured annuities, an insurance fund and various swap products.

Within the UK pension scheme, the current asset allocation is approximately 55 per cent in a liability matching fund consisting of gilts (fixed interest and index linked), bonds, cash and swaps and 45 per cent in an investment fund that includes various equity and equity like funds. The aim of the trustees is to manage the risk relative to the liabilities associated with the scheme's investments through a combination of diversification, inflation protection and hedging of risk (currency, interest rate and inflation risk). The US scheme currently has over 70 per cent of its asset value invested in a range of equity funds designed to target higher returns and thus reduce the pension deficit, with the balance invested in fixed income bonds and cash. The strategy is that as the deficit reduces, a greater proportion of investments will be made into liability matching funds. The Dutch scheme is fully insured with two registered insurance companies who guarantee the accrued nominal benefits, thus removing the downside risks to the Group, and who also decide the investment strategy. The assets in the plan currently consist mainly of government bonds.

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

	UK pension scheme $million	US pension schemes $million	US PRMB scheme $million	Netherlands pension scheme $million	Total $million
2013					
Opening fair value of plan assets	724.7	93.4	–	60.5	878.6
Expected return	28.2	3.3	–	2.2	33.7
Running costs	(1.5)	(0.4)	–	(0.1)	(2.0)
Past service costs	–	–	–	0.5	0.5
Actuarial gain/(loss)	18.0	16.6	–	(3.4)	31.2
Contributions by employer	21.4	2.4	–	2.0	25.8
Contributions by employees	0.1	–	–	0.9	1.0
Benefits paid	(40.2)	(7.4)	–	(1.6)	(49.2)
Exchange differences	15.2	–	–	2.7	17.9
Closing fair value of plan assets	765.9	107.9	–	63.7	937.5

	UK pension scheme $million	US pension schemes $million	US PRMB scheme $million	Netherlands pension scheme $million	Total $million
2012					
Opening fair value of plan assets	677.1	82.9	–	45.8	805.8
Expected return	31.9	3.8	–	2.2	37.9
Running costs	(1.7)	(0.4)	–	(0.4)	(2.5)
Actuarial gain/(loss)	4.7	7.2	–	10.9	22.8
Contributions by employer	21.1	6.9	–	1.8	29.8
Contributions by employees	0.1	–	–	0.8	0.9
Benefits paid	(40.2)	(7.0)	–	(1.5)	(48.7)
Exchange differences	31.7	–	–	0.9	32.6
Closing fair value of plan assets	724.7	93.4	–	60.5	878.6

Defined benefit obligation

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

	UK pension scheme $million	US pension schemes $million	US PRMB scheme $million	Netherlands pension scheme $million	Total $million
2013					
Opening defined benefit obligation	(797.6)	(136.2)	(8.5)	(70.4)	(1,012.7)
Service cost	(0.8)	(0.5)	(0.1)	(1.6)	(3.0)
Past service cost	–	–	–	0.1	0.1
Interest cost	(30.6)	(4.8)	(0.3)	(2.3)	(38.0)
Contributions by employees	(0.1)			(0.9)	(1.0)
Actuarial losses	(26.9)	10.6	0.9	3.3	(12.1)
Benefits paid	40.2	7.4	0.5	4.2	52.3
Curtailments and settlements	–	–	–	3.2	3.2
Exchange differences	(16.2)	–	–	(3.0)	(19.2)
Closing defined benefit obligation	(832.0)	(123.5)	(7.5)	(67.4)	(1,030.4)

Notes to the Consolidated financial statements

for the year ended 31 December 2013 continued

23 Retirement benefit obligations (continued)

	UK pension scheme $million	US pension schemes $million	US PRMB scheme $million	Netherlands pension scheme $million	Total $million
2012					
Opening defined benefit obligation	(712.1)	(124.3)	(8.2)	(54.9)	(899.5)
Service cost	(0.8)	(0.4)	(0.1)	(0.8)	(2.1)
Interest cost	(33.2)	(5.8)	(0.4)	(2.3)	(41.7)
Contributions by employees	(0.1)	–	–	(0.8)	(0.9)
Actuarial losses	(57.4)	(12.7)	(0.5)	(12.1)	(82.7)
Benefits paid	40.2	7.0	0.7	1.5	49.4
Exchange differences	(34.2)	–	–	(1.0)	(35.2)
Closing defined benefit obligation	(797.6)	(136.2)	(8.5)	(70.4)	(1,012.7)

Actuarial assumptions

A full actuarial valuation was carried out on 30 September 2011 for the UK scheme and at 31 December 2013 for the US and Netherlands schemes.

