ELEMENTIS

Annual Report and Accounts 2019

Innovation. Growth. Efficiency.

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How we impact everyday life

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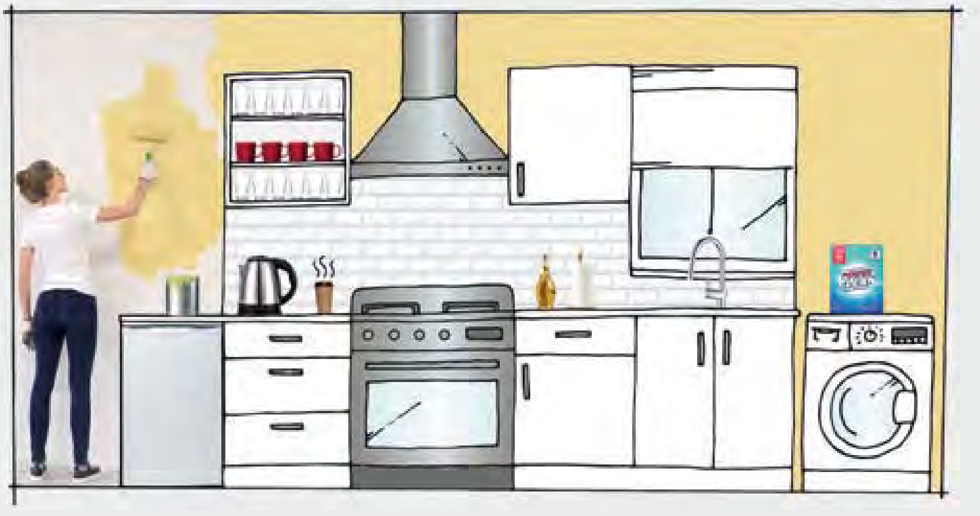

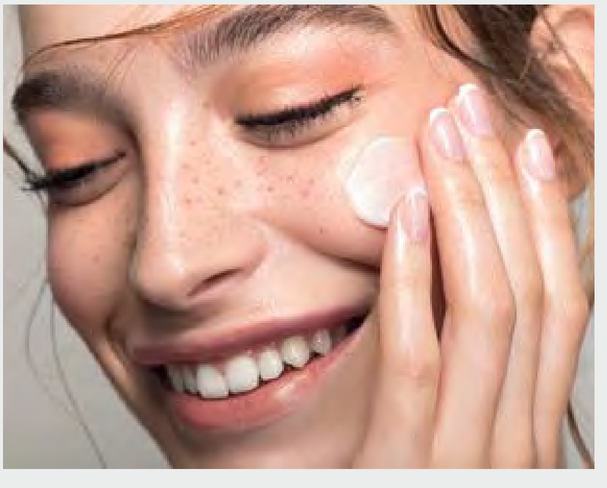

How we innovate

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For more information
www.elementis.com/investors

Cautionary statement
The Annual Report and Accounts for the financial year ended 31 December 2019, as contained in this document ('Annual Report'), contains information which viewers or readers might consider to be forward looking statements relating to or in respect of the financial condition, results, operations or businesses of Elementis plc. Any such statements involve risk and uncertainty because they relate to future events and circumstances. There are many factors that could cause actual results or developments to differ materially from those expressed or implied by any such forward looking statements. Nothing in this Annual Report should be construed as a profit forecast.

2019 highlights

Innovation. Growth. Efficiency.

Elementis is a global specialty chemicals company operating across five business segments: Personal Care, Coatings, Talc, Chromium and Energy.

To our customers we deliver Enhanced Performance Through Applied Innovation; our products make our customers' formulations look, feel and perform at their best.

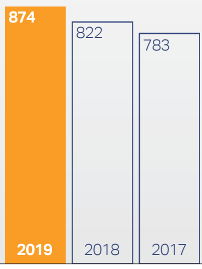
The execution of our Innovation, Growth and Efficiency strategy will address our customers' most challenging problems while delivering on our medium term performance objectives.

Operational highlights
In 2019, we responded to a challenging demand environment with a clear self-help agenda and the delivery of cost savings, new business wins and new product launches.

Strategic highlights
In 2019, we completed our Coatings transformation programme, the integration of Talc and launched a new range of skin care ingredients. In November 2019, we held a Capital Markets Day to update stakeholders on our Innovation, Growth and Efficiency agenda and medium term financial objectives.

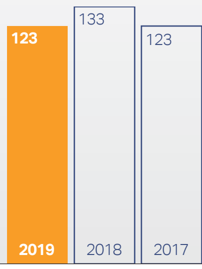
Sales[1]

2019
$874m
2018: $822m
2017: $783m



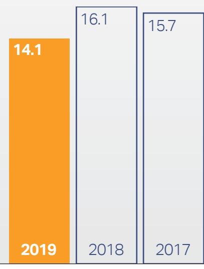
Adjusted operating profit[1,2]

2019
$123m
2018: $133m
2017: $123m



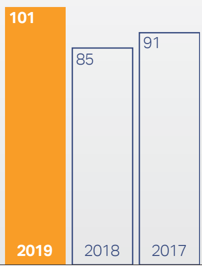
Adjusted operating margin[1,2]

2019
14.1%
2018: 16.1%
2017: 15.7%



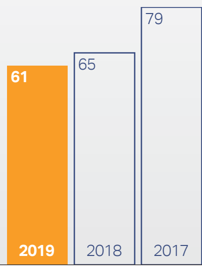
Operating profit[1]

2019
$101m
2018: $85m
2017: $91m



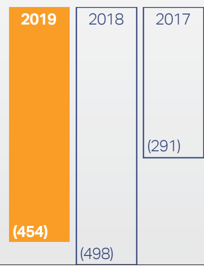
Profit before tax[1]

2019
$61m
2018: $65m
2017: $79m



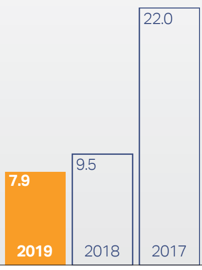
Net debt[4]

2019
($454m)
2018: ($498m)
2017: ($291m)



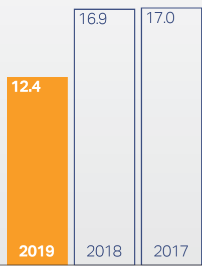
Diluted earnings per share[1]

2019
7.9c
2018: 9.5c
2017: 22.0c



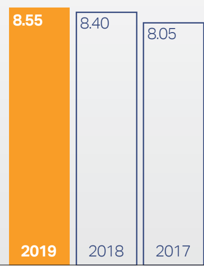
Adjusted diluted earnings per share[1,2,3]

2019
12.4c
2018: 16.9c
2017: 17.0c



Ordinary dividends per share[3]

2019
8.55c
2018: 8.40c
2017: 8.05c



[1] Continuing operations
[2] After adjusting items – see Note 5
[3] Rebased for the effects of the Rights Issue – see Note 29
[4] See Note 28

Helping customers respond to their biggest challenges

Revenue

$874m

Adjusted operating profit

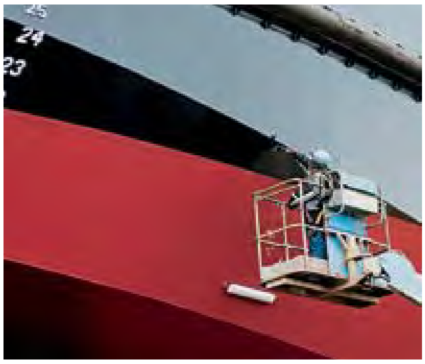
$123m

Our purpose

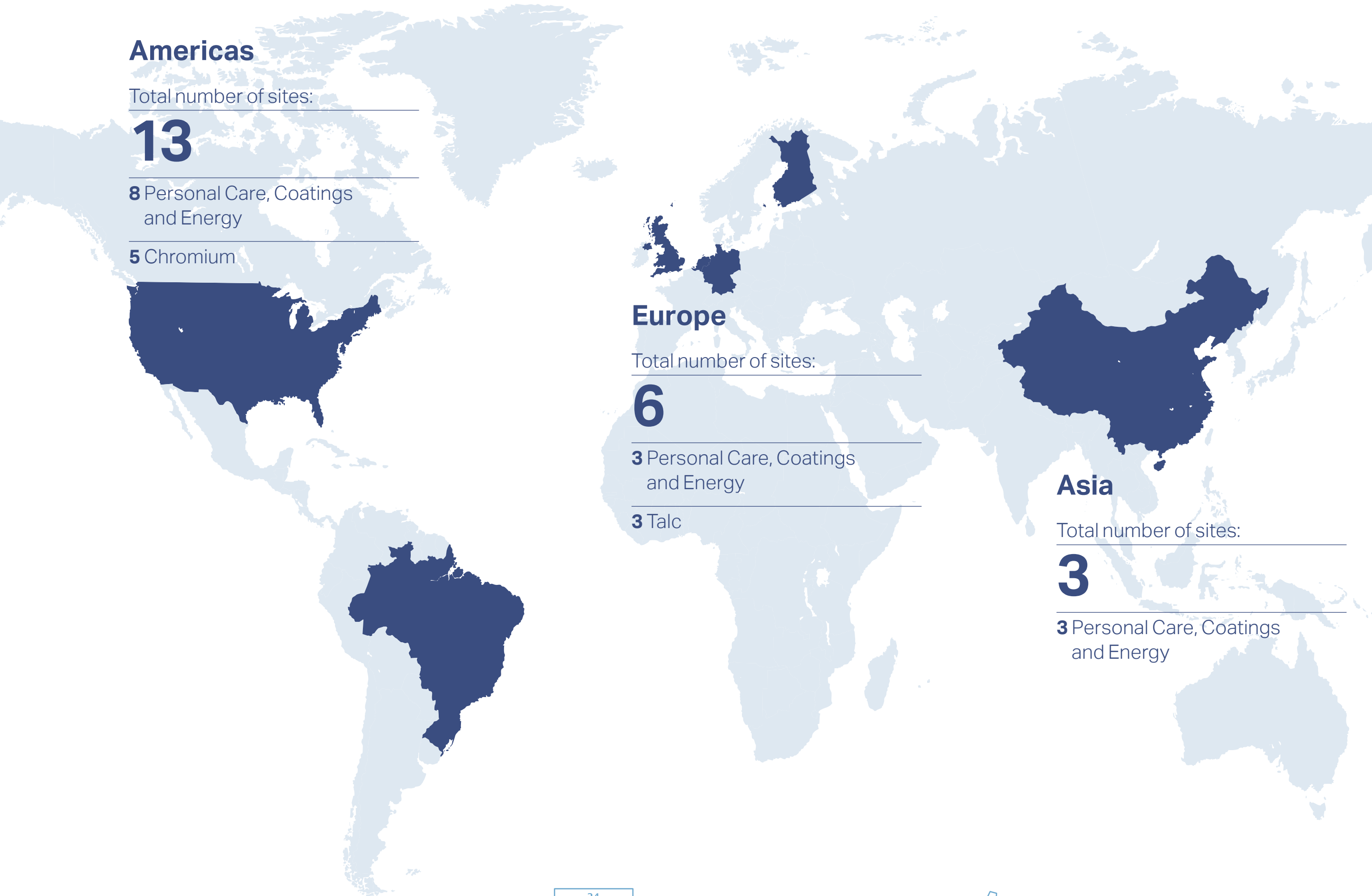
Our purpose is to achieve sustainable progress across the world through innovative specialty chemical products that deliver cleaner and better performance.

We are collaborative industrial innovators; developing long-term partnerships with our customers, innovating at pace to keep them at the forefront of their markets. Combining our access to unique natural resources with our unmatched rheology and technological expertise, we responsibly transform raw materials into ingredients with crucial product benefits.

This enables our customers and their industries to solve their product performance and sustainability challenges.

	Personal Care	Coatings
		
Overview	We are a leading global supplier of rheology modifiers, based on natural and synthetic ingredients, and antiperspirant actives to personal care manufacturers. Our products help make skin creams smooth and antiperspirants work.	We supply our rheology modifiers and selected additives to industrial and decorative coatings manufacturers. Our products help make industrial coatings last longer and decorative coatings apply evenly and with enhanced stain resistance.
Sales	$195m	$320m
Adjusted operating profit	$43m	$48m
	Read more on page 44	Read more on page 45

Global manufacturing locations



Americas

Total number of sites:

13

8 Personal Care, Coatings and Energy

5 Chromium

Europe

Total number of sites:

6

3 Personal Care, Coatings and Energy

3 Talc

Asia

Total number of sites:

3

3 Personal Care, Coatings and Energy

Talc

We are the second largest global supplier of talc based additives to industrial end markets including long life plastics, coatings and technical ceramics. Talc additives help make plastics in vehicles lighter and stronger, and deliver enhanced anti-corrosion characteristics to coatings.

$151m

$26m

Read more on page 46

Chromium

We supply a range of chromium chemicals that are used across a broad range of industrial applications to make products more durable. We are the only producer in North America and have a unique delivery system that generates significant customer safety benefits.

$171m

$18m

Read more on page 47

Energy

We supply clay and synthetic based rheology modifiers for oil and gas drilling, and stimulation activities. These products are formulated to lubricate the drill bit, control formation pressure and remove cuttings in drilling fluids.

$47m

$4m

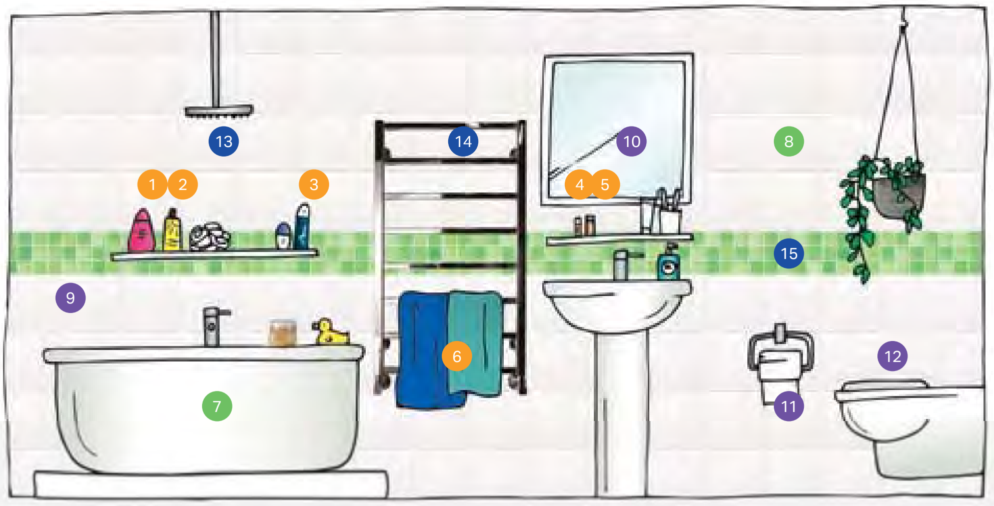
Read more on page 47

Discovery wall

The world of Elementis

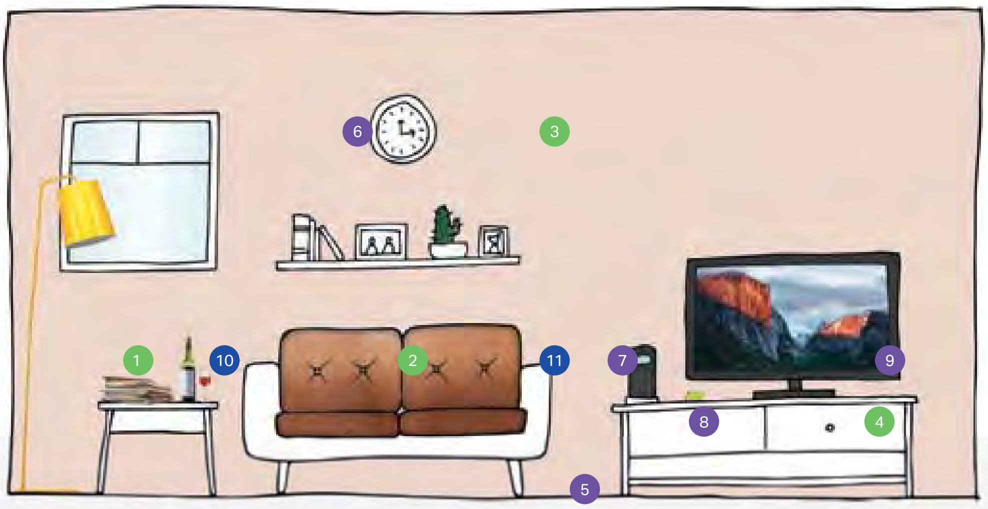
Combining our access to unique natural resources with our unmatched rheology and technological expertise, we responsibly transform raw materials into ingredients with crucial product benefits. These ingredients can be found in products that are used in everyday life.