The principal assumptions used by the actuaries for the major schemes were as follows:

	UK per cent	US per cent	Netherlands per cent
2013			
Rate of increase in salaries	**4.40**	**3.45**	**2.00**
Rate of increase in pensions in payment	**3.30**	**N/A**	**N/A**
Discount rate	**4.40**	**4.45**	**3.75**
Inflation	**3.40**	**2.50**	**2.00**
2012			
Rate of increase in salaries	3.90	3.45	2.00
Rate of increase in pensions in payment	2.80	N/A	N/A
Discount rate	4.10	3.65	3.50
Inflation	2.90	2.50	2.00

The assumed life expectancies on retirement are:

	UK		US		Netherlands	
	2013 years	2012 years	**2013 years**	2012 years	**2013 years**	2012 years
Retiring at 31 December 2013						
Males	**22**	22	**19**	19	**22**	22
Females	**24**	24	**21**	21	**23**	23
Retiring in 20 years						
Males	**25**	25	**19**	19	**23**	23
Females	**26**	26	**21**	21	**24**	24

The main assumptions for the PRMB scheme are a discount rate of 4.45 per cent (2012: 3.65 per cent) per annum and a health care cost trend of 6.5 per cent (2012: 6.5 per cent) per annum for claims pre age 65 reducing to 4.5 per cent per annum by 2020 (2012: 4.5 per cent). Actuarial valuations of retirement benefit plans in other jurisdictions have either not been updated for IAS 19 purposes or disclosed separately because of the costs involved and the considerably smaller scheme sizes and numbers of employees involved.

At 31 December 2013, the weighted average duration of the defined benefit obligations for the major schemes was as follows:

UK: 13 years
US: 11 years
The Netherlands: 17 years

Sensitivity analysis

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 4 per cent

These sensitivities have been calculated to show the movement of the defined obligation following a change in a particular assumption in isolation, assuming no other changes in market conditions.

24 Share based payments

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

A Long Term Incentive Plan was adopted in 2008 (amended in 2010) ('2010 LTIP') for selected senior executives including the executive directors, business presidents and general counsel. Awards of nil cost share options are normally made annually and the maximum value of any grant to an individual is 1.5 times the CEO's basic salary. Awards vest after three years and are subject to EPS and TSR performance conditions over a three year period. Vested awards are then exercisable for up to seven years, subject to the rules of the plan.

For other executives, shareholders approved at the 2012 AGM a new approved and unapproved executive share option scheme ('2012 ESOS'). This scheme replaced the previous approved and unapproved executive share option scheme ('2003 ESOS') which expired in 2013. The last awards made under the 2003 scheme were in 2012. Under the 2003 and 2013 ESOS, options are usually granted annually to purchase shares in the Company at an exercise price per share based on the Company's average mid-market closing share price on the dealing day preceding the date of grant with no discount applied. The number of options that are granted are based on a percentage of the participant's basic salary. Options vest after three years and are subject to EPS and TSR performance conditions. Vested options are then exercisable for up to seven years, subject to the rules of the schemes.

The Company also operates a 2008 UK Savings-Related Share Option Scheme, which is a save as you earn scheme ('SAYE'), under which UK employees can enter into contracts to save currently up to a maximum of £250 per month with a bank or building society 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 mid-market closing share price over the five working days preceding the invitation date, discounted by 20 per cent. Options may be exercised typically within six months following the end of the savings period. The savings limit will increase in 2014 for new grants made after April following the Government's announcement to raise the maximum savings limit to £500 per month. A similar scheme exists for US employees. Under the 2008 US Sharesave Scheme, US employees can enter into contracts to save up to a maximum of $2,000 per month with a bank or similarly approved institution, 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 average mid-market closing share price on the date of the grant, discounted by 15 per cent. Options may be exercised typically within three months following the end of the savings period. Options granted under the two savings based schemes are held subject to the rules of the schemes.