Bathroom



1. **Hair Conditioner** FANCOR® natural oils help condition and repair damaged hair
2. **Sunscreen** BENTONE GEL® and BENTONE HYDROCLAY™ helps improve sunscreen application and boost SPF
3. **Antiperspirant** High performance ANTIPERSPIRANT ACTIVES help keep you fresher for longer
4. **Nail Polish** BENTONE® organoclays make nail polish apply smoothly and evenly
5. **Antacids** Elementis ANTACID ACTIVES help ease the discomfort of stomach indigestion
6. **Fabric Softener** RHEOCLEAN® rheology modifiers make towels softer for longer
7. **Ceramics** BENTONE® hectorite clay provides excellent flow of ceramics to create mirror-like gloss and smoothness
8. **Tiles** THIXATROL® helps bind large tiles to a surface faster and for longer
9. **Tiles** FINNTALC enables the creation of large yet structurally stable wall tiles
10. **Mirror** FINNTALC in the coating of your mirror protects the silver for longer
11. **Toilet Paper** FINNTALC prevents formation of sticky impurities in paper making
12. **Toilet Seat** Our PLUSTALC increases the durability of your toilet seat
13. **Shower Head** CHROMIC ACID provides metallic shine, corrosion resistance and enhanced wear
14. **Towel Rack** CHROMIC ACID provides metallic shine, corrosion resistance and enhanced wear
15. **Green Tiles** CHROME OXIDE provides vivid colour pigmentation for green, brown and black tiles

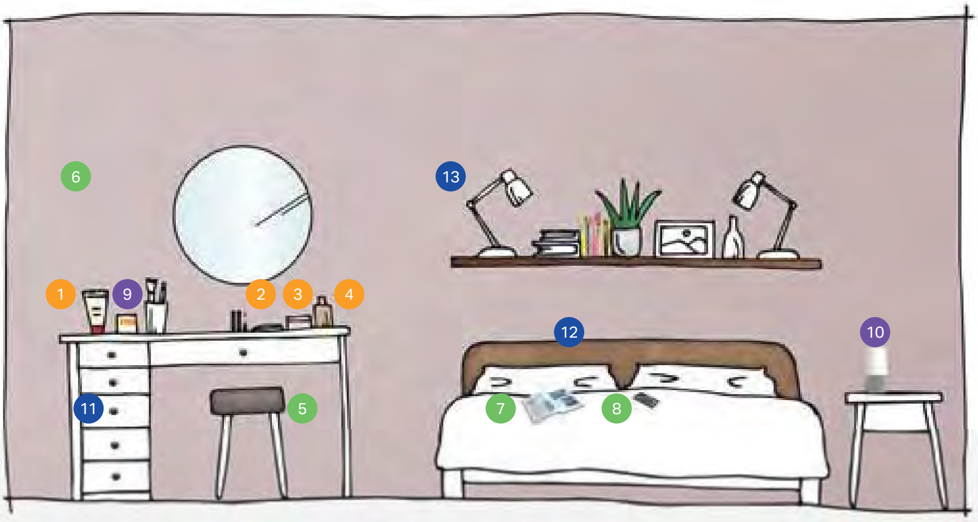
Living room



1. **Magazines** BENTONE® provides excellent flow in publication inks for the high gloss pictures and sharp letter printing
2. **Leather Cushions** RHEOLATE® thickeners provide the required flow to apply flexible and transparent leather coatings
3. **Wall Paint** RHEOLATE® thickeners ensure premium paints apply evenly, smoothly and with complete cover
4. **Cabinet** RHEOLATE® thickeners ensure excellent paint coverage and durability for furniture cabinets
5. **Flooring** FINNTALC improves the printability of your laminate flooring so you can enjoy more designs
6. **Clock Frame** PLUSTALC increases the strength and durability of your clock frame
7. **Telephone** FINNTALC strengthens plastic parts so your telephone can be made lighter
8. **Chewing Gum** TALC helps make chewing gum soft
9. **Flatscreen** FINNTALC ensures the dimensional stability of your large TV frame
10. **Wine Bottle** CHROME OXIDE provides a vivid green colour and prevents product spoilage from UV rays
11. **Leather Sofa** CHROME SULPHATE preserves and strengthens leather, making it softer for longer

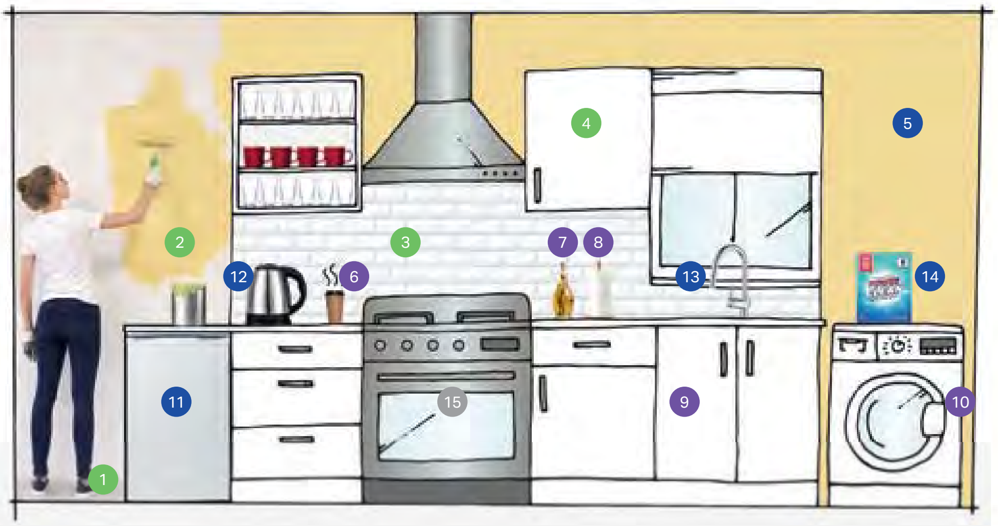
Personal Care	Coatings	Talc	Chromium	Energy
• Colour cosmetics • Skincare • Haircare • Antiperspirants • Bath & Soap	• Industrial finishes • Architectural • Construction	• Automotive • Household uses • Electronics • Food & Pharma • Paper	• Finishes • Leather	• Oil • Gas

Bedroom



1. **Face Mask** BENTONE HYDROCLAY™ keeps your skin healthy, silky and smooth
2. **Lipstick** BENTONE GEL® makes lipsticks pop with colour
3. **Skin Cream** BENTONE® LUXE delivers moisture to your daily skin care routine
4. **Facial Makeup** BENTONE HYDROCLAY™ suspends colours evenly throughout makeup
5. **Leather Seat** RHEOLATE® thickeners provide the required flow to apply flexible and transparent leather coatings
6. **Concrete Wall** DAPRO® defoamers remove trapped air and ensure a smooth concrete wall covering
7. **Magazines** BENTONE® provides excellent flow in publication inks for high gloss pictures and sharp letter printing
8. **Mobile Phone** SUPREAD® wetting agents help protective coatings cling to difficult to coat plastics
9. **Vitamins** MICROTALC keeps your nutritional supplements dry and prevents tablets from sticking
10. **Smart Speaker** FINNTALC increases the strength of your smart speaker frame
11. **Chrome Handles** CHROMIC ACID provides metallic shine, enhanced corrosion and wear resistance
12. **Leather Headboard** CHROME SULPHATE preserves and strengthens leather, making it softer for longer
13. **Chrome Lamp** CHROMIC ACID provides metallic shine, enhanced corrosion and wear resistance

Kitchen



1. **Kitchen Floor** BENTONE® thickeners create a smooth concrete levelling surface for tiles, carpets or parquet
2. **Wall Paint** Our BENTONE® HD clay ensures premium paints apply evenly, smoothly and provide complete cover, in one coat
3. **Tiles** BENAQUA® spray dried hectorite clay prevents sagging of wall tiles
4. **Kitchen Cabinet** RHEOLATE® thickeners create a uniform and high quality finish on kitchen cabinets
5. **Wall Paint** FINNTALC ensures that your kitchen wall paint is washable and stains can be wiped off
6. **Paper Cup** FINNTALC replaces plastic as a barrier coating, making paper cups environmentally friendly and biodegradable
7. **Olive Oil** MICROTALC improves the yield and clarity of extra virgin olive oil
8. **Kitchen Paper** FINNTALC prevents formation of sticky impurities in paper making
9. **Kitchen Furniture** FINNTALC in the edge protection of your kitchen furniture supports durability
10. **Washing Machine** PLUSTALC ensures that your washing machine parts can resist damage by detergents
11. **Refrigerator** SODIUM DICHROMATE helps refrigerant coils withstand corrosion
12. **Steel Kettle** CHROME SULPHATE makes your kettle shine, provides corrosion resistance and eases cleaning procedures
13. **Sink Tap** CHROMIC ACID provides metallic shine, enhanced corrosion and wear resistance
14. **Detergent** SODIUM SULPHATE is used for enhancing performance of clothing detergents
15. **Natural Gas for cooking** BENTONE® hectorite allows for more efficient discovery and extraction of natural gas

A culture for success

Andrew Duff
Chairman

Dear Shareholders

Despite a challenging demand environment in many of our markets, we have continued to make strategic progress. The development of our recently launched Innovation, Growth and Efficiency strategy is an exciting next step for Elementis, clearly articulating how we aim to achieve our medium term ambitions.

Business and markets

In 2019, we experienced a challenging macroeconomic environment characterised by weak demand. This was particularly the case in our two most cyclically exposed businesses, Chromium and Energy, where performance declined. By contrast, the Talc result, following the acquisition of Mondo in late 2018, was particularly encouraging in the context of soft automotive demand for long life plastics.

Innovation, Growth and Efficiency

Over the last three years, we have made significant progress in transforming Elementis' portfolio, management and culture; repositioning the Group as a premium performance additives business with advantaged positions in growing markets. In November 2019, we held a Capital Markets Day for analysts and investors to outline the next phase of our development.

Innovation, Growth and Efficiency are the pillars of our new strategic agenda. Execution of our priorities in these areas will address our customers' most challenging problems while driving sustained value creation. Now with the right platform in place, we are excited about the potential at Elementis for material growth opportunities and margin improvement, alongside strong cash generation. You can read more on our strategy and plans in the CEO's review and on pages 8 to 11.

Balance sheet

A hallmark of Elementis is strong cash generation. In 2019, this was no different, with net cash generation of $44m despite one off cash items of $29m in the first half, thereby reducing net debt from $498m at the end of 2018 to $454m at the end of 2019.

Looking forward our priorities are clear: investment to drive organic growth, a progressive dividend for shareholders and debt reduction.

In the medium term we plan to rapidly de-lever the Group and have the objective to reduce leverage to under 1.5x net debt/ EBITDA. This will be delivered through the execution of our strategic priorities, operating cash conversion in excess of 90% of operating profits and disciplined capital allocation.

Dividend

This year, the Board is recommending a total ordinary dividend of 8.55 cents per share (2018: 8.40 cents per share†), reflecting our confidence in the Group's business model and ability to generate cash, its medium term prospects and the levels of investment required to deliver our Innovation, Growth and Efficiency objectives.

The final dividend will be paid on 29 May 2020 in pounds sterling at an exchange rate of £1.00:$1.2925 (equivalent to a sterling amount of 4.4487 pence per share) to shareholders on the register at 1 May 2020. The Board declared an interim dividend at the time of the Interim Results announcement of 2.80 cents per share (2018: 2.70 cents†).

Governance and Board

As a Board, we set out to deliver the highest standards of corporate governance, transparency and integrity. Board chemistry is excellent, with candour, mutual respect and collective commitment providing a healthy dynamic for debate, challenge and decision making.

Board succession planning is key to preserving this position, and to that end we were pleased to appoint John O'Higgins as incoming Senior Independent Director who joined the Board on the 4 February 2020. John will replace Nick Salmon, to whom we will say goodbye at the forthcoming AGM. Nick joined the Board in 2014 and leaves with our sincere thanks for his outstanding contribution and wise counsel.

Stakeholder engagement

Alongside supporting and empowering our people, we have continued to ensure that we understand and consider the views of all our key stakeholders.

As Chairman, I continue to visit sites across the world and hold open town hall sessions with the employees as a matter of course. Similar events are conducted when all Board members attend operational sites as part of the Board's annual programme. In 2019, we held such meetings in the Netherlands, Finland and China.

During the year, Sandra Boss was appointed Designated Non-Executive Director for engagement with the Company's workforce. Sandra is already involved with the Company's approach to investing in and rewarding our workforce in her capacity as a member of the Remuneration Committee.

To learn more about our workforce engagement activities during the year please see page 63.

A culture for success

The culture at Elementis is open and inclusive, where people enjoy working together. We place huge importance on creating a culture of doing what's right and speaking out if things are not. This is supported by a strong set of values – Safety, Solutions, Ambition, Respect and Team. In 2019, we have further embedded these values through our employee communications, performance management systems and training opportunities. To learn about our values in action please refer to page 33.

This year, macroeconomic conditions have been challenging. The Group has nonetheless delivered resilient operating margins and strong underlying cash generation. On behalf of the Board, I would like to thank each and every employee for their commitment.

Summary

In 2019, Elementis delivered progress in the face of tough macroeconomic conditions. Looking ahead, while global market conditions remain challenging, we continue to invest for the future and are confident that our strategic priorities of Innovation, Growth and Efficiency will deliver further progress in 2020 and beyond.

Andrew Duff
Chairman

† Rebased for effects of the Rights Issue – see Note 29

Embedding our values

Safety | Solutions | Ambition | Respect | Team

As our business grows, it is important to develop consistent and efficient working practices across our teams.

Our values – Safety, Solutions, Ambition, Respect and Team – are core to our high performance culture. In 2019, we focused on further embedding our values to ensure they are reflected in everything we do.

During the year, over 1,000 of our employees attended workshops across 20 locations to discuss our values and consider how they influence our day-to-day interactions with colleagues, customers and the community.

Our values are embedded in all aspects of our communications. Internal newsletters, town hall meetings and our recently launched employee engagement and safety surveys all reinforce our core values.

Behaviour that is reflective of our core values is actively encouraged. Alignment with our performance management and reward systems all encourage values-centric behaviours.

Innovation. Growth. Efficiency.

“Our strategic pillars of Innovation, Growth and Efficiency are designed to deliver our medium term performance objectives of a 17% profit margin, 90% plus operating cash conversion and financial leverage under 1.5x EBITDA.”

Elementis has changed significantly over the last three years. We have exited disadvantaged, capital intensive businesses and added new operations that provide scope for better growth and returns. Combined with a significant resetting of how we run our business, we now have a solid platform to create value by delivering Innovation, Growth and Efficiency.

Before turning to our medium term ambitions, I would like to review 2019.

Performance

This was a year of disappointing financial performance, driven by weak market demand conditions. Coatings was impacted by weaker industrial production and destocking, Personal Care saw growth in Cosmetics but competitive pressures in AP Actives, while Talc had a robust performance in our first full year of ownership. Results in Chromium and Energy, our two more cyclically exposed businesses, were impacted by weak industrial production and lower drilling activity respectively. Further details on each business segment’s performance can be found on pages 44 to 47.

Elementis is a highly cash generative business and our working capital and capital expenditure initiatives aim to improve this still further. In 2019, our operating cash conversion[1] was strong at 130%, and as a result our net cash generation was $44m. Net debt reduced from $498m at the end of 2018 to $454m, representing a leverage ratio[2] of 2.7x EBITDA. Looking forward, we see a clear deleveraging profile for the Group as a result of strong underlying cash generation and the impact of our cash focused strategic initiatives.

1 See alternative performance measures on page 171.
2 See unaudited pro forma information on page 172.

Safety
Safety remains our top priority – we will never be satisfied unless every employee is safe 100% of the time. In 2019, I am pleased to report we had a good level of performance, relative to both the industry and our medium term track record, with seven recordable injuries (2016-18 average: 11) and a total recordable incident rate of 0.48 (2016-18 average: 0.78), up marginally from the lowest level ever achieved at Elementis in 2018. This robust level of performance was driven by investments made in recent years to reduce operational risks and enhanced safety leadership training to develop our safety culture. Going forward, we will continue to focus on improving this record still further.

CSR and sustainability
Within a wider consideration of how we do business, sustainability is a core value at Elementis. This is reflected in both how we run our operations and the benefits our products bring to customers and wider society.

We are committed to reducing the energy intensity of our operations and we are proud that our ongoing efforts in this area are externally recognised. We were delighted to receive in 2019 a silver rating under the EcoVadis programme, which places us in the top 5% in the manufacturing sector for our sustainable supply chain within global manufacturing.

The green credentials of our products are also foremost in our mind. In Personal Care, our clay based products offer an attractive natural alternative to customers and are verified against rigorous third party standards such as ISO, COSMOS and Ecolabel. In Coatings, our technologies enable the creation of more environmentally friendly waterborne industrial products and in Talc, our additives support vehicle light weighting and the subsequent reduction in greenhouse gas emissions. We enable our customers to enhance the sustainability credentials of their products and we are excited to be part of progress in this area. Going forward we will continue to take actions that ensure the sustainability of both our operations and products improve.

People
Our Chairman has written of the open and inclusive culture that we seek at Elementis, and the importance of doing what is right. Our people, and the culture that they embody, are at the centre of our success.

Investment case

Transformed portfolio

The fundamentals of our business are strong. We have a transformed portfolio that is focused on high quality, high margin activities in Personal Care, Coatings and Talc. These premium performance additive businesses have enduring competitive advantages centred on access to differentiated resources, unique technology and market leading formulation capabilities.

Material growth opportunities

These premium performance additive businesses are exposed to significant structural growth opportunities which Elementis is well positioned to capture.
In Personal Care, the growth of premium cosmetics in Asia, natural skin care ingredients and AP Actives are clear opportunities for our unique hectorite clay and technology platforms. Vehicle light weighting, emission regulations and reduced single use plastic consumption will drive strong sustainable demand for our Talc ingredients. In Coatings there are clear growth opportunities in premium decorative, waterborne industrial additives and adhesives & sealants.

Innovation focus

Innovation is at the heart of what we do.

Elementis is a global leader in performance-driven additives that help create innovative solutions for our customers. Leveraging our capabilities in rheology, surface chemistry and formulation, we help customers respond to their biggest challenges through deep partnerships, ongoing technical support and consistent quality, service and delivery. This focus on market leading innovation will drive our growth.

Strong cash generation

Strong cash generation is a hallmark of Elementis. Looking forward, we target operating cash conversion of at least 90%, supported by working capital savings and capital expenditure discipline. The execution of our medium term Innovation, Growth and Efficiency priorities combined with strong cash generation will facilitate sustained reinvestment for growth, a progressive dividend and a clear deleveraging profile. Our medium term leverage objective is under 1.5x EBITDA, with further reduction thereafter.

In November 2019, we held a Capital Markets Day in London outlining our strategic priorities and medium term performance objectives

We are very fortunate to have developed a deeply experienced and highly committed leadership team. This year I am pleased to welcome Joe Lupia, Steve Ridge and Ajeeth Enjeti to that team. Joe has more than 30 years of experience in R&D roles and joins Elementis from BASF Corporation. Steve has a career of more than 25 years in the chemicals industry and joins Elementis from FMC Corporation as SVP Global Supply Chain. Ajeeth joined us as part of the Talc acquisition and has assumed the role of SVP Strategy and Transformation, replacing the recently retired Danny Hughes.

Talc integration

The acquisition of Talc closed on 23 October 2018 and just over one year later, I am pleased to say that integration is complete. All key individuals within the Talc business are now part of Elementis and are working at pace to execute our strategic priorities. Functions such as IT, finance and supply chain are all integrated into the global Elementis teams, sharing expertise and working in harmony. Together, we made good progress in 2019 on delivering the bulk of our planned $2m in cost synergies through savings in areas such as marketing, IT and supply chain.

Our sales teams are also fully integrated. This is most relevant for Coatings and Personal Care where we are on track for delivery of $20-25m of revenue synergies by 2023. We now have more than 30 new distributors carrying our Talc products in the Americas and Asia and significant new business opportunities in the pipeline. This is great progress and I am very excited about the future of Talc within Elementis.

Innovation, Growth and Efficiency

As reflected by the Talc acquisition, we have made significant progress over the last three years transforming our portfolio and re-positioning Elementis as a premium performance additives company with an advantaged position in growing markets.

Personal Care, Coatings and Talc now represent over 80% of Elementis' earnings and are true premium performance additive businesses. In each we transform advantaged resources, such as hectorite and talc, into high value ingredients using our distinctive technology and formulation expertise. Taken together, what we do ensures that our customers' end products perform better. This is what we mean when we speak about Enhanced Performance Through Applied Innovation.

Our strategic pillars of Innovation, Growth and Efficiency are designed to deliver our medium term performance objectives for the Group. On pages 14 to 19 we explain further and give examples of our strategy in action.

With strong positions in attractive markets we see clear growth and margin improvement opportunities and expect to deliver strong, sustainable returns. Linked to our strategic framework are clear medium term Group performance objectives. These include:

- Adjusted operating profit margin of 17%
- Operating cash conversion of at least 90% per annum
- Financial leverage of under 1.5x net debt/EBITDA

We are excited about the potential at Elementis for material growth opportunities and margin improvement alongside strong cash generation.

COVID-19

As the COVID-19 virus situation has developed we have been assessing the impact on our employees and our business to ensure that both are effectively supported and managed. Our production sites and sales offices in China have reopened and all Elementis staff are safe and well. China represents approximately 15% of our Group sales, is home to three out of our 22 manufacturing plants and is a limited part of our global supply chain. However, there is potential for some disruption to customer demand and we will continue to monitor the impact as appropriate.

Outlook

We have focused Elementis on high quality, high margin activities in Personal Care, Coatings and Talc, and remain focused on the execution of our strategic priorities.

The fundamentals of our business remain strong. In the short term, given the challenging market back drop, and the uncertainty around COVID-19, we remain cautious on the 2020 outlook with stable performance expected, supported by the delivery of cost savings and new business opportunities. Overall progress in Personal Care, Coatings and Talc is expected to be offset by challenging market conditions in Chromium.

Paul Waterman
CEO

Q&A with our CEO

Q: How would you evaluate Elementis' performance in 2019?

A: Disappointing in terms of outcomes, but solid in the context of the weak demand conditions we faced. The more cyclically exposed parts of the portfolio such as Chromium and Energy saw the most adverse conditions. We focused on self-help actions to optimise our performance. The delivery of $10m of cost savings, 13 new product launches and $25m of new business opportunities means we achieved a 14% operating margin. We can, however, perform much better. I am confident that the execution of our Innovation, Growth and Efficiency agenda will result in margin improvement, strong cash generation and financial deleveraging.