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

	2013	2012
Fair value per option (pence)	144.3	114.3
Expected volatility (per cent)	39.3	46.4
Risk free rate (per cent)	0.5	0.5
Expected dividend yield (per cent)	2.0	2.3

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 5 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 $3.4 million (2012: $4.0 million) related to share based payment transactions during the year.

Notes to the Consolidated financial statements

for the year ended 31 December 2013 continued

24 Share based payments (continued)

At 31 December 2013 the following options/awards to subscribe for ordinary shares were outstanding:

Year of grant	Exercise price (p)	Exercisable From	Exercisable To	At 1 January 2013 '000	Granted '000	Exercised '000	Expired '000	At 31 December 2013 '000
UK savings related share option scheme								
2009	35.52	01/10/14	01/04/15	47	–	–	–	**47**
2010	69.28	01/10/13	01/04/14	79	–	(74)	(5)	**–**
2011	121.66	01/10/14	01/04/15	49	–	–	–	**49**
2011	121.66	01/10/16	01/04/17	4	–	–	–	**4**
2012	168.06	01/10/15	01/04/16	68	–	–	(7)	**61**
2012	168.06	01/10/17	01/04/18	5	–	–	–	**5**
2013	206.14	01/10/16	01/04/17	–	50	–	(6)	**44**
2013	206.14	01/10/18	01/04/19	–	3	–	–	**3**
				252	53	(74)	(18)	**213**
US savings related share option scheme								
2011	119.34	26/08/13	26/11/13	265	–	(250)	(15)	**–**
2012	184.62	30/08/14	30/11/14	270	–	(10)	(35)	**225**
2013	227.55	23/08/15	23/11/15	–	259	–	–	**259**
				535	259	(260)	(50)	**484**
Executive share option schemes/awards granted under the Long term incentive plan*								
2004	35.00	23/04/07	23/04/14	26	–	(14)	–	**12**
2006	85.50	04/04/09	04/04/16	27	–	–	–	**27**
2008	71.25	28/04/11	28/04/18	21	–	(21)	–	**–**
2009	29.50	25/03/12	25/03/19	260	–	(247)	–	**13**
2010+	57.00	06/04/13	06/04/20	2,571	–	(1,642)	–	**929**
2010*	Nil	22/04/13	22/04/20	3,001	–	(3,001)	–	**–**
2011+	149.90	04/04/14	04/04/21	904	–	–	(6)	**898**
2011*	Nil	04/04/14	04/04/21	1,645	–	–	–	**1,645**
2012+	194.30	27/06/15	27/06/22	773	–	–	(5)	**768**
2012*	Nil	27/06/15	27/06/22	1,322	–	–	–	**1,322**
2013+	260.70	02/04/16	02/04/23	–	674	–	(4)	**670**
2013*	Nil	02/04/16	02/04/23	–	1,058	–	–	**1,058**
				10,550	1,732	(4,925)	(15)	**7,342**

+ These options include cash settled shadow executive options granted to a number of executives on the same basis as the standard options (with the same performance conditions and exercise provisions). These shadow options are included in the calculation of the total expenses recognised by the Group related to share based payments. The 2010, 2011, 2012 and 2013 options shown above include approximately 118,000, 66,000, 58,000 and 68,000 shadow options respectively.

The weighted average exercise prices of options disclosed in the previous table were as follows:

	2013 Average exercise price (p)	2012 Average exercise price (p)
At 1 January	**48.7**	38.4
Granted	**120.1**	87.9
Exercised	**26.6**	36.7
Expired	**163.3**	103.5
At 31 December	**80.3**	48.7

The weighted average share price at the date of exercise of share options exercised during the year was 256 pence (2012: 201 pence).

25 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.