Q: What do you mean by 'Innovation' and what is to come?

A: Innovation is at the heart of what we do. In 2019, we delivered 13 new products to our customers. These include new hectorite based products for skin care and several new Coatings additives such as Supread® wetting agents that are becoming standard in waterborne systems. They all improve the performance of our customers' products.

By delivering distinctive and material innovation to our customers, in a speedy manner, we will continue to be a market leader and drive growth. We ask where we can make our customers' products perform better, be more efficient and be more sustainable. Innovation excellence is critical for any chemicals company, and for us, targeted innovation drives both growth and efficiency.

Q: How would you characterise the performance of the AP Actives business?

A: As a result of the acquisition we have a Personal Care business of scale, engaged in the distribution of complementary products to new and existing customers around the world. The short term financial performance has been somewhat disappointing due to raw material inflation and trade war related tariffs. Looking forward, we are confident of much improved performance. The ramp up of a new manufacturing site in India in 2020 and the roll out of our attractive innovation pipeline will enable us, as the global market and technology leader, to cost effectively serve this growing global end market.

Q: What are your sustainability priorities?

A: Our priorities are twofold. We are focused on ensuring our operations have limited impact on the environment and our communities. Second, we strive to ensure that our products help our customers address their sustainability needs. Let me give you a couple of examples. Our unique Coatings additives are helping to reduce the level of harmful VOCs found in industrial coatings and our talc additives are making plastics lighter and stronger, thus helping to reduce vehicle emissions. Enhanced Performance Through Applied Innovation is about making products that are better, more efficient and crucially, greener.

Q: Are there more acquisitions in the pipeline?

A: We are completely focused on business delivery and investors should not anticipate any material acquisitions. Following the disposal of disadvantaged, non-core activities such as Surfactants and Pigments, and the acquisitions of AP Actives and Talc, we now have a portfolio that is better positioned for growth. Our Innovation, Growth and Efficiency agenda is focused on leveraging this portfolio to deliver our medium term performance objectives of margin improvement, cash conversion and financial deleveraging.

Q: What are the risks to your strategy implementation?

A: A further significant market downturn would limit the speed at which we can deliver our medium term performance objectives. This is, however, beyond our direct influence so we can only seek to mitigate its impact by ensuring we are as efficient and agile as possible. As a specialty chemicals business the single biggest risk we face is not running our operations in a safe and reliable manner. As a result, ensuring all of our employees go home safely at the end of each day, is and will continue to be our most important priority.

Responding to a changing world

Our unique ingredients deliver crucial product benefits. For instance, our Bentone® additive range helps make colour cosmetics brighter for longer

We have over 90 expert scientists working at eight locations around the world, partnering with our customers to solve their product performance and sustainability challenges




Trend

Demographics

Global population is set to increase by 2 billion in the next 30 years, to 9.7 billion people.

Most of this increase will be in the developing world where high birth rates will drive further urbanisation and investment in infrastructure.

In addition, an expanding middle class is expected to gain Western levels of consumerism, generating new markets for products that improve living standards.

Premiumisation

Premiumisation is bridging the gap between luxury and mass market to give all consumers access to unique or innovative products that promise more.

Premium is not just about price. It is the promise of exceptional quality and experience, fuelling the growth of unique, value added products.

Consumers are willing to pay premium prices on value added products with real benefits.

As a result, the premium segment is experiencing strong growth, outpacing total category sales in many markets.

Sustainability

The continuing accumulation of greenhouse gases is described as the main cause of global warming. Rising sea levels and an increase in the frequency of extreme weather are associated consequences of this trend.

Both affect food and water supply just when the growing global population needs it most, bringing increased international pressure to restrict climate change.

This, along with ever more scarce natural resources, means a growing demand for innovative, sustainable products.

Transparency

In an ever more connected world, customers and employees want more transparency from the organisations that serve and employ them.

Organisations of all kinds must establish and maintain trust, as the basis for successful collaboration and innovation.

What this means for our industry

- Increasing demand for industrial and decorative coatings
- Rising penetration of personal care products such as colour cosmetics and skin creams
- Increased demand for consumer goods that require our additives

- Demand for higher quality products
- Demand for products with 'feel good' characteristics
- Demand for 'natural' ingredients

- Demand for innovative sustainable products
- Move towards natural or naturally derived ingredients
- Pressure to minimise social and environmental impact along the supply chain

- Consistent and transparent communication of activities throughout the value chain
- Clear evidence of ethical and social considerations in decision making
- Open and frequent consultation with all stakeholders

Our opportunities

- New markets for natural and synthetic additives that improve the performance of consumer products
- Opportunities to innovate and serve local market needs

- More demand for hectorite and talc based ingredients
- Opportunities to increase the penetration of our high performance technology solutions

- Increased opportunities for our natural hectorite and talc based ingredients
- Demand for our technology solutions that lower customers' environmental footprint
- Reduce the environmental footprint of our supply chain

- Help customers make informed decisions through the provision of clear scientific evidence
- Improved reporting and disclosure of corporate activities

Our response

- Integration of talc based additives into our global supply chain, improving our ability to sell talc in Asia and Americas
- Capital investment in manufacturing assets in Asia to reduce supply chain length and bring our products closer to customers

- Launched new hectorite clay based products (Bentone® Luxe and Bentone Hydroclay™) focused on the skin care market
- New Rheolate® HX rheology series delivering one coat hide and stain resistance for premium decorative coatings
- Increased share of 'distinctive' products within our innovation pipeline

- Investment in our hectorite and talc production network
- The launch of new additives that help create industrial coatings with fewer VOCs
- Support for sustainable farmers of ingredients such as palm oil and meadowfoam seed oil
- Combination of Global Technology and Product Stewardship teams
- Creation of Sustainability Council working towards lowering our carbon footprint and reducing waste

*For further information, see pages 24 to 32

- Investment in digital platforms including a new company website
- Comprehensive employee engagement consultation with results to be shared on a periodic basis
- Verification against demanding labelling standards such as ISO, Cosmos and Ecolabel to highlight the sustainability of our products

Our strategy

Innovation

1

Innovation is at the heart of what we do. We are a global leader in performance-driven additives that create innovative solutions for our customers.

Leveraging our capabilities in rheology, surface chemistry and formulation, we help customers improve their products, responding to their biggest challenges through deep partnerships, ongoing technical support and consistent quality, service and delivery. This focus on market leading innovation drives our business and our growth.

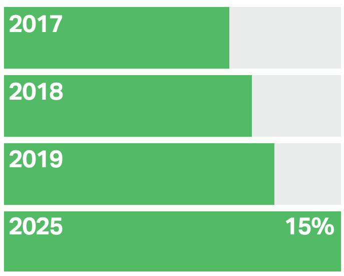
Our innovation priorities are threefold. First, we want to deliver distinctive new technologies that provide improved performance and lower operation costs, while at the same time enhancing our customers' sustainability. At the end of 2019, 45% of our product portfolio delivered against these innovation priorities.

Second, we are focused on material innovation challenges that face not just our customers but also the industries in which we operate. For example, using more natural ingredients in Personal Care and fewer VOCs in Coatings. This ensures our resources are directed to the biggest, most impactful opportunities. Today we are spending 35% of our R&D budget on our top 10 projects versus 20% in 2016.

Lastly, we are increasing our speed of innovation. By focusing on fast prototyping, proof-of-concept techniques and technology transfer across our different segments, our time from concept to market has drastically decreased from 2.5 years in 2016 to 1.5 years today.

How do we judge success in innovation? Our aim is to increase the revenue we generate from innovation; for example, by driving the proportion of distinctive products in our portfolio from 45% today to 60% in 2025. And we want more new products. While we have been doing better in recent years, our ultimate goal is for 15% of our sales to come from new or protected products.

Innovation excellence is critical for any chemicals company. Targeted innovation drives both growth and efficiency.



Our ultimate goal is for 15% of our revenue to come from new or protected products.

Top
Elementis' additive technology helps to deliver more environmentally friendly water based formulations for industrial coatings.

Bottom
When a biofuel producer in Thailand faced an excess foaming problem, Elementis was able to rapidly create a new defoamer solution

Cutting edge premium skin care

In Personal Care, we create ingredients based on our unique hectorite clays sourced from our mine in California, the only one of its type in the world.

From this advantaged starting point, we apply our technology expertise to deliver unique solutions to our customers around the world.

Our main focus in Personal Care are rheology modifiers, products that control the dispersion and suspension of pigments, provide flow qualities for enhanced sensory performance and skin-feel, and formulation stability.

What this means for our business

Kate Watermann
Global Technical Services Manager,
Personal Care Applications, Cologne, Germany

The drive for Innovation in Personal Care hasn't changed – what's changed is our focus, our speed of response and our client relationships.

"I've been at Elementis for nearly 20 years, working with R&D, our commercial teams and our customers. I have research scientists in the US, Germany and Brazil, and customers around the world. My job is to demonstrate what our products can do in roadshows and technical workshops and help our customers develop their own, unique applications.

"We work in really close collaboration with our customers. They approach us with specific requirements, but we also develop products in anticipation of market trends – more natural products, for example.

"Our skin care development has been spectacular. Makeup is such a visual and sensory thing – our new products, Bentone Hydroclay™ and Bentone® Luxe, are clean and natural, and enable silky smooth application with better colour. Added to that, they stabilise formulations with active ingredients, like sun protection agents.

"In under one year since launch, the customer reactions have been just incredible. We've already had significant orders – and one customer even asked us to stop doing demonstrations so they could patent and launch their products ahead of the competition! We couldn't stop promotions, but this has led to a new partnership in innovation with the customer."

Colour cosmetics, such as mascara and lipsticks have to date been the prime application of our rheology modifiers in Personal Care. In this area we have achieved significant success with 8% average annual sales growth over the last seven years, driven by strong consumer demand for premium, natural ingredients.

In 2019, we entered the skin care sector, a large and fast growth part of the Personal Care market. In April, we launched two new hectorite based products, Bentone® Luxe and Bentone Hydroclay™, targeting the premium skin care market. Hectorite is well suited for use in skin care; it is natural, water soluble, light in colour and delivers excellent skin feel.

Bentone Hydroclay™ enables the creation of innovative and elegant sensory experiences. These clays are of the highest quality and purity. Their uniqueness lies in their ability not only to thicken water but also in the silky texture that they impart during and after application.

Our second product, Bentone® Luxe, is an emulsifying gel that facilitates the creation of exceptional skin care formulas with the ability to create a variety of textures with one single emulsifying ingredient. Formulating flexibility, exceptional emulsification properties and rheological control make Bentone® Luxe ideal for both innovative skin care and colour cosmetics.

The customer reaction to these unique products has exceeded our expectations. We have received a record number of requests for samples and formulation support prototypes. One customer has already introduced three new products based on this technology, just six months after its initial introduction. We are partnering with a number of other customers to create a novel material that can be used as one core technology for many of their future developments.

Given the fantastic market reaction to date, we are confident these products will help us deliver up to $10m of extra sales in the medium term.

Our hectorite based ingredients help to create skin creams that have great touch and feel

At our Capital Markets Day in November, investors had the opportunity to make a skin cream using Bentone® Luxe

Growth

2

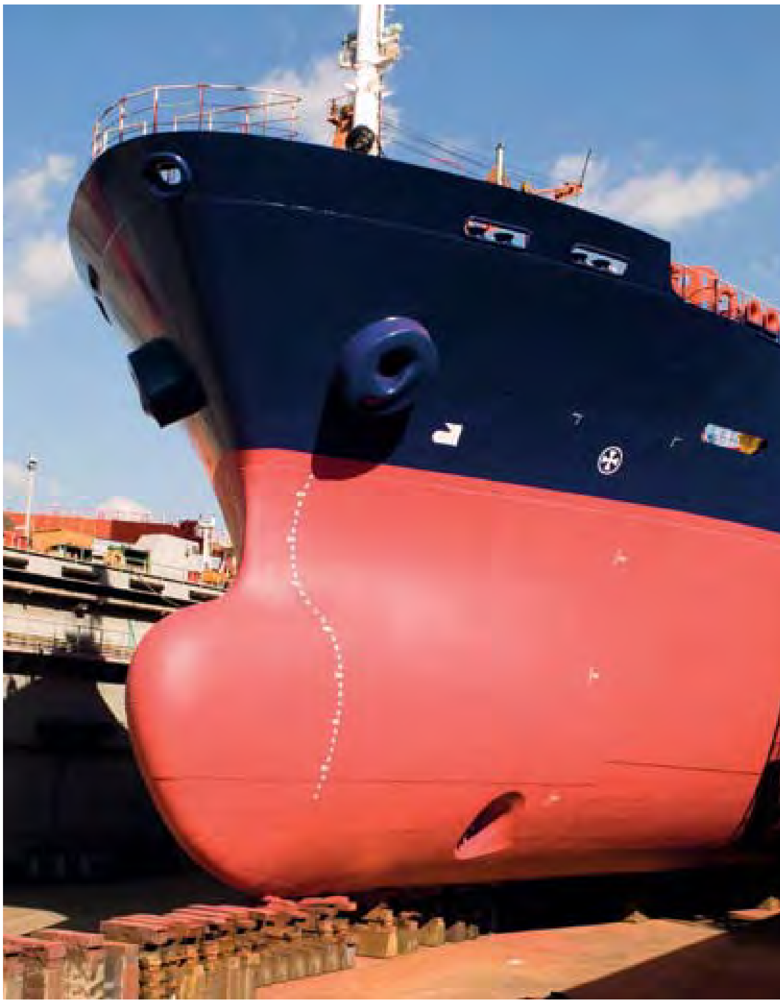
In our transformed portfolio, over 80% of earnings are now generated by Personal Care, Coatings and Talc.

The value chains across these segments are similar, transforming advantaged and long life hectorite and talc resources into high value additives via distinctive processing and formulation expertise, as well as consistent product quality and high levels of customer support.

In addition to their enduring competitive advantages, there are clear growth opportunities for these premium performance additive businesses, supported by structural mega trends.

Within Personal Care, there are major opportunities in cosmetics. Despite 25% average annual sales growth in Asia over the last four years, we are relatively underweight, with the region representing around 20% of sales. To drive further growth, we are doubling the size of our Asia sales team, building dedicated technical support and focusing our innovation efforts on local market needs. Skin care is a new and attractive market for our natural ingredients, and in antiperspirant actives, emerging market growth and increasing product performance requirements will drive growth. We are well positioned to capture these opportunities and grow Personal Care revenue well above GDP levels with high and stable operating profit margins over the medium term.

There are clear growth opportunities for these premium performance additive businesses, supported by structural mega trends.



Talc provides functional advantages like enhanced corrosion resistance for marine coatings and improved durability for decorative coatings

Talc has been successfully integrated into Elementis and we are now the second biggest global player, serving growing high end industrial applications. We are well positioned to expand market share outside Europe and address the opportunities presented by global mega trends. Vehicle light weighting, emission regulations and reduced single use plastics consumption are expected to drive strong sustainable demand for our Talc ingredients. There is also significant revenue synergy potential (on track for $20-25m by 2023) leveraging our global reach, customer relationships and innovation expertise. As a result, over the medium term we expect to grow Talc revenue well above GDP with an improving operating profit margin.

In Coatings, we are a leading supplier of high value, premium additives, critical to performance. Our Coatings transformation programme has created an integrated, simpler and more customer centric organisation bringing margin improvement and focused, profitable growth. We see clear growth opportunities for our unique ingredients in premium decorative, waterborne industrial additives and adhesives & sealants. As a result, in Coatings we are targeting GDP+ organic revenue growth over the medium term, with an improving operating profit margin.

Growth in action

Talc global expansion

Talc is a global market worth approximately $1.1 billion and we are the second largest player, with approximately an 11% global market share, up from 9% three years ago.

Customers increasingly demand high specification products, not simply on a local basis but on a global scale.

As part of Elementis, there is potential to expand Talc's geographic presence and market share.

What this means for our business

Wendy Li
Asia Sales Director Talc, Beijing, China

With Elementis' global scale and network capabilities in China, Japan, South Korea and across South East Asia, Talc's market opportunities are immense.

"I joined Talc in 2014. Personally, I was a bit uncertain when Elementis acquired the business. But now I feel really good, the combination makes us much stronger, especially in areas such as coatings, where there are real synergies.

"Elementis gives people the freedom to do their jobs, supports you and encourages working together, so our cultures match perfectly.

"Now we have the global structure and scale, I foresee major expansion for Talc, particularly in plastics and ceramics.

"We have a full range of talc products addressing all the needs of the highest end long life plastics markets– that's close to a 900,000 metric ton Asian market.

"The market for technical ceramics in Asia is also large. Due to strict environmental controls, demand for high quality talc, one of the key raw materials, is growing fast.

"We achieved close to 50% growth in 2019 in China and I am sure we can keep growing over the medium term."

Our Talc resources, located in Finland, originally predominantly served nearby paper markets, and our geographical focus centred on Europe. Indeed, today Europe still accounts for more than 80% of our talc additives revenue. However, as the Talc business has invested and increased its ability to serve high value added applications such as plastics, coatings and life sciences, so its ability to sell around the world has risen.

There is now a material opportunity to further globalise and accelerate our ambitions by leveraging Elementis' global asset base, marketing and distribution capabilities, and technical expertise.

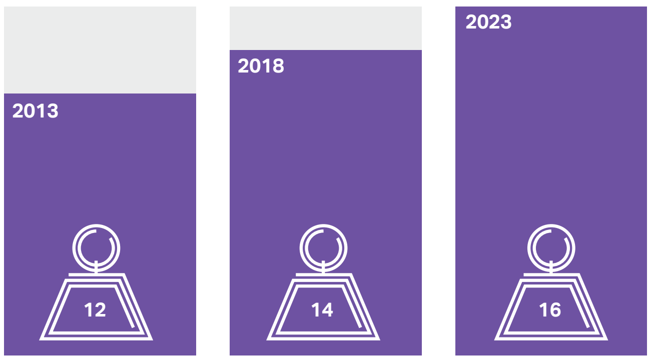
High value talc increases the stiffness and rigidity of plastics for use in automobiles, without adding weight

In long life plastics, such as bumpers, mouldings and trims, talc helps the light weighting of vehicles and thus reduces vehicle emissions. Today an average 14kg of talc is used in every vehicle. This is expected to rise to around 16kg by 2023. Our strategy is to serve this growth and gain market share. First, we gain qualification into a multinational's global headquarters by winning on quality and consistency. After demonstrating our product quality and customer service, we then grow into the global network of that business. This strategy has served us very well to date as we have expanded our share in long life plastics from 4% in 2015 to 7% today. As part of Elementis, we see this only accelerating.

In Coatings, talc provides functional advantages such as corrosion resistance for marine coatings and durability in decorative coatings. Elementis brings a strong global presence to Talc and a great position in Coatings. We now have 30 existing coatings distributors selling talc additives and a strong pipeline of new business opportunities, including in the Americas and Asia. As a result, we see $10-15m of revenue synergies for delivery by 2023.

Talc is the softest known mineral, all natural, chemically inert and water-repellent, so it is well-suited for use in areas such as food and beverage, pharmaceuticals and cosmetics. While this is currently a small business for our Talc operations, there is scope to grow and globalise. Talc is now fully integrated into the Elementis Personal Care innovation and sales organisations and we are making progress towards $10m of synergies by 2023.