26 Movement in net cash/(borrowings)

	2013 $million	2012 $million
Change in net cash resulting from cash flows:		
Increase in cash and cash equivalents	**1.4**	13.5
(Increase)/decrease in borrowings repayable within one year	**(3.1)**	1.4
Decrease in borrowings repayable after one year	**11.8**	1.9
	10.1	16.8
Currency translation differences	**–**	1.0
Increase in net cash	**10.1**	17.8
Net cash at beginning of year	**44.0**	26.2
Net cash at end of year	**54.1**	44.0

27 Dividends

An interim dividend of 2.57 cents per share (2012: 2.45 cents) was paid on 4 October 2013 and the Group is proposing a final dividend of 5.50 cents per share (2012: 5.32 cents) for the year ended 31 December 2013 and a special dividend of 5.86 cents per share (2012: 4.79 cents). The total dividend for the year, excluding the special dividend, is 8.07 cents per share (2012: 7.77 cents) and 13.93 cents per share (2012: 12.56 cents) including the special dividend.

The amount payable for the final dividend and special dividend, based on the anticipated number of qualifying ordinary shares registered on the record date, is $52.4 million.

28 Key management compensation

	2013 $million	2012 $million
Salaries and short term employee benefits	**3.6**	4.0
Other long term benefits	**0.7**	0.8
Share based payments	**1.9**	2.3
	6.2	7.1

The key management compensation given above is for the Board and the two business presidents. Directors' remuneration is set out in the Directors' remuneration report on pages 33 to 48.

Notes to the Consolidated financial statements

for the year ended 31 December 2013 continued

29 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 $million	Fair value adjustments $million	Fair value of assets acquired $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)
	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 purchase price allocation and fair value exercise was performed in order to identify the fair values of assets acquired to the Group. This resulted in the recognition of intangible assets, relating to both customer lists and brand, of $14.6 million and goodwill of $14.1 million, 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 $10.5 million to the Group’s revenue and $2.1 million to the Group’s operating profit before intangible asset amortisation.

Following the acquisition of Watercryl 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. Prior year balances have been restated to take account of the additional fair value adjustments that have been recognised.

<table>
<tr><th></th><th>Provisional fair value of assets acquired $million</th><th>Further fair value adjustments $million</th><th>Fair value of assets acquired $million</th></tr>
<tr><td>Property, plant and equipment</td><td>15.0</td><td>(10.4)</td><td>4.6</td></tr>
<tr><td>Inventories</td><td>1.5</td><td>(0.2)</td><td>1.3</td></tr>
<tr><td>Trade and other receivables</td><td>1.7</td><td>–</td><td>1.7</td></tr>
<tr><td>Trade and other payables</td><td>(0.6)</td><td>0.3</td><td>(0.3)</td></tr>
<tr><td>Cash and cash equivalents</td><td>0.4</td><td>–</td><td>0.4</td></tr>
<tr><td>Corporation tax</td><td>–</td><td>(0.3)</td><td>(0.3)</td></tr>
<tr><td>Deferred tax</td><td>–</td><td>(3.5)</td><td>(3.5)</td></tr>
<tr><td></td><td>18.0</td><td>(14.1)</td><td>3.9</td></tr>
<tr><td>Goodwill</td><td>4.4</td><td>10.4</td><td>14.8</td></tr>
<tr><td>Intangible – Customer lists</td><td rowspan="2">2.0</td><td rowspan="2">3.7</td><td>3.7</td></tr>
<tr><td>Intangible – Brand</td><td>2.0</td></tr>
<tr><td>Consideration paid, satisfied in cash</td><td>24.4</td><td>–</td><td>24.4</td></tr>
<tr><td>Cash acquired</td><td>(0.4)</td><td>–</td><td>(0.4)</td></tr>
<tr><td>Net cash outflow</td><td>24.0</td><td>–</td><td>24.0</td></tr>
</table>

30 Contingent liabilities

As is the case with other chemical companies, the Group occasionally 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 not remote, the Group would disclose a contingent liability. No contingent liability was considered to be reportable at 31 December 2013.