Average talc per vehicle (kg)



A focus on premium performance additives…

…with a strong platform for growth

1 Distinctive resources and processing

2 Formulation and customer co-development

3 Quality service and support

Premium performance additives

Personal care Rheology modifiers and AP actives
Asia cosmetics, skin care, talc

Talc Talc based additives
Globalisation, long life plastics, technical ceramics, barrier coatings

Coatings Rheology modifiers and additives
Premium decorative, waterborne industrial, adhesives & sealants, Talc

Our strategy continued

Efficiency

3

As the Group increases in size, it is important to develop efficient working practices across our teams

We know where and how we want to grow. Efficiency and simplification will ensure that we generate growth at the lowest operating cost. To this end, we are targeting a $15m reduction in our 2019 cost base by 2022.

We are focused on three areas: organisation structure, operational efficiency and digitisation.

We have redesigned and streamlined our global structure to fit our changed portfolio. Bigger spans and fewer layers promote faster decision making and a more efficient execution. In addition, we have aligned job levels on a global basis as part of our approach to standardise key processes, including those related to HR, IT, finance, procurement and logistics across geographies. These steps have resulted in a lower headcount of approximately 100 full-time employees. Our organisational redesign is nearing completion and will result in $5m of full-year savings.

A further $10m of efficiency gains is expected to come from our global supply chain. Our new Indian manufacturing facility will lower our manufacturing costs, increase our proximity to growth markets and create a tariff-neutral starting point for our AP Actives operations. In addition, we are aligning our global capacities with our volumes. This consolidation exercise will improve our supply chain planning and inventory control. And a strategic review of procurement spend within our current organisation has opened up possibilities of savings in areas such as transportation and logistics.

A key enabler of our efficiency and simplification drive is our digital implementation programme. Here, we are making big changes. Historically we had a variety of different IT systems, partly a reflection of a dispersed set of businesses and functional activity. Today, we have adopted some best-in-class and standardised applications across the Group that give us the ability to operate more efficiently and effectively and serve our customers better.

Savings driven by efficiency and simplification

Fit for purpose organisation	Operational efficiency	Digital implementation
Simple and lean	Supply chain improvements	Faster and easier

$15m of savings by 2022

Whether it be how we manage our teams, run our global supply chain, or serve our customers, we have a mentality of continuous improvement.

Efficiency in action

Digitisation of Elementis

Digital transformation is a key enabler of our Innovation, Growth and Efficiency programme.

The right infrastructure and applications will make it easier for customers to do business with us and enable faster and better execution.

We are moving from multiple legacy software suites to a common range of best-in-class systems across the Group.

What this means for our business

David Zhou
Global Supply Chain Director, New Jersey, USA

We're building a better supply chain, globally. Better product flow, better information flow and more consistent service.

"I started as a Supply Chain Manager with Elementis in China nearly 12 years ago – before moving to the US in 2017 to head up our global supply chain management digitisation programme.

"The focus of the programme has been reducing our working capital requirements whilst improving customer service levels. Using Demantra, we have moved to a consistent, global, approach to sales forecasting, demand planning, inventory control and order fulfilment. It's an analytical, statistical and data based approach to business management.

"And it works. A US$23m reduction in working capital since 2017. Last year direct customer deliveries 'On Time and In Full' exceeded 92% for the first time.

"What's next? It doesn't stop! Talc and Chromium have to complete their programmes – then we will concentrate on a better interface to communicate across all elements of the supply chain, reducing lead times and cutting surplus stock still further."

In 2019, we rolled out the Salesforce customer relationship management system across all our segments on a global basis. The platform enables the systematic management of our relationships with existing and potential customers through contact management, sales management, productivity and more. One example of the tangible benefits the system can generate is within the area of new business identification. Due to systematic digital tracking of new opportunities by market and geography our new business pipeline is up over 20% in 2019 and the pipeline for 2020 to 2023 is encouraging.

While 2019 witnessed significant improvement in our ability to identify customers, the next step is to improve how we optimise the customer journey. Our website and digital tool-set are commerce ready. As a result of the upgrades in 2019, we now have a modern and digitally capable site. Future integration of this system with platforms such as Salesforce will enable us to manage the entire lead-to-order fulfilment cycle in a seamless way for offline and online customers. This will result in improved customer journeys and more efficient responses, and will help us capture our best growth opportunities.

Demantra, part of the Oracle suite of tools, is a cornerstone of our efforts to deliver $30m of working capital savings by 2020. The system enables our supply chain to triangulate market demand, supply restrictions and customer commitments to optimise our operations and thereby our working capital. In 2019, the system delivered $10m of purely inventory related savings. Further integration with our new business data from Salesforce will improve our forecasting ability and generate further working capital savings.

Leveraging the rich customer data created by Salesforce is a further step of our digital transformation. In 2020, we expect to roll out analytical tools such as Tableau. These applications will provide our sales force, channel team and executives with secure, up-to-date, customised views of customer data.

With 22 manufacturing locations and thousands of customers across the world, we are focused on delivery of further efficiencies in our global supply chain

Our enhanced demand planning capabilities ensure we can meet our customer needs in a timely and efficient manner

Delivering value for all our stakeholders

Inputs

People
Our engaged and skilled workforce are focused on innovation, customer collaboration and service, and delivery of our strategy in a safe and responsible manner.

Capital
We operate within a disciplined capital allocation framework that allows us to invest in growth, productivity and maintenance to support delivery of our strategy.

Relationships
We build and maintain close long term relationships with customers, suppliers and other stakeholders; centred on trust and collaboration.

Supply chain
Our global manufacturing footprint allows us to deliver our high value innovation solutions to customers in all geographies. Safety is fully aligned to operational performance.

Assets
We own and operate the world's largest known source of high quality rheology grade hectorite clay and four talc mines with high quality long duration talc resources. We are the only domestic producer of chromium chemicals in North America, and our unique delivery system generates significant safety benefits for customers.

Expertise
Our people are experts in their fields. From innovation to operations and product stewardship we have experts who enable us to deliver unique and superior product formulations to a wide range of end markets.

What we do and how we do it

Elementis is a global specialty chemicals company operating across five business segments: Personal Care, Coatings, Talc, Chromium and Energy.

Through our innovation, operations and sales and marketing expertise we create high value additives that make our customers' formulations look, feel and perform at their best and enable distinctiveness in the market – Enhanced Performance Through Applied Innovation.

Innovation

Innovation is at the heart of what we do. Leveraging our capabilities in the science of rheology, surface chemistry and formulation, we help customers respond to their biggest challenges through deep partnerships. We deliver performance enhancing additives, ongoing technical support and consistent service quality.

Operations

Across the globe we operate high performance production networks. The sourcing of raw materials, including our unique clays and talc resources, production, quality control and logistics are driven by our experienced operational teams who are continuously optimising our production networks.

Sales & Marketing

Our customer facing teams build deep and meaningful relationships with our partners which means we are the supplier of choice for the leading companies in the industries that we serve. In addition, our teams constantly monitor market developments to ensure our formulations meet the requirements not only of our customers but the end users of their products.

Value creation

Shareholders

Strong balance sheet and cash generation delivering sustainable returns to shareholders

$49m

Dividends paid in 2019

Employees

Creating and maintaining rewarding careers for our total global workforce of c.1,300 is critical for the delivery of our strategy

$122m

Employee pay in 2019

Customers

Providing value enhancing products and building relationships with our customers ensures we are better placed to solve their biggest challenges

$874m

Total revenue from customers in 2019

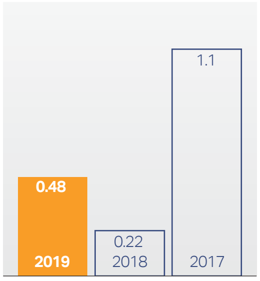
Suppliers

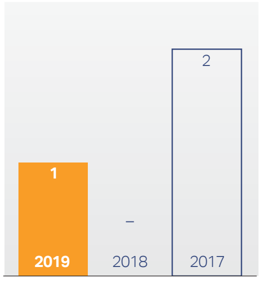
We value our supplier relationships and take a long term strategic approach to mutual value creation

700+

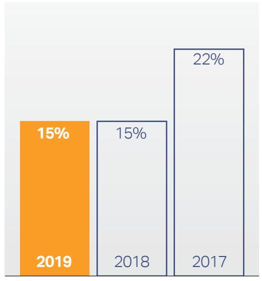
Number of raw materials used in 2019

Measuring our performance





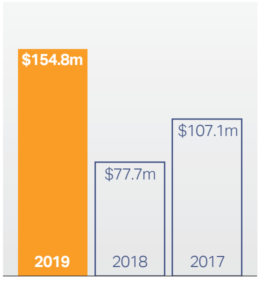
1 There were no environment incidents in 2019.



KPI	Total recordable incident rate (TRIR)	Lost time accidents (LTA)	Environmental impact	ROCE
Definition	We use the US Occupational Safety and Health Administration (OSHA) definition for recordable injuries and illnesses. TRIR is the total number of recordable incidents multiplied by 200,000, divided by total hours worked by all employees during the year.	LTA is an injury or illness that requires more than three days away from work not including the day of incident.	We record and categorise environmental incidents into tiers based on severity or actions taken by regulatory authorities. Tier 3 incidents are those that have a significant 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 action by the authorities.	ROCE is defined as operating profit after adjusting 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 retirement benefit obligations.
Performance	Further information can be found on page 29.	Further information can be found on page 29.	Further information can be found on page 29.	Further information can be found on page 172.
Remuneration linkage	Non-financial targets within the Executive Directors' annual bonus structure typically include individual objectives relating to safety performance.	Non-financial targets within the Executive Directors' annual bonus structure typically include individual objectives relating to safety performance.	Non-financial targets within the Executive Directors' annual bonus structure typically include individual objectives relating to environmental performance.	ROCE is an underpin condition for the Long Term Incentive Plan. ROCE including goodwill was 8% (2018: 8%).
Link to strategy	**Link to strategy** 1 2 3	**Link to strategy** 1 2 3	**Link to strategy** 1 2 3	**Link to strategy** 2 3

Key to strategic priorities

1 Innovation 2 Growth 3 Efficiency



Adjusted operating cash flow

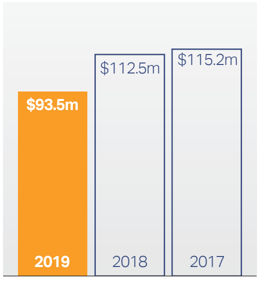
Adjusted operating cash flow is defined as the net cash flow from adjusted EBITDA plus changes in working capital, provisions and share based payments, less net capital expenditure.

Further information can be found on page 42.

No direct linkage with remuneration.

Link to strategy

1 2 3



Adjusted Group profit before tax

Adjusted Group profit before tax is defined as the Group profit before tax on total operations (continuing and discontinued) after adjusting items, excluding adjusting items relating to tax.

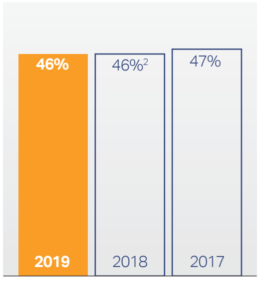
Further information can be found on page 123.

Adjusted Group profit before tax is a key element of the Annual Bonus Plan for the Executive Directors.

Further information can be found within the Remuneration Report on page 86.

Link to strategy

1 2 3



2 Total operations (both continuing and discontinued).

Contribution margin

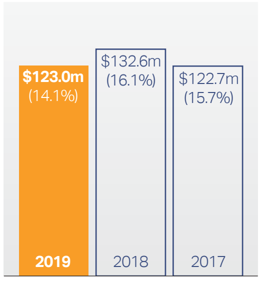
Contribution margin is defined as total revenue less all variable costs, divided by total revenue and expressed as a percentage.

Further information can be found on page 172.

No direct linkage with remuneration.

Link to strategy

2 3



Adjusted operating profit/adjusted operating margin

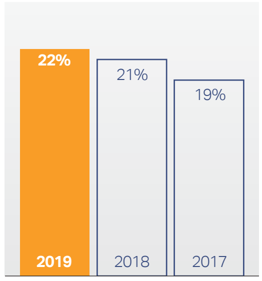
Adjusted operating profit is the profit derived from the continuing operations of the business after adjusting items. Adjusted operating margin is the ratio of adjusted operating profit to total revenue.

Further information can be found on page 172.

No direct linkage with remuneration.

Link to strategy

1 3



Average trade working capital to sales ratio

The trade working capital to total revenue ratio is defined as the 12 month average trade working capital divided by total revenue, 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.

Further information can be found on page 172.

Average trade working capital is a key element of the Annual Bonus Plan for the Executive Directors.

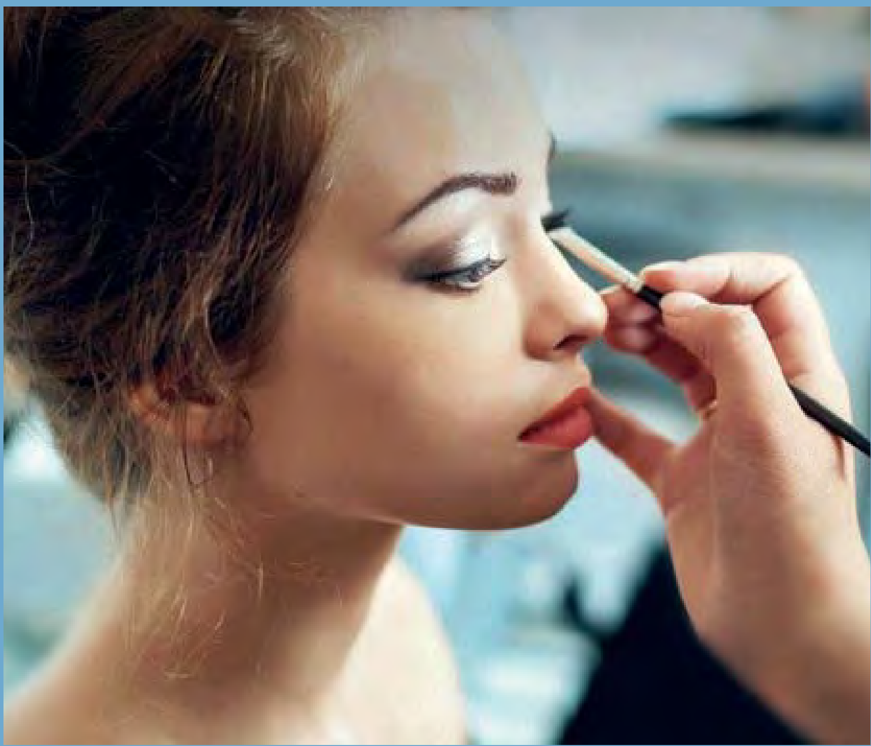
Further information can be found within the Remuneration Report on page 86.

Link to strategy

1 2 3

Sustainability at a glance

A year of achievement



UN Global Compact delivered our first communication on progress.

EcoVadis Silver rating

Top 5% of silver rating in manufacturing sector

We doubled our offering of new natural and naturally derived products to meet our customers' needs.

Our talc and polymeric products reduce the weight of automotive components thereby reducing the carbon footprint of today's automobiles.

Meadowfoam® seed oil comes from family farmers who use intelligent crop rotation and natural resource management. This results in a superior product that is renewable, sustainable, and supports local communities.

In Milwaukee, we increased the number of Fish Hotels tenfold which resulted in more and bigger fish in an area that was devoid of fish a few years ago.

Over $25m invested in HSE and maintenance capital expenditure.

Many products are derived from natural and renewable sources. Many cosmetic ingredients have received COSMOS natural approval. We support RSPO and use sustainable sources of palm oil to protect rainforests and biodiversity.

Integrating sustainability into our business

Paul Waterman
CEO

"Elementis is committed to create a sustainable future world through our innovative products, our dedication to reduce the effects of manufacturing on the environment and our core values to being a safe, ethical, environmentally and socially responsible company."

Our role in society

Respect and care for our environment and our communities are core values at Elementis. It drives everything we do as part of our ongoing contributions to sustainable products, practices and policies. Our behaviours impact the people who work for us, as well as the wider environment.

Our Code of Conduct and Company values underpin our commitment to people and the communities where we operate. This focus ensures safe and proper working conditions, high ethical behaviours, and business integrity.

Safety is a core value at Elementis. The safety of our employees, the environment, the communities in which we operate and our products is one of our top priorities. Our goal is to maintain a world-class HSE programme that delivers excellence in HSE, while focusing on zero harm.

Sustainability leadership and governance

In 2019, we established the Elementis Sustainability Council (ESC) to provide leadership, oversight, and coordination for all Elementis' sustainability and social responsibility policies, programmes, and goals.

The ESC is comprised of:

- SVP Global Supply Chain and Manufacturing
- SVP, Global Technology
- SVP, Global Personal Care
- Chief HR Officer
- Group Company Secretary
- Director, Global Product Stewardship and Sustainability

The ESC reports directly to the CEO who in turn reports on environmental, social, governance and sustainability matters to the Board.

We recognise that the development and maturity of our sustainability programme is a journey. The primary focus of the ESC during 2019 has been to assess and evaluate potential sustainability metrics and programmes to demonstrate our continuing commitment to sustainability.

We are proud to participate in and receive external recognition for our sustainability efforts which include; EcoVadis, Carbon Disclosure Project, FTSE4Good and Roundtable for Sustainable Palm Oil (RSPO). We are an active signatory to the UN Global Compact and submitted our inaugural communication on progress during the year.

Sustainability metrics

We expect to publicly announce these metrics during the first half of 2020. In addition, the ESC has been focused on aligning these targets and our Company values with the UN Sustainable Development Goals.

Product safety

We are committed to making sure our products will not harm people or the environment during manufacture, use, and disposal. To support the highest levels of product safety and regulatory compliance, we have a comprehensive product safety and product stewardship processes in place to ensure that any hazard relating to our products are fully understood and communicated to our customers. Any risks are managed to minimise potential impacts to people and the environment.

Our sustainability achievements

SILVER 2019 ecovadis CSR Rating	FTSE4Good	THE GLOBAL COMPACT	CDP DISCLOSURE INSIGHT ACTION	CERTIFIED SUSTAINABLE PALM OIL RSPO
Top 5 % of silver rating for manufacturing sector in CSR	FTSE4Good member since 2009	UN Global Compact – full commitment	CDP – Above average performance	Certified user of sustainable palm oil and member of RSPO

Our products are sold in compliance with all applicable local and country laws and regulations.

Innovation
We constantly strive to use our expertise and capability to create innovative products that meet the changing expectations and needs of our customers. Our customers rely on us to produce high quality, high performance and environmentally friendly products which enable them to manufacture with an emphasis on sustainability in their own operations.

For example, the production of ethanol from plants, such as sugar cane or corn, is an attractive alternative to conventional fossil fuels. A critical challenge for such bio-ethanol producers is to reduce excessive foaming during the fermentation process.

When a biofuel producer in Thailand was unable to secure a solution from its existing supplier for an excessive foaming problem, Elementis rose to the challenge. Our team immediately assessed the severity of the situation and offered a quick solution. Within less than three weeks, Elementis launched a new defoamer (DAPRO® DF7169) and shipped 100kg to the customer for production trial. Improvements in production efficiencies were immediately achieved at this facility, leading to increased output, profitability and end-user satisfaction without compromising the high standards of quality, safety and environmental compliance during the fermentation process. Trials with other bio-ethanol producers are showing very positive results.

During 2019, we implemented a 'sustainability index' in our innovation process to emphasise the importance of developing new products that are either natural or manufactured using renewable resources, have low energy requirements in their use and minimise our customers' carbon footprint.

Climate change
We acknowledge climate change is likely to have an impact on our business as we operate on a global basis. We have started to analyse climate related risks relating to our operations and we intend to address this more formally as we embark on our journey to being able to disclose climate-related financial impact. Currently, we disclose our environmental, social and governance performance through the Carbon Disclosure Project (CDP) climate change programme which considers risks and opportunities of climate related issues from the world's largest companies.

We note that the UK Government has set a target to bring all greenhouse gas emissions to net zero by 2050 and we are currently considering how best we can contribute to this target in respect of our UK operations.

Site specific
As a demonstration of our commitment to the environment, local site specific programmes are in place to replace disposable paper products, plastic utensils, and non-recyclable consumables at all our locations. At our management headquarters in SciPark, New Jersey, volunteers launched a recycling initiative to collect and recycle used beauty product packaging, plastic water bottle caps, batteries, and other hard to recycle office supplies.

Water consumption
Water scarcity is a global issue. We operate mostly in locations where this is not an immediate issue, nevertheless we recognise the need to conserve water and keep up to date with developments relating to water supply risks. Water consumption is minimised where possible by treatment and recycling. Consumption is related to production output, product mix, plant utilisation and cleaning activities. Our new site in India is being constructed to recycle and reuse 100% of the water it consumes. Zero liquid discharge is being built into the site design with only solid waste being taken away.

Waste
As part of our ongoing commitment to the environment, we seek 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.

Energy consumption
We consume energy from several sources; electricity (both wind and solar), steam, natural gas, LPG, biomass and oil at manufacturing sites, offices and laboratories. Energy consumption varies with production volumes and product mix. Further information on energy consumption can be found below.

Palm oil
Our membership of the Roundtable on Sustainable Palm Oil (RSPO) means Elementis is committed to protecting and conserving the rich biodiversity found in tropical palm forests by using palm oil sourced from sustainable palm plantations that are responsible and responsive to the issues of soil degradation, biodiversity, local people and land rights. Elementis is certified under the RSPO for our organoclay and bentone gels product range.

Supporting family farms and local growers
Meadowfoam® seed oil, found in many cosmetics, comes directly from a community of family farmers in Oregon, USA. These farmers use intelligent crop rotation and natural resource management as part of their farmer-driven stewardship practices. This results in a superior cosmetic ingredient that is renewable, sustainable, and supports local families.

Biodiversity
We believe that the variety of life, should be protected insofar as it is reasonably practicable by reducing or avoiding the impact on, and potential for damage to, sensitive species, habitats and ecosystems as a direct or indirect result of our operations and activities.

Examples of our efforts and specific action plans implemented to enhance biodiversity include:

- Seedlings for native species trees have been planted at our Palmital, Brazil and our Taloja, India facilities.
- A fence barrier, installed at our Hectorite mine in California, protects the habitat of the desert tortoise, which is a protected species. If a tortoise makes its way beyond the barrier, we work with a certified biologist to return them to their habitat.
- Monitoring and compliance with environmental permits and good ecological practice ensure that permitted discharges from our Charleston, West Virginia facility do not affect freshwater mussels, which are a protected species that reside in the Kanawha River.
- Our Chromium business in Castle Hayne, North Carolina, has maintained a large fenced area of undeveloped land (130 hectares) adjacent to the site, which will remain forested to provide a haven for wildlife to inhabit.
- At two sites, Milwaukee, Wisconsin and Anji, China, retaining walls have been constructed to prevent silt and residual clay from being washed into the adjacent rivers.

	2019		2018	
	Absolute ('000s)	**Per tonne of production**	Absolute ('000s)	Per tonne of production
Energy consumed (GJ)	**4,553**	**5.58**	5,753	14.7

Health, safety and environment

Highlights

New Group HSE policy

Elementis HSE Council launched

HSE culture assessment tool launched

Over $25m invested in HSE and maintenance related capital expenditure

Over 30,000 hours of HSE training completed every year

32%

reduction in total Scope 1 and Scope 2 GHG emissions

We place great emphasis on protecting people and operating responsibly. Our Health, Safety and Environment (HSE) programmes provide the basis of how we develop, manufacture and distribute our products around the world. This is founded on management systems and internal procedures that define our regulatory obligations, the industry best practices that we employ, risk management and the various programmes that drive continuous improvement.

In 2019, we updated our Elementis HSE policy and circulated to all employees. The new policy represents our objective to maintain a world class HSE programme that delivers excellence in HSE performance and drives continuous improvement.

All employees and contractors are given training to understand their roles and responsibilities to ensure compliance with our safe work procedures and we conduct regular audits to determine policy compliance.

We consult with, and involve, our employees in the development and implementation of our HSE programmes and initiatives.

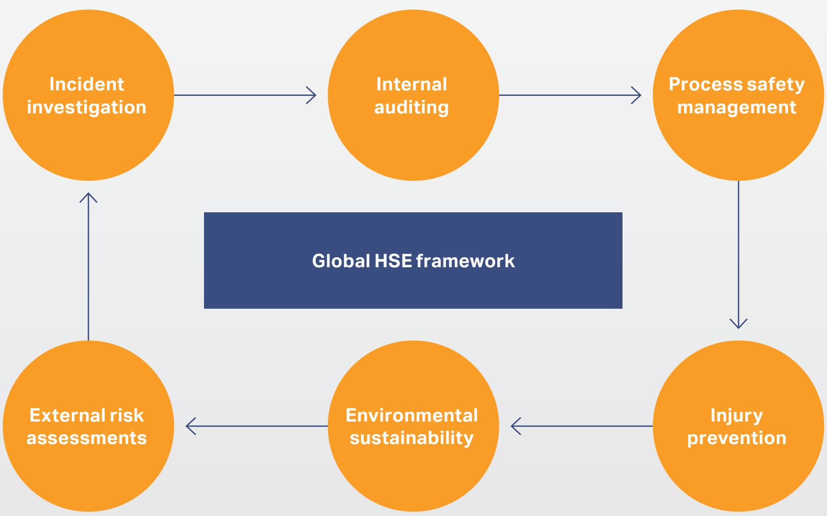
To assist us in identifying ways to improve our HSE culture we have developed an HSE culture assessment tool. This tool allows the sites to conduct a year over year assessment on improvements on HSE culture. The tool consists of over 35 questions pertaining to accountability, commitment, responsibility and employee participation.

The results of the survey provide insight on areas of focus for each year and these elements are included in site annual improvement plans.

During 2019, we launched the Elementis HSE Council, a new forum to discuss HSE matters. The mission of the council is to create a community that promotes HSE excellence, knowledge and engagement that drives continuous improvement in performance and culture. The council includes members from the HSE and operations community and meets monthly to exchange ideas and discuss HSE related issues in an open and transparent environment so we can learn from what is working and where we can do better.

To ensure that all of our manufacturing site leaders are aware of their roles and responsibilities in championing HSE at their facilities we implemented a Site Leader HSE Review Panel. Within 120 days of their date of hire or promotion, Site Leaders will appear before a review panel to demonstrate a thorough understanding of their site's regulatory obligations, permit conditions, process hazards, injury & incident history and all other aspects of HSE related to the safe operation of their facilities. Current site leaders will cycle through the review process every three years.

Global HSE programmes



Continuous improvements

For the second year in a row we held our annual Summer Safety Challenge where all operations, including R&D labs, are expected to participate. On the Monday of each week, two employees are paired together and serve as each other's 'Safety Buddy'. At the beginning of each shift the Safety Buddies will meet and discuss their assigned tasks for the day where they identify the hazards, risks, needed controls, and how they plan to keep safety in mind throughout the day. Each pair of employees completes a log sheet and submits to their supervisors. There is no prescribed pattern for pairing safety buddies, e.g., salary & hourly; operations & lab; maintenance & front office, etc. Each week a new pairing will be made.

Investment in HSE

In 2019, over $25m was invested in HSE and maintenance related capital expenditure projects, representing around 50% of our total capital expenditure. These investments include an ongoing programme of maintenance, new investments in air quality improvements through installation of a new Dryer bag house at St. Louis and a new Regenerative Thermal Oxidiser (RTO) at our Songjiang, China facility. We made rail car and track safety improvements at our Castle Hayne, NC and Dakota City, NE facilities and we made several process safety improvements at our Vuonos, Finland facility.

In addition to capital expenditure investments we ensure that our employees are properly trained to understand their roles and responsibilities to safely operate our facilities. We provide over 30,000 hours of HSE and compliance training every year.

Our performance

In 2019, we unfortunately experienced a slight increase in the number of recordable injuries compared to 2018. We incurred seven recordable injuries in 2019 with one of those being a lost time injury greater than three days of lost time.

In order to understand the basis for why these incidents were occurring we implemented a new root cause analysis technique to ensure we had a complete understanding of why incidents occurred and what we can do to prevent them from happening again. We share these learnings via Safety Alerts and discuss in depth during the monthly HSE Council. All Corrective and Preventative Actions (CAPAs) identified during the investigation and root cause analysis are entered into our HSE information database and tracked to completion.

2019 safety performance

We use the US Occupational Safety and Health Administration (OSHA) definitions for Recordable Injuries and Illnesses, the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 for Lost Time Accidents (LTA), and Total Recordable Incident Rate (TRIR) as a means for benchmarking performance.

	2019	2018	2017
TRIR (incidents per 200,000 hours worked)	**0.48**	0.22	1.10

Environmental impact

We record and categorise 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. In 2019, we maintained a high level of environmental performance as there were no Tier 2 or Tier 3 incidents (2018: zero Tier 3; zero Tier 2).

Greenhouse gas (GHG) emissions

Carbon dioxide derived from natural gas combustion is the principal GHG attributed to our operations. Other GHG emissions arising from our operations include those from chemical reactions in production processes, wastewater treatment and carbon dioxide used for process cooling. Our data includes all operating sites and principal offices. Small office locations are excluded as the level of carbon dioxide equivalent (CO_2e) emissions from these offices do not make a material contribution.

For 2019, total Scope 1 and 2 emissions decreased overall by 32% directly attributable to the full year benefit of divestments of former Group sites, increased energy efficiencies of the Talc sites and ongoing sustainability initiatives.

During 2019, energy efficiency actions across the Group included:

- Upgrading of mills used in our Talc operations resulting in 50% energy savings and 90% CO_2 emissions savings
- New warehousing in central US to seek consolidation of truckloads resulting in less trucks on the road
- Zero liquid discharge system for all water on site relating to our new India plant currently under construction
- New generations of additives using plant based additives which reduce the energy requirement during paint manufacturing process using lower temperatures
- New Martinsville facility – installation of new condensers
- Castle Hayne – transition from three kilns to two kilns driving utilisation and energy efficiency

We see additional opportunities to move towards more renewable energy sources for some sites in 2020. We have projects underway evaluating the implementation of both solar and wind energy for our sites. In addition, each manufacturing site has been challenged to identify projects that may reduce their carbon footprint.

Greenhouse gas emissions

GHG emissions are calculated from energy purchased and process calculations. Energy units are converted into CO_2e using the official data provided by the UK Department for Environment, Food and Rural Affairs (Defra).

Please note that Scope 1 and 2 emissions, and the intensity ratios, are subject to variations due to changes in the mix of products manufactured, volumes, portfolio and energy efficiency improvements.

	2019	2018	Base year 2013
Scope 1: Combustion of fuel and operation facilities (tonnes CO_2e)	**170,811**	242,476	221,076
Scope 2: Electricity, heat, steam and cooling purchased for own use (tonnes CO_2e)	**57,930**	96,059	89,500
Total:			
Scope 1 and 2 (tonnes CO_2e)	**228,741**	338,535	310,576
Intensity ratio:			
(tonnes CO_2e/tonne production)	**0.28**	0.89	0.77
Supplementary intensity ratio:			
(kg CO_2e/kWh energy consumed)	**0.18**	0.22	0.27
Out of scope:			
Biofuel (tonnes CO_2e)	**4,676**	5,753	0

CO_2e values were derived using Defra published factors (2019).

Note: Scope 1 and 2 CO_2e emissions show significant reductions as a result of a number of sustainability initiatives, investments and full year benefit of divestment of certain CO_2e intensive sites.

In accordance with The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 which came into force on 1 April 2019, the table below states our UK energy usage:

	2019
Scope 1: Combustion of fuel and operation facilities (tonnes CO_2e)	**7,534**
Scope 2: Electricity, heat, steam and cooling purchased for own use (tonnes CO_2e)	**924**
Total:	
Scope 1 and 2 (tonnes CO_2e)	**8,458**
Intensity ratio:	
(tonnes Co2e/tonne production)	**0.43**

During 2019, our Livingston site completed three energy efficiency projects; LED lighting replacing all fluorescent light on site and in offices, installation of an extraction fan and a high speed roller door to reduce heat loss. In total these initiatives amounted to a total capital investment of £58,669 delivering per annum cost savings of £52,561, reduction in energy usage of 419,587 kwh and reduction in carbon emissions of 124,228 $kgCO_2$.

Our supply chain

Highlights

As a global Group we seek to maximise efficiencies and synergies across our business

500+

suppliers

700+

raw materials

20+

manufacturing locations

1,500+

customers and local distributors

Procurement excellence is a key strategic driver for our success. We employ a functional led organisation structure, with category specific expertise located around the world. We are aligned with the businesses to leverage our spend delivering continuous total cost improvement and supply risk mitigation.

In 2019, we achieved more than $8m in procurement related cost savings through cooperative strategic management of our suppliers, and focused efforts to right size our requirement. We continued to de-risk our raw materials through the development of additional sources of supply for critical raw material and improved demand planning which allowed us to better react to market changes.

Our Code of Conduct upholds our commitment to high ethical standards of fairness and respect in all business dealings including with customers, suppliers, and distributors. Our Purchasing Code of Practice reflects the requirements of the US California Transparency in Supply Chains Act of 2010 and the UK Modern Slavery Act 2015. Training is provided to employees on sustainable supply chain management which includes prevention of modern slavery and fair business dealings with customers, suppliers and distributors. We assess and require our key and large suppliers and potential suppliers to ensure conformity and consistency with our policies, including compliance with international labour laws and the absence of slavery and human trafficking. This includes the use of questionnaires which are assessed by our procurement team. If a supplier is found to be in breach of international labour laws and standards that seek to prohibit slavery and human trafficking we will terminate our agreement with them immediately

Product stewardship, sustainability and compliance

Successful product stewardship involves constant communication with suppliers and customers at all levels. We partner with key suppliers and customers for faster to market solutions for our products. We surveyed our top 80% of suppliers regarding their sustainability programmes and will use this to improve our performance.

We expect the people in our supply chain to be treated fairly and their human rights respected. We strive for the highest ethical standards, holding our suppliers and partners to the same criteria.

GDPR

We require that suppliers and service providers treat personal information in line with applicable laws and regulations. Where applicable, we have concluded agreements to safeguard the personal data of our employees, and customers. We conduct reviews into the service providers' ability to comply with data protection laws and require that incidents which may have an impact on Elementis to be reported to us without undue delay.

Trade and tariff impacts

Following US and Chinese trade negotiations and the UK's withdrawal from the EU, we have taken a proactive and collaborative approach internally and with our customers and suppliers. In some cases, we have built inventories to mitigate supply risks, and where appropriate we have shifted certain production to new locations to minimise the cost of new tariffs.

Payment terms

We work collaboratively with our suppliers to enable us to deliver value to the business and are committed to paying our suppliers on time. Our standard payment terms for suppliers are net 60 days from receipt of goods and services.

Tax transparency

On an annual basis we develop and publish our tax strategy statement, in line with the requirements of paragraph 16(2), Schedule 19, Finance Act 2016. We aim for a proactive, open and transparent relationship with all relevant tax authorities in order to facilitate meeting our statutory and legislative obligations. The tax strategy statement is approved by the Board and is available on our website www.elementis.com.

Our supply chain continued

Our mines

Elementis operates five mines which provide us with a clear source of competitive advantage.

Hectorite mine	
Location:	California, US
Markets served:	Personal Care, Coatings and Energy
Resource life	+50 years

We own the only commercially viable high quality rheology grade hectorite mine in the world, this combined with manufacturing know how enables us to supply high value functional additives globally.

Talc mines	
Location:	Four operating mines in Finland
Markets served:	Long life plastics, coatings, life sciences and paper
Resource life:	+90 years

These specialty talc mines in Finland are within one of only two known deposits of scale in Europe. As a result of optimised upstream and downstream logistics from plants in Finland and the Netherlands, we are in a position to serve dynamic end markets globally.

Human rights and modern slavery

Our Code of Conduct details our commitment to human rights and covers bribery and corruption, conducting business with respect, integrity and equality, and managing personal activities and interests. Our approach is guided by international conventions and standards, including the United Nations (UN) Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights as well as the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work. We prohibit the use of child and forced labour and are committed to the principles of equality of treatment and non-discrimination. With our supply chain partners we undertake ongoing risk assessments and due diligence processes to monitor compliance.

Full details on our approach to preventing modern slavery across our business can be found within our Modern Slavery Statement published on our website at www.elementis.com.

Bribery and corruption

We have a zero tolerance policy for bribery and corruption. Our Code of Conduct includes bribery and corruption and is further supported by an anti-corruption policy. Reporting procedures are in place supported by processes to prevent retaliation against any employees who communicate good faith concerns relating to business conduct. Employees receive regular training on anti-bribery and corruption.

Speak up reports

In 2019, there were a total of 4 speak up reports (2018: 2). All of these reports were investigated fully and closed during the year.

We regard the increase in reports as a positive sign that our employees have greater awareness and understanding of the benefits of speaking up and that all concerns raised are valued and investigations will be taken seriously.

Concern raised	Number of cases
Bribery and corruption	–
Business and financial reporting	–
Business integrity	–
Competition /anti-trust	–
Confidential information and intellectual property	–
Conflict of interest	–
Discrimination or harassment	2
Environment, health and safety	1
Other or general enquiry	1

Our initiatives

Assets

- Optimise underperforming sites
- Sale of non-core assets
- Asset optimisation
- Product optimisation

Process optimisation

- Automisation across operations
- Driving utilisation
- Process simplification

Cost

- Higher efficiency equipment
- Materials delivery
- Equipment reliability

Our people

Highlights

Organisational capability
- Completion of a full organisational review looking at spans, layers and reporting relationships to create a more efficient and effective structure.
- Piloting e-learning for our sales teams to build commercial capability

Operational excellence
- Global Data Protection Compliance/ GDPR policies, processes and procedures embedded further into the organisation with validated progress via internal audit.
- The acquired Talc business integrated into HR systems plus the addition of compensation planning and mid-year performance review modules

Culture and values
- Values were rolled out throughout the organisation through workshops. They were embedded into performance management and an employee engagement survey which was launched in October 2019 as an anniversary based dynamic survey
- Designated Non-Executive Director for workforce engagement appointed and programme of engagement established. Further information can be found on page 63.

We believe in a culture driven by strong values and an environment that promotes safety, accountability and high performance. As our greatest asset, people and the teams they work within drive the success of the business delivering value to customers, shareholders and the communities we impact. We pride ourselves in the innovative, agile way we respond to ever changing needs of stakeholders worldwide.

Our people strategy

We focus on three core areas: Organisational capability; Operational excellence and Culture and values, making significant progress in 2019. Our values inform the way we act and behave and guide our decisions on a daily basis.

Culture and values

Safety is at the heart of everything we do and in conjunction with the other values at the forefront of every decision we make and action we take.

This culture is driven by our values which we continue to embed in the organisation. Through the employee survey we will gain further insight into how we can strengthen their adoption globally.

Throughout 2019, we ran workshops on our values across the organisation.