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 2013

	Note	2013 £million	2012 £million
Fixed assets			
Investments		**763.3**	761.3
Current assets			
Debtors	4	**1.2**	1.2
Creditors: amounts falling due within one year			
Creditors	5	**(0.5)**	(0.4)
Net current assets		**0.7**	0.8
Total assets less current liabilities		**764.0**	762.1
Creditors: amounts falling due after more than one year			
Amounts due to subsidiary undertakings		**(345.1)**	(307.2)
Net assets		**418.9**	454.9
Capital and reserves			
Called up share capital	7	**22.9**	22.7
Share premium account	8	**9.3**	8.0
Capital redemption reserve	8	**83.3**	83.3
Other reserves	8	**81.5**	81.5
Share option reserve	8	**4.0**	3.9
Profit and loss account	8	**217.9**	255.5
Equity shareholders' funds		**418.9**	454.9

The financial statements of Elementis plc on pages 89 to 93 were approved by the Board on 25 February 2014 and signed on its behalf by:

David Dutro
Group Chief Executive

Brian Taylorson
Finance Director

Notes to the company financial statements of Elementis Plc for the year ended 31 December 2013

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 UK GAAP 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 (or investees of the Group qualifying as related parties).

Foreign currencies

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

Investments

Investments in Group undertakings are included in the balance sheet at cost less impairment.

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.

Share based payments

The fair value of share options granted to employees is recognised as an expense with a corresponding increase in equity. Where the Company grants options over its own shares to the employees of its subsidiaries it recognises in its individual financial statements an increase in the cost of investment in its subsidiaries equivalent to the equity settled share based payment charge recognised in its subsidiaries' financial statements, with the corresponding credit being recognised directly 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

In accordance with FRS 25, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

a) They include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company.

b) Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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.

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 £2.3 million (2012: £2.4 million loss) is dealt with in the financial statements of the Company.

3 Investments

	Unlisted shares at cost £million	Unlisted loans £million	Capital contributions £million	Total £million
Cost at 1 January 2013	0.1	759.0	2.2	761.3
Additions	–	–	2.0	2.0
Net book value 31 December 2013	**0.1**	**759.0**	**4.2**	**763.3**
Net book value 31 December 2012	0.1	759.0	2.2	761.3

The investment in unlisted loans is with Elementis Holdings Limited, an indirect wholly owned subsidiary. The investments in unlisted shares are in Elementis Group BV and Elementis US Investments Limited, both wholly owned subsidiaries. Capital contributions relate to share based payment awards made to employees of subsidiary companies.

The principal trading subsidiaries of Elementis plc are as follows:

Subsidiary undertakings		Country of incorporation and operation
Elementis Chromium LLP	Chromium chemicals	United Kingdom
Elementis UK Limited trading as: Elementis Specialties	Rheological additives, colourants, waxes, other specialty additives	United Kingdom
Elementis Chromium Inc	Chromium chemicals	United States of America
American Chrome & Chemicals Inc	Chromium chemicals	United States of America
Elementis Specialties Inc	Rheological additives, colourants, waxes, other specialty additives	United States of America
Elementis GmbH	Rheological additives, colourants, waxes, other specialty additives	Germany
Elementis Deuchem (Shanghai) Chemical Co Ltd	Additives and resins	People's Republic of China
Elementis Specialties (Changxing) Ltd	Rheological additives, colourants, waxes, other specialty additives	People's Republic of China
Elementis Specialties (Anji) Ltd*	Organoclays	People's Republic of China
Elementis Specialties Netherlands BV	Surfactants and coatings additives	The Netherlands
Deuchem Co Ltd	Additives and resins	Taiwan
Deuchem (Shanghai) Chemical Co Ltd	Additives and resins	People's Republic of China
Elementis Specialties do Brasil Quimica Ltda	Coatings additives	Brazil

* 80 per cent owned subsidiary as at 31 December 2013

Notes:
None of the undertakings are held directly by the Company.
Equity capital is in ordinary shares and voting rights equate to equity ownership.
All undertakings listed above have accounting periods ending 31 December.
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.
All undertakings listed above have been included in the consolidated financial statements of the Group for the year.

4 Debtors

	2013 £ million	2012 £million
Group relief receivable	**1.2**	1.2

Notes to the company financial statements of Elementis Plc for the year ended 31 December 2013 continued

5 Creditors: amount falling due within one year

	2013 £million	2012 £million
Accruals and deferred income	**0.5**	0.4

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 2013 was £39.9 million (2012: £44.9 million).