Safety

Solutions

Ambition

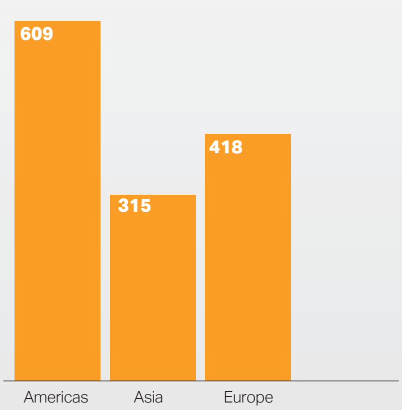
Respect

Team

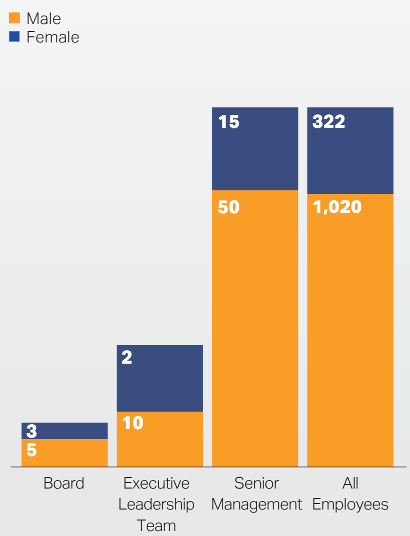
Employees embraced these sessions and used them to discuss the values and how well we live them within the organisation. From these groups, we learnt of a number of concerns around career development, internal communication and collaboration between departments. These concern areas were actively discussed at a local level with a number of new forums put in place. At an enterprise level, we incorporated these areas into the employee engagement survey to enable a better understanding to be developed. We ensured the new website provided material useful for both internal and external stakeholders and committed to launching an intranet in 2020.

Employee locations as of 31 December

Total employees 1,342



Gender Diversity



Priorities for 2020

- Utilise the insight from the employee survey to continue to embed the values and drive engagement across the organisation
- Embed the new reward and job structures with processes built into HR systems
- Support segment organic growth through focused people plans which continue to build capability
- Support the start-up of the India Plant, building the capability, the right culture and embedding the values
- Advance the digital footprint through further improvement of elementis.com, HR systems and the introduction of a basic intranet
- Development of a People Dashboard/ Scorecard

Business conducts and ethics

Our Code of Conduct sets out the standards of conduct expected from everyone who works for Elementis. Our Code is aligned with applicable laws and regulations, as well as our values.

To help employees understand and adopt these values, principles and standards in their daily work life, information and training are supported by comprehensive whistleblowing procedures and an anti-retaliation policy.

The Code is translated from English into six other languages (Brazilian Portuguese, Dutch, Finnish, German, Chinese simplified and Chinese traditional) and supported with interactive online training to help employees stay up to date with their responsibilities. All new employees are required to undertake training on the Code and refresher training is every two years.

The Code covers the following:

- Fair dealing
- Confidentiality and privacy
- Record keeping
- Communications
- Trade practices and competition compliance
- Insider trading and fair disclosure
- Bribery and other corrupt practices
- Product liability
- International business dealings
- Political contributions and activities
- Maintaining a safe, healthy and affirmative workplace
- Equal opportunities
- Anti-harassment
- Offensive materials
- Alcohol and drugs
- Conflicts of interest
- Gifts and hospitality
- Theft and misuse of Company assets
- Corporate opportunities
- Intellectual property and network use
- Integrity and security

Diversity and inclusion

Diversity of our people and the inclusive nature of our culture is intrinsic to better business decisions. We continue to make appointments based upon merit and seek to leverage our global footprint to reap the benefits of a diverse talent pool. Our HR policies including Equal Opportunities and Dignity at Work and Recruitment and Selection, underscore our commitment to providing equal opportunities in employment, striving to ensure that the work environment is free of harassment and bullying and that everyone is treated with dignity and respect. Regular training is provided to employees during the course of their employment.

Whistleblowing

We provide Alertline®, a 24 hour anonymous multi-lingual phone reporting service for employees to report any potential violations of our Code of Conduct. Reports are duly investigated promptly and action is taken as appropriate. The Audit Committee and Board have oversight of whistleblowing matters.

Employee communications and engagement

The Company is committed to employee engagement throughout the business. Employees are kept informed of the performance and strategy of the Group, HSE matters and other employee initiatives through regular email bulletins and townhall meetings take place at each of our sites.

During the year, the Company launched its employee engagement survey as a method to gather insight from employees. To ensure that the Board take into account the views of the workforce, the Board appointed Sandra Boss as the Designated Non-Executive Director for workforce engagement and further information on Sandra's role can be found on page 63.

Building stronger teams

We support the continuous development of our people in enhancing their skills and providing the tools they need to be successful in their roles. Our focus is on building capability through a long term approach to development and effective organisational design. Our global leaders are building functional capability with teams aligned across our business segments. We continue to look at how we build high performing teams whether local, regional, global or virtual. A number of our employees have participated in external development programmes in 2019 and we will continue to expand this in the future.

People drive performance

Through our people management processes our employees learn about the strategy, priorities and goals of our Company, businesses and functions. This promotes an environment of accountability and performance to achieve clear goals each year. Annual and mid-year performance discussions enable managers and employees to review their progress, give and receive feedback and ensure clarity and alignment of goals.

Performance is recognised through a robust reward philosophy. Our advanced compensation and performance management processes build performance into both annual merit review and individual bonus outcomes. We also provide opportunities to give one time awards for exceptional performance.

HR systems and processes

Through a clear people strategy, we have invested in creating and enhancing critical HR systems and processes including talent reviews and performance calibration, building capability within our automated HR system, where appropriate, standardising policies and processes globally, and utilising reporting and analytics for better decision making.

Life saving rules

All employees are responsible and authorised to stop any work that is unsafe or does not comply with our Life Saving Rules.

Sarah Bissland
Plant Manager – Livingston, United Kingdom

Fresh from college graduation with a chemistry degree in hand, Sarah Bissland was excited to join Elementis Global in October 2010 as a QC Technician. She chose chemistry because 1) she loves it and 2) she believed the degree provided many career opportunities. Since then, her successive roles have taken her from the laboratory to her recent promotion to Plant Manager. She credits her mentors along the way for their support to develop a cross-functional skill set.

As she plays a pivotal role in the company's success, her long-term vision for the Livingston plant is built on continuous improvement, effective manufacturing, and innovative approaches all anchored in teamwork, excellence, safety, and sustainability.

Her personal leadership philosophy is to be approachable and give everyone a voice. She plans to 'pay it forward' to other employees helping to mentor them and she encourages more women to seek out leadership roles at Elementis.

Jojanneke Bron
Plant Manager – Amsterdam, The Netherlands

Jojanneke Bron has always wanted to help others and make a difference. From a young age, she learned a respect for the world we live in. This established a foundation and interest in studying health. She found her vocation at the world-renowned Wageningen University & Research fusing her love for medicine with food technology.

Upon joining Elementis as a Plant Manager in November 2019, she knew she found a culture that shares her beliefs. She feels a positive energy at Elementis as everyone understands the importance of their contributions and strives to innovate.

As a woman running a production plant, Jojanneke is grateful for the valuable coaching from her father and her mentors. The best advice she received was to trust in her abilities and her own path. She shares this same guidance with her team to unlock their inherent potential.

Jojanneke and her family love the outdoors and being active. She devotes much of her spare time cheering on her sons in their sports activities and volunteering with the local soccer club. She also enjoys tending to her vegetable garden, watching life come from the earth and being present to the peacefulness. There are so many parallels in gardening, managing a team and creating a better world – nurturing, care and emotion. Staying focused makes good things happen.

Suzanne Matuszewski
Director Global Stewardship and Sustainability

Joining Elementis in January 2018, Suzanne Matuszewski feels privileged to put her lifelong passion for sustainability into action. As Director Global Stewardship and Sustainability, she's using her background in biology, chemistry, and physics to create a better world.

From an early age, her career was driven by her passion for sustainability. Today, she feels empowered at Elementis to develop more efficient ways of utilising environmentally friendly chemical engineering. While she subscribes to all Elementis' Values, the strongest connection is for Respect – especially as it applies to communities and the environment.

Her vision for the Stewardship and Sustainability team is to be more integrated into the entire lifecycle of product development. She believes her team's formula for success will further benefit customers and consumers.

Huibin Zhao
Vice President of Coatings, Asia and Country President, China

Bringing 30 years of experience with several multi-national chemical specialty companies, Huibin Zhao joined Elementis in March 2019 as Vice President of Coatings Asia and General Manager of China Operations. With a bright and curious mind from a very young age, science competitions fueled his love of science. It is no surprise that Huibin has dedicated his life's work to chemistry. He chose an emerging discipline in the 1990s known as polymer science for his major while at Fu Dan University – a prestigious research university in Shanghai, China.

We need chemistry and chemicals for everything. That's why it is so important to Huibin to be a champion of discoveries for sustainable solutions that add value to Elementis' customers.

He credits his mother for being his most influential mentor teaching him good values, to do the right thing, and stand strong even through adversity. As a manager, Huibin taps into those values to create his team's chemistry – supporting their ideas and listening to the challenges they face, encouraging innovation and safety, and driving them to develop the best possible solutions. Chemistry is everywhere.

Life Saving Rules

Authorised operators only seat belts must be worn

Fall protection required when working at heights

Know and comply with PPE requirements for every task

Obey driving laws and mobile phone use policy

Permit required for line breaking

Only qualified personnel can work on energized equipment

Obtain safe work permit and approved work plan

Permit required for lock out/tag out

Permit required for performing hot work

Permit required for confined space entry

Training during 2019

- GDPR Refresher
- Global Anti-Corruption and Bribery
- Preventing Sexual Harassment – New York and California
- Anti-Harassment Training – US
- Model Code of Conduct for Third Party Suppliers
- Global Financial Fraud Prevention
- Diversity and Inclusion
- Information security
- Sustainable supply chain management

Section 172 statement

Promoting the success of the Company

The Board acknowledges that there is a legal requirement for the Company to report on how the Board and its Committees have considered the requirements of s.172 of the Companies Act 2006 in their decision making.

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the following factors:

- The likely consequences of any decision in the long term,
- The interests of the company's employees,
- The need to foster the company's business relationships with suppliers, customers and others,
- The impact of the company's operations on the community and the environment,
- The desirability of the company maintaining a reputation for high standards of business conduct, and
- The need to act fairly as between members of the company

The requirements of s.172 are not new to the Board. Supported by the Group Company Secretary, the Board reviewed its decision making processes to ensure that there was appropriate focus on stakeholders. As a result, a template was developed to assist the Board, management or anyone tasked with preparation of board materials to fully consider stakeholders in all matters requiring decision making, including strategic decisions. All board decisions are recorded in the minutes for each meeting.

It is expected that the embedding of this new process will enable a greater understanding and appreciation of directors' duties below Board level. At Board level, this process will continue to bring stakeholders views to the fore in board deliberations and discussions.

All significant strategic decisions return to the Board for review periodically as a means at a later date as a means to measure the success.

During the year, the Board considered and approved a range of matters supporting the longer term success of the Company, examples are below:

- 3 year strategic plan and annual operating plan
- Supply chain optimisation programme
- Capital markets strategy
- Board diversity policy and succession plans
- Modern slavery transparency statement
- Tax strategy

Company operations – India investment

During the year, the Board was asked to consider and approve a significant capital investment relating to the India plant.

The Board considered each of the relevant stakeholder groups and the economic business case during its discussion. Having due regard for the environment, the Board considered the design and configuration of the plant. The Board considered potential risks relating to any delays associated with regulatory and operational permits, resourcing plans and competitor activity.

Further, that the diversity, skills and background of the Board proved valuable during the discussion as a number of directors were able to bring their direct experience of having operated in India.

The Board considered that the investment will continue to form part of the Company's ongoing strategic plans including; 3 year plan, annual plan and ongoing investor and customer communications over the medium term.

Shareholders, dividends and capital allocation

The Board aims to understand the views of its shareholders and always to act in their best interests.

As part of the Company's capital allocation policy, the Board adopted a dividend policy in 2018 with the intention to pay progressive ordinary dividends, normally with a dividend cover of at least two times adjusted earnings. The expectation is that interim dividends represent one third of the prior full year dividend.

Subject to maintaining balance sheet flexibility and strength in the context of the Company's investment plans, additional returns to shareholders will be considered where net debt is structurally below one times earnings (EBITDA).

During the year and prior to making a decision to pay interim and full year dividends, the Board considered the current performance of the business, the Company's annual and 3 year plans (including capital expenditure), net debt position, cash generation, short and medium term forecasts, available distributable reserves, covenant tests for net debt: EBITDA and interest cover.

The Board considers shareholder views as part of regular board meetings, broker feedback and ongoing shareholder dialogue and concluded that the declaration of interim and full year dividends were sustainable and indicated confidence in the medium term. The Company's dividend policy is underpinned by its going concern and viability statement which can be found on page 53.

Business relationships – China distribution agreement

During the year, the Board considered and approved a significant distribution agreement in China which was expected to reduce supply chain complexity and serve as a platform for growth. During the discussion, the Board considered its reputation for maintaining high standards of business conduct with regard to compliance standards and appropriate training, transition risks and ongoing relationship management.

Employee interests and engagement

During the year the Board appointed Sandra Boss as the Designated Non-Executive Director for workforce engagement as a direct response to the UK Corporate Governance Code enabling the workforce voice in Board matters. The Board also received updates on the implementation of an organisational review, talent and succession plans and launch of the first employee engagement survey.

Further information on stakeholder engagement can be found on pages 33, 63, 68-69 and 78.

Non-financial information statement

Reporting requirement	Policies and standards which govern our approach	Where to find the information in the Annual Report
Environmental matters	• Code of Conduct • Health, Safety and Environmental policy	• Sustainability on page 26 • Health and safety and environment on page 28
Employees	• Health, Safety and Environmental policy • Code of Conduct • Life saving rules • Data protection and privacy policies • Equality and diversity policies • Whistleblowing policies	• Health and safety and environment on page 28 • Our people on page 33 • Supply chain on page 31
Human rights	• Code of Conduct • Equality and diversity policies • Data protection and privacy policies • Purchasing Code of Practice • Modern slavery statement	• Our people on page 33 • Supply chain on page 31
Social and Community matters	• Code of Conduct • Whilst we do not have specific policy on social/community matters we engage directly with our communities wherever we operate.	• Our people on page 33
Anti-corruption and anti-bribery	• Code of Conduct • Anti-corruption policy • Anti-trust policy (global competition) • Purchasing Code of Practice	• Our people on page 33 • Supply chain on page 31

As required under Section 414CA and 414CB of the Companies Act 2006, the table (above) includes references to non-financial matters in our Strategic report.

Reference to our policies, due diligence processes and information on how we are performing on these areas are contained throughout the Strategic report. Information on our principal risks can be found on pages 50 to 52, information on our non-financial key performance indicators can be found on page 22 and a description of our business model can be found on page 20.

Elementis has established a cross functional Compliance team (ECT) that meets on a quarterly basis to consider compliance training needs and improvements, assign training courses to all and selected groups of employees and monitor training completion rates. The ECT considers possible improvements and makes recommendations on identifying and mitigating compliance risks for the Company.

Finance report

A challenging market backdrop

2019 provided a challenging market back drop, but our net cash generation remained strong, driven by working capital reductions and capital expenditure discipline.

Group results

In 2019, revenue from continuing operations rose 6% to $874m as an extra ten months contribution from the Talc business offset declines in Personal Care, Coatings, Chromium and Energy. Revenue in the Personal Care segment declined 4% on an organic basis*, with growth in Cosmetics offset by weaker performance in AP actives as we grew volumes ahead of the start-up of the India plant in 2020. In Coatings, revenue declined 8% on an organic basis* driven by weak end market demand, customer destocking and the impact of our portfolio simplification actions. Revenue in Chromium decreased by 7% due to weak global industrial demand and pricing, particularly in the second half. Energy revenue declined by 14% on a constant currency basis as a result of lower drilling activity in North America.

Operating profit rose 19% to $100.9m due to the increase in reported revenue and a reduction in adjusting items. Adjusted operating profit from continuing operations declined from $132.6m in 2018 to $123.0m, a decrease of 7%. This was driven by declines in our most cyclically exposed businesses of Chromium and Energy, along with competitive challenges in AP actives. Reported profit after tax increased from $41.4m in 2018 to $46.4m in 2019 as lower adjusted operating profit and higher interest expenses were offset by lower adjusting items.

Revenue

	2019 $m	2018 $m	Change
Personal Care	**195.0**	210.3	-7%
Coatings	**320.1**	362.2	-12%
Talc	**150.7**	21.5	601%
Chromium	**171.0**	184.3	-7%
Energy	**46.6**	54.9	-15%
Inter-segment	**(9.8)**	(11.0)	-11%
Revenue from continuing operations	**873.6**	822.2	6%
Discontinued operations – Surfactants	**–**	4.8	-100%
Total revenue from continuing and discontinued operations◊	**873.6**	827.0	6%

◊ Total operations (both continuing and discontinued)

Operating profit

	2019			2018		
	Operating profit $m	**Adjusting items $m**	**Adjusted operating profit $m^Δ**	Operating profit $m	Adjusting items $m	Adjusted operating profit $m^Δ
Personal Care	**29.1**	**13.6**	**42.7**	40.4	11.8	52.2
Coatings	**43.7**	**4.6**	**48.3**	57.6	(5.1)	52.5
Talc	**19.9**	**5.8**	**25.7**	(0.2)	4.1	3.9
Chromium	**12.6**	**5.6**	**18.2**	15.8	17.2	33.0
Energy	**3.8**	**–**	**3.8**	7.1	–	7.1
Central costs	**(8.2)**	**(7.5)**	**(15.7)**	(35.8)	19.7	(16.1)
Operating profit from continuing operations	**100.9**	**22.1**	**123.0**	84.9	47.7	132.6
Discontinued operations – Surfactants	**–**	**–**	**–**	(10.4)	9.8	(0.6)
Operating profit from continuing and discontinued operations◊	**100.9**	**22.1**	**123.0**	74.5	57.5	132.0

◊ Total operations (both continuing and discontinued)
Δ After adjusting items – see Note 5

Group performance – Revenue

	Revenue 2018 $m	Effect of exchange rates $m	Impact of M&A‡ $m	(Decrease)/ increase 2019 $m	**Revenue 2019 $m**
Personal Care	210.3	(6.1)	(0.7)	(8.5)	**195.0**
Coatings	362.2	(11.3)	(4.0)	(26.8)	**320.1**
Talc	21.5	(9.2)	136.9	1.5	**150.7**
Chromium	184.3	–	–	(13.3)	**171.0**
Energy	54.9	(0.4)	–	(7.9)	**46.6**
Inter-segment	(11.0)	–	–	1.2	**(9.8)**
Revenue from continuing operations	822.2	(27.0)	132.2	(53.8)	**873.6**
Revenue from discontinued operations	4.8	–	(4.8)	–	**–**
Total revenue from continuing and discontinued operations	827.0	(27.0)	127.4	(53.8)	**873.6**

Group performance – Adjusted operating profit

	Operating profit 2018^Δ $m	Effect of exchange rates $m	Impact of M&A‡ $m	(Decrease)/ increase 2019 $m	**Operating profit 2019^Δ $m**
Personal Care	52.2	(1.0)	(0.1)	(8.4)	**42.7**
Coatings	52.5	(2.6)	2.5	(4.1)	**48.3**
Talc	3.9	(1.5)	20.7	2.6	**25.7**
Chromium	33.0	–	–	(14.8)	**18.2**
Energy	7.1	(0.1)	–	(3.2)	**3.8**
Central costs	(16.1)	–	–	0.4	**(15.7)**
Adjusted operating profit from continuing operations	132.6	(5.2)	23.1	(27.5)	**123.0**
Discontinued operations – Surfactants	(0.6)	–	0.6	–	–
Total adjusted operating profit from continuing and discontinued operations	132.0	(5.2)	23.7	(27.5)	**123.0**

Δ After adjusting items – see Note 5
‡ M&A impact includes Coatings and Personal Care portfolio elimination following Delden asset sales and the acquisition of Talc

Adjusting items

In addition to the statutory results, the Group uses alternative performance measures, such as adjusted operating profit and adjusted diluted earnings per share, to provide additional useful analysis of the performance of the business. The Board considers these non-GAAP measures as an alternative way to measure the Group's performance so it is comparable to the prior year. Adjusting items in 2019 resulted in a charge of $32.5m before tax, a decrease of $25.0m against last year. The key categories of adjusting items are summarised below. For more information on adjusting items and the Group's policy for adjusting items, please see Note 5 and Note 1 to the financial statements respectively.

Credit/(charge)	Personal Care $m	Coatings $m	Talc $m	Chromium $m	Energy $m	Central costs $m	Total $m
Restructuring	(0.7)	(2.6)	(0.2)	(0.1)	–	(1.5)	(5.1)
Business transformation	(1.6)	(0.5)	–	(0.4)	–	–	(2.5)
Environmental provisions	–	–	–	(4.9)	–	–	(4.9)
Amortisation of intangibles arising on acquisition	(11.3)	(1.5)	(5.6)	(0.2)	–	–	(18.6)
Release of contingent consideration	–	–	–	–	–	9.0	9.0
Total charge to operating profit	(13.6)	(4.6)	(5.8)	(5.6)	–	7.5	(22.1)
Sale of Dental plant	(9.0)	–	–	–	–	–	(9.0)
Charge to finance costs							
Mark to market of derivatives	–	–	–	–	–	(1.4)	(1.4)
Total	(22.6)	(4.6)	(5.8)	(5.6)	–	6.1	(32.5)

Restructuring
In 2019, restructuring costs relate predominantly to the organisational efficiency programme which has eliminated duplicate roles, reduced management layers and increased spans of control in order to realise cost savings and efficiencies across the Group. As in 2018, restructuring also includes the IFRS 2 cost of buyouts associated with the CEO and CFO's appointments in 2016.

Business transformation
In 2019, we initiated a programme to review and optimise our supply chain and manufacturing footprint across our Coatings, Personal Care, Energy and Chromium businesses. Costs incurred in 2019 related to exiting supply contracts and consulting fees incurred to enhance our operating model.

Environmental provisions
The Group's environmental provision is calculated on a discounted cash flow basis, reflecting the time period over which spending is estimated to take place. A change in discount rates has increased the liability by $4.9m in the year. As these costs relate to non-operational facilities they are classed as adjusting items.

Amortisation of intangibles arising on acquisition
Amortisation of $18.6m (2018: $15.0m) represents the charge in respect of the Group's acquired intangible assets. As in previous years, these are included in adjusting items in order to present a more reflective view of the Group's overall performance and the key business drivers that underpin it.

Release of contingent consideration
An assessment of the potential payments to be made under the earnout mechanism in relation to the Talc acquisition has led to the release of $9.0m.

Sale of Dental plant
The loss on the exit of a non-core plant (part of the Dental business) has been treated as an adjusting item in 2019.

Mark to market of derivatives
The movements in the mark to market valuation of financial instruments which are not in hedging relationships do not form part of the underlying performance of the business and thus are treated as adjusting items.

Hedging

Cash flow hedges are used as part of a programme to manage our exposure to interest rate risk particularly associated with USD and EUR interest payments. In 2019, interest rate movements were such that the net impact of these hedge transactions was a credit to net finance costs of $0.3m (2018: credit of $0.1m).

Central costs

Central costs are those costs that are not identifiable as expenses of a particular business and comprise expenditures of the Board of Directors and corporate head office. In 2018, central costs of $15.7m were broadly similar to the $16.1m of central costs for the previous year.

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 $1.5m in 2019 compared to $1.6m in the previous year.

Net finance costs

	2019 $m	2018 $m
Finance income	**0.4**	0.3
Finance cost of borrowings	**(23.7)**	(16.8)
	(23.3)	(16.5)
Net pension finance costs	**(0.5)**	(0.4)
Discount unwind on provisions	**(2.4)**	(1.0)
Fair value movement on derivatives	**(1.4)**	–
Interest on lease liabilities	**(1.8)**	–
Net finance costs	**(29.4)**	(17.9)

Net finance costs for 2019 were $29.4m, an increase of $11.5m on last year. The increase was primarily due to the acquisition of Mondo, completed in October 2018, which was part funded by an increase in borrowings. Finance costs comprise interest payable on borrowings calculated using the effective interest rate method, facility arrangement fees, the unwinding of discounts on the Group's environmental provisions, fair value movement on derivatives and interest charged on lease liabilities. Pension finance costs which are a function of discount rates under IAS 19 and the value of schemes' deficit or surplus positions were broadly consistent in 2019 at $0.5m compared to $0.4m in 2018. The discount unwind on provisions relates to the annual time value of the Group's environmental provisions which are calculated on a discounted basis. The increase to the environmental provision in 2018 has resulted in a higher discount unwind in 2019.

Taxation

Tax charge

	$m	**2019 Effective rate %**	$m	2018 Effective rate %
Reported tax charge	**14.6**	**23.9**	15.6	23.9
Adjusting items	**6.1**	**–**	8.8	–
After adjusting items	**20.7**	**22.1**	24.4	21.6

The Group incurred a tax charge of $20.7m (2018 $24.4m) on adjusted profit before tax excluding discontinued operations, resulting in an effective tax rate of 22.1% (2018: 21.6%). The Group's effective tax rate in 2019 is broadly in line with that which would be expected given the geographic mix of territories in which the Group operates, and following the widespread implementation of the OECD's Base Erosion and Profit Shifting ('BEPs') initiatives. Tax on adjusting items primarily relates to the amortisation of intangible assets.

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 adjusting and includes profits from both continuing and discontinued operations.

Adjusted diluted earnings per share was 12.4 cents[Δ] for 2019 compared to 16.9 cents[Δ] in the previous year, a decrease of 27% due to lower profit, higher net finance costs as well as the increased weighted average number of shares following the rights issue in October 2018. Basic earnings per share before adjusting items was 8.0 cents [Δ]compared to 7.9 cents[Δ] in 2018. Adjusting items increased basic earnings per share by 4.6 cents[Δ] in 2019 (9.1 cents[Δ] in 2018).

Note 9 to the Group financial statements provides disclosure of earnings per share calculations both including and excluding the effects of adjusting items and the potential dilutive effects of outstanding and exercisable options.

Distributions to shareholders

During 2019, the Group paid a final dividend in respect of the year ended 31 December 2018 of 5.70 cents per share (2018: 5.58 cents[†]). An interim dividend of 2.80 cents per share (2018: 2.70 cents[†]) was paid on 27 September 2019 and the Board is recommending a final dividend of 5.75 cents per share which will be paid on 29 May 2020. The Board have adopted a dividend policy with the intent to declare progressive ordinary dividends, normally with a dividend cover of at least two times adjusted earnings. The expectation is that interim dividends represent one third of the prior full year dividend. Subject to maintaining balance sheet flexibility and strength in the context of the Company's investment plans, additional returns to shareholders will be considered where net debt is structurally below one times earnings (EBITDA). The Company regularly reviews its distributable reserves and makes dividend recapitalisations as and when necessary to ensure it can make all expected dividend payments.

Adjusted cash flow

The adjusted cash flow which excludes the cash effect of adjusting items from operating cash flow is summarised below. A reconciliation of statutory operating profit to EBITDA is shown in the alternative performance measures section on page 171.

	2019 $m	2018 $m
EBITDA [1]	**174.5**	162.9
Change in working capital	**33.0**	(29.9)
Capital expenditure	**(47.3)**	(50.8)
Other	**(5.4)**	(4.5)
Adjusted operating cash flow	**154.8**	77.7
Pension payments	**(1.2)**	(1.2)
Interest and tax	**(26.8)**	(21.2)
Adjusting items	**(30.4)**	(21.8)
Payment of lease liabilities	**(6.0)**	(0.3)
Free cash flow	**90.4**	33.2
Issue of shares	**0.1**	223.3
Dividends paid	**(49.3)**	(41.9)
Acquisitions and disposals	**(2.1)**	(426.7)
Currency fluctuations	**4.8**	5.1
Movement in net debt	**43.9**	(207.0)
Net debt at start of year	**(498.1)**	(291.1)
Net debt at end of year	**(454.2)**	(498.1)

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

Adjusted operating cash flow increased by $77.1m to $154.8m for 2019 due to working capital inflows of $33.0m, reflective of a sustainable improvement in our inventory position following the introduction of digital demand planning tools and a reduction in 12 month proforma revenue. Capital expenditure of $47.3m was broadly comparable to $50.8m in 2018.

Free cash flow increased from $33.2m to $90.4m as working capital inflows more than offset the increase in adjusting items, interest and tax payments. Adjusting items of $30.4m include a net outflow of $19.0m to the previous owners of the Talc business following the successful settlement of an historic tax case in Finland and a further $9.7m outflow in settlement of a commercial dispute relating to the Surfactants business disposed of in 2018. Pension payments in 2019 were in line with the prior year at $1.2m as the 2018 triennial review of the UK pension scheme concluded that no cash top up payments will be required from Elementis until at least 2021.

Whilst net debt decreased from $498m in 2018 to $454m in 2019, a reduction of $44m, net debt to pro forma adjusted EBITDA increased from 2.5x** in 2018 to 2.7x** in 2019. The increase in leverage is due to the decline in adjusted EBITDA, reflective of lower earnings in Personal Care, Coatings, Chromium and Energy.

Balance Sheet

	2019 $m	2018 $m
Intangible fixed assets	**958.1**	976.6
Tangible fixed assets	**513.6**	478.2
Working capital	**152.2**	183.9
Net tax liabilities	**(137.9)**	(131.6)
Provisions and retirement benefit obligations	**(68.7)**	(58.7)
Financial liabilities	**(15.1)**	(40.3)
Lease liabilities	**(46.9)**	–
Unamortised syndicate fees	**5.1**	5.6
Net debt	**(454.2)**	(498.1)
Total equity	**906.2**	915.6

Group equity decreased by $9.4m in 2019 (2018: increase of $213.3m). Intangible fixed assets decreased by $18.5m due to $18.6m amortisation of intangibles arising on acquisition and $8.6m of disposals that were partially offset by $6.5m of foreign exchange gains. Tangible fixed assets increased by $35.4m, with gross PPE additions of $48.4m and right of use asset capitalisation of $48.2m partially offset by depreciation of $50.9m and disposals of $5.8m.

Working capital comprises inventories, trade and other receivables, trade and other payables and derivatives. Working capital decreased by $31.7m in 2019, made up of $11.0m sustainable working capital reductions driven by our multi-year improvement programme of which the bulk relates to inventory savings, reflective of our new digital supply chain management. The additional reduction in working capital reflects the decline in underlying 12 month proforma revenue and working capital management.

Net tax liabilities increased by $6.3m, as the tax charge on profits for the year after adjusting items and currency translation adjustments exceeded actual cash tax paid. Movements in provisions and retirement benefit obligations are discussed elsewhere in this report.

ROCE (excluding goodwill) has remained stable at 15% with reduced adjusted operating profit offset by lower working capital.

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

	2019 Year end	2019 Average	2018 Year end	2018 Average
Pounds sterling	**0.75**	**0.78**	0.79	0.75
Euro	**0.89**	**0.89**	0.87	0.84

Provisions

The Group records a provision in the balance sheet when it 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. The Group calculates provisions on a discounted basis. At the end of 2019, the Group held provisions of $51.6m (2018: $48.8m) consisting of environmental provisions of $44.1m (2018: $43.3m), self-insurance provisions of $2.2m (2018: $1.5m) and restructuring and other provisions of $5.3m (2018: $4.0m).

Environmental provisions have increased by $0.8m in 2019, with $4.9m taken through adjusting items as a change in the discount rate applied to the liabilities, $2.2m of unwind of discount in the year offset by a $6.7m utilisation. The self-insurance provision represents the Group's estimate of its liability arising from retained liabilities under the Group's insurance programme.

Within the restructuring and other provisions categories the majority of the balance relates to the organisational efficiency programme which has eliminated duplicate roles, reduced management layers and increased spans of control in order to realise cost savings and efficiencies across the Group.

Pensions and other post retirement benefits

	2019 $m	2018 $m
Net (surplus)/liability:		
UK	**(7.4)**	(22.1)
US	**15.9**	21.3
Other	**8.6**	10.7
	17.1	9.9

UK plan
The largest of the Group's retirement plans is the UK defined benefit pension scheme ('UK Scheme') which at the end of 2019 had a surplus, under IAS 19, of $7.4m (2018: $22.1m). The UK Scheme is relatively mature, with approximately two thirds of its gross liabilities represented by pensions in payment, and is closed to new members. Liability adjustments of $57.7m (2018: $(45.7)m) which arose due to lower discount rates based on real corporate bond yields outweighed the return on plan assets of $62.1m (2018: $(21.8)m) . Company contributions of $nil (2018: $0.5m) reflect the funding agreement reached with the UK Trustees following the 2018 triennial valuation. Under this agreement top up contributions are no longer required until at least 2021.

US plan
In the US, the Group reports two post retirement plans under IAS 19: a defined benefit pension plan with a deficit value at the end of 2019 of $9.9m (2018: $15.7m), and a post retirement medical plan with a liability of $6.0m (2018: $5.6m). The US pension plans are smaller than the UK plan and in 2019 the overall deficit value of the US plans decreased by $5.4m as the financial cost of the liability of $5.0m (2018: $4.6m) and the actuarial increases in the liability of $11.8m (2018: $8.5m decrease) were more than offset by return on plan assets of $21.1m (2018: $(4.9)m) and employer contributions of $1.5m (2018: $1.3m).

Other plans
Other liabilities at 31 December 2019 amounted to $8.6m (2018: $10.7m) and relate to pension arrangements for a relatively small number of employees in Germany, certain UK legacy benefits and two pension schemes acquired as part of the SummitReheis transaction in 2017.

Financial Liabilities
Financial liabilities at 31 December 2019 include $13.0m of contingent consideration in respect of Mondo (2018: $21.4m) and $nil (2018: $18.9m) in respect of an outstanding historical Mondo tax case in Finland which was settled in the year.

Brexit
During 2019, the Board continued to monitor the impact of Brexit amidst a period of political uncertainty. Management remains of the view that the impact on the Group is expected to be of low materiality. We continue to monitor the status of the trading relationship between the EU and the UK. A cross-functional team is in place to assess potential risks and impacts so that we can take appropriate action in relation to our supply chain and customers. Further information on how we have assessed and are mitigating the risks associated with Brexit can be found in the principal risks section of the 2019 Annual Report.

Events after the balance sheet date
There were no significant events after the balance sheet date.

Ralph Hewins
Chief Financial Officer

4 March 2020

◊ Total operations (both continuing and discontinued)
Δ After adjusting items – see Note 5
† Rebased for the effects of the Rights Issue – see Note 29
* Adjusted for FX (where constant currency reflects prior year results translated at current year exchange rates) and the impact of M&A.
** On a 12 month pro forma basis – see pro forma calculations on page 172

Personal care

Emerging market growth and strategic progress

Marci Brend
SVP Global Personal Care

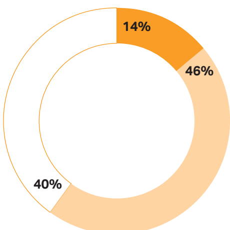
$195m

2019 revenue (2018: $210m)

$43m

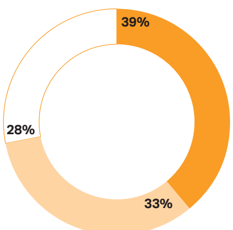
2019 adjusted operating profit (2018: $52m)

Sales by region



Asia	14%
Europe	46%
Americas	40%

Sales by market



Cosmetics	39%
AP Actives	33%
Dental & Pharma	28%

2019 was a year of mixed financial performance as Cosmetics delivered solid performance while Anti-Perspirant (AP Actives) grew market share.

Looking forward, our strategic priorities are focused on increased penetration of Asia, new skin care products and AP Actives growth. Successful execution will drive strong organic revenue growth and high and stable returns.

Cosmetics delivered solid performance while AP Actives grew market share.

Financial performance

Personal Care revenue in 2019 was $195m compared with $210m in the prior year, a 7% decline on a reported basis. Excluding the impact of FX and M&A (i.e. on an organic basis*), revenue fell by 4%.

On the same basis, our Cosmetics business revenue rose by 4%, driven by steady performance in North America and Europe and strong growth in Asia and Latin America as the penetration of our hectorite clay based products increased. This growth in Cosmetics was more than offset by a decline in AP Actives revenue. While volumes finished the year broadly flat on 2018, as we grew market share in the second half of 2019, ongoing competitive pressures adversely impacted revenue.

Adjusted operating profit declined by 18% to $43m, with adjusted operating margins solid at 21.9%, but down from 24.8% in the prior year period. This decline was primarily driven by margin pressure in AP Actives due to US tariffs on the importation of zirconium, a key raw material, from China.

Our strategy

Our medium term Personal Care growth strategy is focused on two areas: Cosmetics and AP Actives.

In Cosmetics, consumers are increasingly looking for products that contain clean and natural ingredients, providing a positive market environment for our hectorite based Cosmetics business. We are pleased by our success to date; however, incremental investment will further increase our ability to develop new customers and enter new geographies and markets.

We have a good track record in Asia, but with the region representing just 20% of our sales we have more to do. To drive us forward we are doubling the size of our Asia sales team, building dedicated regional technical support and refocusing our innovation efforts on differentiated technologies that are aligned with market needs.

Skin care is a large and growing part of the Personal Care market. While, to date, we have little presence in this market, hectorite is well suited for this application and in 2019 we launched two new products targeting this market. Driving further penetration of these products is a key priority for 2020 and beyond.

In AP Actives, population growth and rising incomes will support a growing market for antiperspirants in most Latin and Asian countries. To help cost effectively serve this growth we are investing approximately $20m in a new manufacturing facility in India. Focused global key account management and cutting edge innovation will also support our growth ambitions.

We believe that our strategy will enable us to deliver organic revenue above GDP, with high and stable margins over the medium term.

* Adjusted for FX (where constant currency reflects prior year results translated at current year exchange rates) and the impact of M&A. See page 39.

Coatings

High value participation

Luc van Ravenstein
SVP Global Coatings and Energy

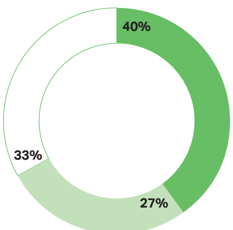
$320m

2019 revenue (2018: $362m)

$48m

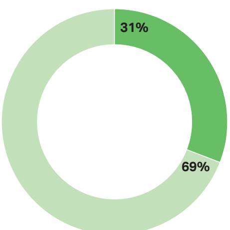
2019 adjusted operating profit (2018: $53m)

Sales by region



Asia	40%
Europe	27%
Americas	33%

Sales by market



Decorative	31%
Industrial	69%

While performance in 2019 was impacted by a global slowdown in industrial activity, it is encouraging that our adjusted operating profit margins have improved as a result of our transformation programme and self-help actions.

Over the medium term we expect margins to further improve as we execute on our strategic growth priorities.

Adjusted operating profit margins improved to 15.1% as a result of the transformation programme and self-help actions

Financial performance

Coatings revenue in 2019 was $320m compared with $362m in the prior year, a 12% decline on a reported basis. On an organic basis*, revenue fell by 8% driven by weak end market demand, customer destocking and the impact of our portfolio simplification actions.