The latest full actuarial valuation was carried out at 30 September 2011 and was updated for FRS 17 purposes to 31 December 2013 by a qualified actuary. The contribution for the year was £0.1 million (2012: £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.

7 Called up share capital

	2013 Number '000	2013 £million	2012 Number '000	2012 £million
Called up allotted and fully paid:				
Ordinary shares of 5 pence each				
At 1 January	**453,572**	**22.7**	449,950	22.5
Issue of shares	**5,259**	**0.2**	3,622	0.2
At 31 December	**458,831**	**22.9**	453,572	22.7

During the year a total of 5,258,914 ordinary shares with an aggregate nominal value of £262,946 were allotted and issued for cash to various employees at subscription prices between 30 pence and 185 pence on the exercise of options under the Group's share option schemes. The total subscription monies received by the Company for these shares was £1.5 million. The holders of ordinary shares are entitled to receive dividends and one vote per share at meetings of the Company.

8 Reserves

	Share premium account £million	Capital redemption reserve £million	Other reserves £million	Share option reserve £million	Profit & loss account £million
At 1 January 2013	8.0	83.3	81.5	3.9	255.5
Retained loss for the year	–	–	–	–	(2.3)
Issue of shares	1.3	–	–	–	–
Share based payments	–	–	–	2.0	–
Transfer	–	–	–	(1.9)	1.9
Dividend paid	–	–	–	–	(37.2)
At 31 December 2013	**9.3**	**83.3**	**81.5**	**4.0**	**217.9**

9 Reconciliation of movements in shareholders' funds

	2013 £million	2012 £million
Loss for the financial year	**(2.3)**	(2.4)
Dividends paid	**(37.2)**	(19.8)
Share based payments	**2.0**	2.2
Ordinary shares issued	**1.5**	1.4
Net decrease in shareholders' funds	**(36.0)**	(18.6)
Opening shareholders' funds	**454.9**	473.5
Closing shareholders' funds	**418.9**	454.9

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.

Glossary

ABI	Association of British Insurers
ACC	American Chemistry Council
ACT	Advance Corporation Tax
AGM	Annual General Meeting
ASEAN	Association of Southeast Asian Nations
AWC	Average working capital
Board	Board of directors of Elementis plc
CEO	Chief Executive Officer
COO	Chief Operating Officer
CO_2	Carbon dioxide
Company	Elementis plc
CR	Corporate responsibility
DB Scheme	Defined benefit scheme
DEFRA	Department for Environment and Rural Affairs
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPA	Environmental Protection Agency
EPS	Earnings per share
ESOS	Executive share option scheme
ESOT	Employee share ownership trust
EU	European Union
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
GDP	Gross domestic product
GHG	Greenhouse gases
GJ	Gigajoule
Group	Elementis plc and its subsidiaries
HMRC	HM Revenue and Customs
HSE	Health, safety and environment
IFC	Inside Front Cover
IFRS	International Financial Reporting Standards
ISS	Institutional Shareholder Services
KPI	Key performance indicator
kWh	Kilowatt hour
LTA	Lost time accident
LTIP	Long term incentive plan
MNE	Multinational enterprise
NIC	National Insurance Contributions
OSHA	Occupational Safety and Health Administration
P.A.	Per Annum
REACh	Registration, Evaluation, Authorisation and restriction of Chemicals
ROCE	Return on capital employed
RPI	Retail Price Index
SAYE	Save as you earn
SID	Senior Independent Director
TSR	Total shareholder return
UK	United Kingdom
UN	United Nations
US	United States
VOC	Volatile organic compounds

Five year record

	2013 $million	2012 restated** $million	2011 $million	2010 $million	2009 $million
Turnover					
Specialty Products	**502.8**	458.7	449.9	410.8	315.2
Surfactants	**72.2**	72.5	94.3	88.1	76.3
Chromium	**201.8**	225.8	216.3	198.5	172.2
	776.8	757.0	760.5	697.4	563.7
Operating profit before exceptional items					
Specialty Products	**99.1**	90.1	89.7	71.8	30.9
Surfactants	**5.6**	4.8	5.4	6.1	0.1
Chromium	**55.1**	62.8	56.1	35.8	13.9
Central costs	**(13.2)**	(13.8)	(14.1)	(11.4)	(8.7)
	146.6	143.9	137.1	102.3	36.2
Exceptional items	**(1.7)**	–	27.5	–	(76.7)
Profit/(loss) before interest	**144.9**	143.9	164.6	102.3	(40.5)
Other Expenses	**(2.0)**	(2.5)	–	–	–
Net interest payable	**(8.6)**	(8.0)	(2.6)	(6.3)	(7.9)
Profit/(loss) before tax	**134.3**	133.4	162.0	96.0	(48.4)
Tax	**(27.6)**	(33.1)	(37.9)	(21.9)	(9.0)
Profit/(loss) attributable to equity holders of the parent	**106.7**	100.3	124.1	74.1	(57.4)

	2013 $million	2012 restated** $million	2011 $million	2010 $million	2009 $million
Basic					
Earnings/(loss) per ordinary share (cents)	**23.3**	22.2	27.8	16.7	(12.9)
Earnings per ordinary share before exceptional items (cents)	**23.3**	22.2	21.2	15.4	4.3
Diluted					
Earnings/(loss) per ordinary share (cents)	**23.0**	21.8	27.2	16.5	(12.9)
Earnings per ordinary share before exceptional items (cents)	**23.0**	21.8	20.8	15.2	4.3
Dividend per ordinary share (cents)	**13.93**	12.56	7.0	4.9	4.5
Interest cover (times)*	**63.7**	55.3	41.5	31.0	14.5
Equity attributable to equity holders of the parent	**543.9**	479.2	449.2	379.7	286.3
Net cash/(borrowings)	**54.1**	44.0	26.2	(79.3)	(106.3)
Weighted average number of ordinary shares in issue during the year (million)	**456.9**	451.8	446.5	443.5	443.3

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

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

Shareholder services

Internet
The Group operates a website which can be found at www.elementisplc.com. This site is frequently updated to provide shareholders with 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

Tel: 0871 384 2379 or +44 (0) 121 415 7043
Fax: 0871 384 2100 or +44 (0) 190 383 3113

Website: www.shareview.co.uk

Calls to the above numbers cost 8 pence per minute plus network extras. Lines are open 8.30 a.m. to 5.30 p.m., Monday to Friday.

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
Equiniti provides a range of shareholders' services online. The portfolio service provides access to information on share balances, balance movements, indicative share prices and information on recent dividends and also enables address and dividend mandate details to be amended online. For further information and practical help on transferring shares or updating your details, please visit: www.shareview.co.uk.

Equiniti also provides a share dealing service that enables shares to be bought or sold by UK shareholders by telephone or over the internet. For telephone sales please call 0845 603 7037 between 8.30 a.m. and 4.30 p.m. and for internet sales please visit: www.shareview.co.uk/dealing.

Corporate information

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Wai Wong

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Registered number
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Auditors
KPMG Audit Plc

Joint Corporate Brokers
UBS Investment Bank
N+1 Singer

Financial calendar

25 February 2014	Preliminary announcement of final results for the year ended 31 December 2013
24 April 2014	Annual General Meeting and First Interim Management Statement
30 April 2014	Ex-dividend date for final and special dividends for 2013 payable on ordinary shares
02 May 2014	Record date for final and special dividends for 2013 payable on ordinary shares
30 May 2014	Payment of final and special dividends for 2013 on ordinary shares
29 July 2014*	Interim results announcement for the half year ending 30 June 2014
10 September 2014*	Ex-dividend date for interim dividend for 2014 payable on ordinary shares
12 September 2014*	Record date for interim dividend for 2014 payable on ordinary shares
03 October 2014*	Payment of interim dividend for 2014 on ordinary shares
31 October 2014*	Second Interim Management Statement

* provisional date

Annual General Meeting

The Annual General Meeting of Elementis plc will be held on 24 April 2014 at 11.00 a.m. at The Royal Institution of Great Britain, 21 Albemarle Street, London W1S 4BS. The Notice of Meeting is included in a separate document. Details of the ordinary and special business of the Annual General Meeting are contained within the Notice.

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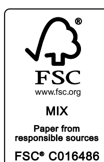

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