Asia is the largest region of our Coatings business, representing approximately 40% of total sales. In 2019, our revenue in the region declined by 12% on an organic basis*. This was a result of a material demand slowdown in industrial sectors such as automotive and construction and significant customer inventory destocking, particularly in the first half of the year. Macroeconomic weakness, driven by the China-US trade disputes, was the primary contributing factor. Revenue also declined in the Americas and Europe, reflective of subdued macroeconomic factors, but at a much more modest rate.

On an organic basis*, adjusted operating profit declined by 8% to $48m, as a result of weaker demand conditions. Margins however improved from 14.5% in 2018 to 15.1% in 2019, reflective of the impact of our transformation programme and the benefit from self-help actions such as cost savings and new business wins.

Our strategy

In 2019, we completed our Coatings transformation programme to strengthen our ability to deliver profitable growth. As a result of improved global key account systems we are closer to our customers. This is resulting in improved dialogue, more innovation partnerships and increased new business opportunities. Also, we have simplified our product portfolio, and for the first time, created one integrated global Coatings team, making us leaner and faster to respond to customer and industry needs.

Our growth strategy is centred on areas where Elementis' unique technologies and expertise will bring solutions to the key challenges that our customers face. Three areas in which our ingredients will play a critical role are the formulation of premium decorative coatings, the switch from solventborne to waterborne coatings, and trends benefitting adhesives & sealants.

In decorative applications, consumers want products that make their lives easier and deliver sustainability benefits. Our Rheolate® HX series delivers breakthrough single coat performance, a step change in stain resistance and enables VOC free coatings.

In industrial coatings, the challenge is to create new formulations that enable the transition from solvent to waterborne technologies. Through our leadership in rheology, novel waterborne additives and strong presence in Asia we are well positioned to deliver this change.

And finally, hybrid adhesives & sealants are a high growth segment supported by megatrends including light weighting and energy efficiency regulations. Here, our range of Thixatrol® additives are able to deliver customers enhanced adhesion, lower energy processing costs and genuine sustainability benefits as they are derived from natural castor wax .

We are well positioned for success, and execution of our strategic priorities should enable us to deliver revenue growth in excess of GDP and improving operating margins over the medium term.

* Adjusted for FX (where constant currency reflects prior year results translated at current year exchange rates) and the impact of M&A. See page 39.

Operating review continued

Talc

Global expansion

Christian Kather
SVP Global Talc

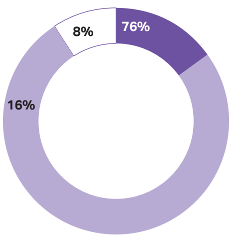
$151m

2019 revenue (2018: $22m)

$26m

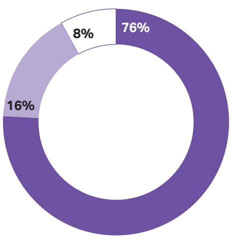
2019 adjusted operating profit (2018: $4m)

Sales by region



Asia	15%
Europe	76%
Americas	9%

Sales by market



Industrial Talc	76%
Paper	16%
Other minerals	8%

In 2019, Talc grew adjusted operating profit by 11% on a 12 month pro forma* constant currency basis to $26m, with good growth in industrial talc and the delivery of cost synergies, offsetting end market weakness in paper.

As a fully integrated part of the Elementis global operations, our strategy is to leverage this asset base and innovation expertise to further capture market share in new and existing geographies and applications.

Adjusted operating profit grew 11% on a pro forma constant currency basis driven by industrial talc growth and cost synergy delivery

Financial performance

On a 12 month pro forma basis*, Talc revenue in 2019 declined by 5% to $151m. Excluding the impact of FX, specifically the weaker euro against the US dollar, revenue rose 1% on the prior year period with growth in industrial talc offset by a decline in sales to paper markets.

Industrial talc revenue rose by 4% on a pro forma constant currency basis driven by market share gains in technical ceramics and coatings, as we gained new customers and entered new geographies. Sales in Asia grew 36% in 2019, as we pursued our strategy to grow Talc outside our core European market. This growth was partially offset by a decline in talc demand for use in long life plastics, primarily in automotive applications, as global car production declined by 6% on 2018, reflecting tougher macroeconomic conditions.

Elsewhere, Talc sales to the paper market fell due to a temporary customer production issue and weak market demand for graphic paper. We continue to expect our sales to the paper market to decline in the medium term driven by the ongoing structural shift to digital media platforms.

On a 12 month pro forma basis*, adjusted operating profit rose by 4% on a reported basis, and 11% on a constant currency basis, to $26m following the delivery of new business opportunities and the majority of our $2m cost synergies. As a result, margins rose from 15.5% in 2018 to 17.1% in 2019.

Our strategy

One year after the acquisition of Talc the business is fully integrated into Elementis' global operations. All key individuals have been retained, processes are fully embedded and sales teams are fully integrated. We are now working to deliver our medium term strategic ambitions, aiming to generate organic revenue growth above GDP levels and operating profit margin improvement.

The historic focus of our Talc business has been European paper markets; reflective of the location of our deposits in Finland. In recent years we have successfully increased our ability to serve high value industrial applications outside Europe. As part of Elementis, we have material opportunities to further globalise and accelerate growth by leveraging the Group's asset base, marketing and distribution capabilities and technical expertise.

Utilising Elementis' existing presence in coatings and personal care markets should enable us to deliver $20-25m of revenue synergies by 2023 and generate material value creation. In 2019, we made good early progress, identifying approximately $20m of new business opportunities. There is scope for further development.

Over the medium term we are also focused on growing and increasing our market share in applications such as long life plastics and catalytic convertors. Demand for both applications is supported by consumer and regulatory needs to reduce vehicle weights and emissions, and is expected to exhibit sustained growth. We have a clear strategy to capture this growth and increase our share by winning on quality, customer service and technical support.

* See page 173 for pro forma information.

Resilient Chromium performance in North America and a challenging drilling environment for Energy

Eric Waldmann
SVP Global Chromium

Chromium

$171m

2019 revenue (2018: $184m)

$18m

2019 adjusted operating profit (2018: $33m)

Chromium performance in 2019 was impacted by weaker global industrial demand and a deterioration in pricing, primarily outside of North America, as the year progressed. Our priority is to run our operations in a safe and reliable manner, while focusing on performance improvement initiatives.

Performance in our North American business was relatively robust

Financial performance

Chromium revenue in 2019 was $171m compared to $184m in the previous year, a decrease of 7% driven by weak global industrial demand and pricing for chromium chemicals. As a result of weak demand from industrial applications, including automotive and machinery end users, our volumes declined by 7% on the prior year period. Average pricing was also lower, primarily in the second half of the year, reflective of weaker global chromium industry capacity utilisation, which we estimate fell from approximately 90% in 2018 to around 80% in 2019.

While our North American operations were impacted by the global industrial production slowdown, compared to the rest of the world its performance was relatively robust, protected by our strong market share and differentiated customer delivery system. Outside of North America, our performance was more materially impacted by lower volumes and unit pricing.

Adjusted operating profit declined by 45% to $18m, reflective of the impact of weaker volumes globally and weaker pricing outside North America.

Our strategy

In Chromium, we have a strong competitive position as the sole producer in North America with a differentiated product delivery system that materially reduces customer product handling risk. While our business is exposed to the economic cycle, in particular outside North America, it is a high return operation with opportunities for improvement.

Our primary focus is the delivery of safe and reliable operations for our employees and customers. Outside of this there are opportunities to drive improved performance. Priorities include the delivery of cost and working capital gains, increased customer adoption of our fast penetration Waynetan Chrome Sulphate product range and driving our product mix increasingly to high value chromic acid and oxide applications.

Luc van Ravenstein
SVP Global Coatings and Energy

Energy

$47m

2019 Revenue (2018: $55m)

$4m

2019 adjusted operating profit (2018: $7m)

In 2019, performance was impacted by lower oil prices and a decline in drilling activity, particularly in North America.

Looking forward, growth in key oil producing regions outside of North America is a key strategic priority.

Revenue declined by 14% to $47m, reflective of lower drilling activity

Financial performance

Energy revenue in 2019 declined by 14% on a constant currency basis* to $47m as a result of lower drilling activity. Weaker oil prices and cash constraints for exploration and discovery companies, particularly in North America, resulted in notably weaker demand for our products particularly in the second half of the year. As a result, revenue in North America declined by 29% on the prior year period. New business wins in the Middle East and Central Asia, and good global key account progress, helped to partially offset this.

Adjusted operating profit declined by 46% to $4m, reflective of the weak drilling activity and the associated negative operating leverage impact.

Our strategy

In Energy, we are focused on the delivery of drilling solutions to oil field service companies. On a global scale we provide a range of technologies including organoclays, such as our differentiated hectorite based solutions, and synthetic alternatives. These products help deliver faster and more efficient oil and gas drilling in the most challenging conditions.

Whilst short term demand is influenced by market factors such as the oil price, our medium term strategic priorities are clear.

Deeper market penetration of key oil producing regions in the Middle East, Russia, Africa and Asia is a priority. This strategy will be executed in tandem with the Group's Global Key Account Programme, and is already delivering results as outlined in the 2019 financial performance. Further progress will help diversify our activities outside of North America.

This will be supplemented by an encouraging innovation pipeline, with several launches planned over the next 18 months, and further focus on our cost structure.

* See page 39 for constant currency data

Managing our risks and opportunities

Risk management

Elementis faces a number of risks and uncertainties in the ordinary course of its operations. The effective identification, mitigation and ongoing management of these risks underpins the delivery of strategic objectives. Elementis has an established risk management framework and system of internal controls to support decision making throughout the financial year.

Risk management systems are intended to mitigate and reduce risk to the lowest extent possible, however, complete elimination of all risks faced by Elementis is not possible. The risk management processes can only provide reasonable and not absolute assurance against material misstatement or loss.

Risk management framework

The Board has overall responsibility for risk management and sets the Group's policies, culture and tone on risk as well as providing oversight to management. A risk management framework is in place to identify, assess, mitigate and monitor the risks faced.

The Company places the highest priority on preventing loss of life, other harm to people and the environment, legal and regulatory breaches and damage to reputation or brand and has in place Group policies, procedures and guidance in various aspects of business operations and functions in order to help the ELT and employees manage risk in these areas.

Risk culture

Every individual at Elementis has a responsibility to manage risk, irrespective of function, business or role. Risk awareness exists through decision making processes and is embedded in systems, policies, procedures, leadership and behaviours and specific standards such as the Code of Conduct. All Company employees are responsible for complying with related Company policies and guidance, and share responsibility for ensuring that the Company conducts its business in a safe, lawful and ethical manner.

Every individual at Elementis has a responsibility to manage risk, irrespective of function, business or role.

Top down
Oversight, identification, assessment and mitigation of risks at a Group level

Board
The Board has overall responsibility for risk management and sets the Group's policies, culture and tone on risk as well as providing oversight to management

Audit Committee	CEO (supported by the ELT)	ELT
Supports the Board and has specific responsibility for monitoring financial reporting as well as the internal and external audit programmes, one of the primary purposes of which is to provide assurance on financial, operational and compliance controls.	The CEO is responsible for implementing Group policies, risk management performance, identifying principal risks and ensuring resources are allocated for effective risk management and mitigation.	Individual ELT members have responsibility for managing and monitoring risks relevant to their business or function on an ongoing basis.

Operational and supporting functions
Data privacy steering committee, HSE council, Manufacturing council, ECT, ESC, Internal audit and Investment Commitment forum

Bottom up
Identification, assessment and mitigation of risk across operational and functional areas

Risk appetite and tolerance

Risk appetite at Elementis is understood as being the amount of risk that the Board is prepared to accept in return for reward or investment return. There is a degree of variability in determining risk appetite which may be based on strategic objectives as well as guidance from management or advisers based on appropriate understanding and analysis of the nature of the risk. The strategic appetite for risk is therefore decided on a case by case basis at Board level, for example with respect to any corporate transaction or significant capital expenditure project, and delegated to the executive team to implement as appropriate. The maximum risk that can be taken before the Company experiences financial distress is also decided at Board level and mitigated, as far as possible by internal controls, business continuity plans, insurance, financial instruments and contracts.

Risk review process

The Board maintains an annual forward planner to ensure that appropriate focus is given at scheduled meetings to discuss, review and monitor business performance, strategic priorities, governance, compliance and risk matters. This approach enables the Board to engage directly with each of the business units and functional departmental leaders.

Each ELT member is responsible for identifying, assessing and monitoring their respective business and functional risks as well as measuring the impact and likelihood of the risk to the business. Each identified risk is categorised as strategic, commercial, operational, financial or compliance.

On an annual basis, the ELT reviews operational risks and the Board carries out a review of the principal risks and uncertainties.

During the year, the following risk management activities have been carried out:

- Risk management policies and procedures were reviewed and updated
- Talc risk register developed and integrated into the Elementis Group Risk Register
- Renewal of insurance programme
- Board briefing on climate change risks and preparation for reporting in line with the recommendations of the Task Force on Climate related Financial Disclosures (TCFD) in 2021

Key areas of focus during the year

There have been no fundamental changes to our principal risks and uncertainties during 2019. Global macroeconomic factors such as increased political uncertainty, trade tensions between the US and China, Brexit and customer demand and supply has weighed on the Group during the year. Against this backdrop, Elementis has continued to seek and maximise commercial opportunities in order to optimise the achievement of strategic objectives.

Key movements of principal risks during the year include increased risks relating to Risk numbers 4 and 5 (see graph). The growth expectations for the Group in existing and new territories could be impacted as a result of increasing regulatory compliance or adverse regulatory developments that could lead to product delays or hinder strategic progress over a 12-24 month horizon.

Emerging risks

Emerging risks are identified through the risk management framework and ordinary course of business such as monthly performance calls with each business unit and function, ELT and Board meetings, steering committees and customer/market insight.

Brexit

During 2019, the Board continued to monitor the impact of Brexit amidst a period of political uncertainty. Management remains of the view that the impact on the Group is expected to be of low materiality. We continue to monitor the status of the trading relationship between the EU and the UK. A cross-functional team is in place to assess potential risks and impacts so that we can take appropriate action in relation to our supply chain and customers.

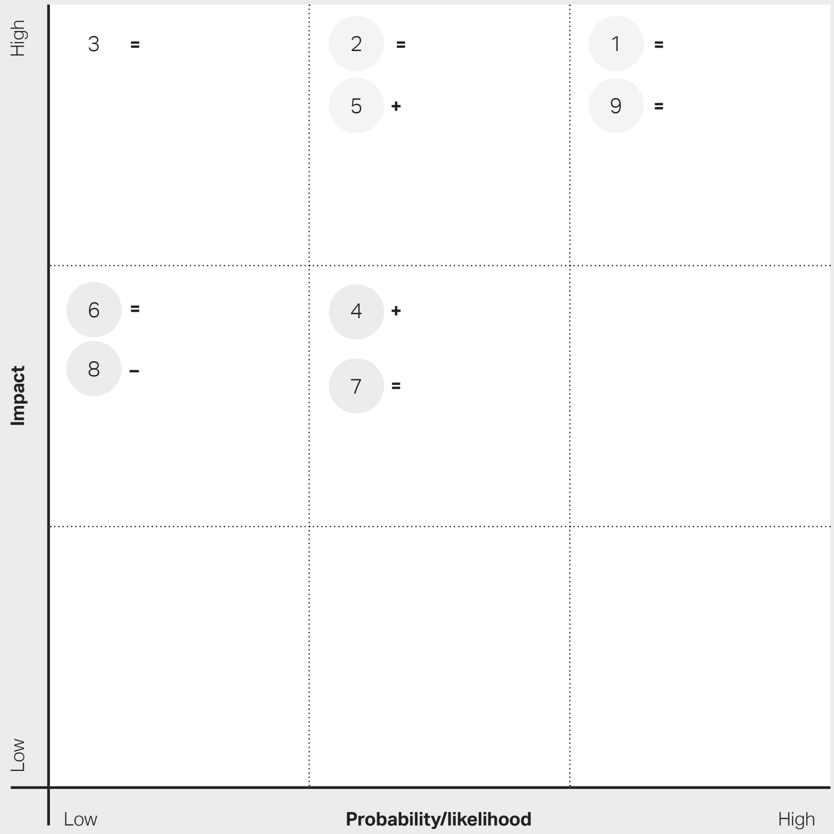
Coronavirus (COVID-19)

Management continue to assess the impact of the virus on the Company's operations and businesses. An internal team has been established to ensure the business is able to respond as and when new information is available. Employees are aware and understand how to report and share local insight with management.

Hygiene protocols are in place at each of our manufacturing sites. Travel restrictions are currently in place which will be reviewed as necessary. Each of the business units is assessing the financial impact as the situation develops.

2019 Group principal risks (gross impact)

Risk trend indicators: + increasing – decreasing = same



Our principal risks

1. Uncertain global economic conditions and competitive pressures in the market place (including currency movement).
2. Business interruption as a result of a major event or a natural catastrophe.
3. Business interruption as a result of supply chain failure of key raw materials and/on 3rd party service provision.
4. Increasing regulatory and product stewardship challenges.
5. Major regulatory enforcement action, litigation and/or other claims arising from products and/or historical and ongoing operations.
6. Intellectual property and know-how.
7. Portfolio innovation and technology.
8. Talent management and succession planning.
9. IT, Cyber and GDPR.

Climate change

Awareness and engagement of climate change, sustainability and ESG matters are gaining intensity amongst a number of stakeholder groups. Using the TCFD framework to map our physical and transition risks and opportunities will enable us to analyse the financial impact over a much longer time horizon. 2020 will be a year of preparation.

At present, we envisage that climate change is not a specific risk category in its own right rather, that it could have the ability to affect specific principal risk categories.

Principal risks and uncertainties

Link to strategy

1 Innovation | 2 Growth | 3 Efficiency

Read more on page 14-19

Uncertain global economic conditions and competitive pressures in the market place (including from currency movement)

Link to strategic objective	1 2 3
Link to business model	In Op SM
Link to KPIs	Read more on page 22-23
Movement in year	→

Description of risks

The performance of the specific end-user markets we serve is affected by general economic conditions. Adverse developments that may result in a downturn in general economic conditions or in the industries in which our customers operate may include political uncertainty, retaliatory tariffs or other disputes between trading partners. Sub-optimal global economic conditions can affect sales, raw material costs, fluctuations in foreign exchange rates, capacity, utilisation and cash generation.

Increased competitive pressure in the marketplace can result in significant pricing pressure and loss of market share. The impact of non-delivery of operating plans can lead to market expectations of Group earnings not being met and slower delivery of reported strategic priorities.

Controls and mitigating activities

- Financial performance (monthly sales, profit and cash flows) is closely monitored with full year reforecasts updated twice a year and variances investigated and explained
- Contingency and cost reduction plans can be implemented in the event of an economic downturn to reduce operating costs, including non-essential capital expenditure items and discretionary spend
- Currency hedging action taken as appropriate
- Global key account management programme in place to deepen how we work and grow with our largest customers as well as monitoring customer performance and trends
- Balanced geographic footprint and supply chain and broad differentiated product offering across different sectors

Developments

- Implementation of cost and operational efficiency plans to reduce operating cost, including non-essential capital expenditure items and discretionary spend
- Focus on pricing, margin management and new business opportunities
- Maintain operational reliability

Business interruption as a result of a major event (e.g. operations/HSE, transport, workplace incident caused by system failure and/or human error, or by fire, storm and/or flood, pandemic) or a natural catastrophe

Link to strategic objective	2 3
Link to business model	Op SM
Link to KPIs	Read more on page 22-23
Movement in year	→

Description of risks

The ability of the Group to manage its operations successfully and achieve performance in line with its strategy, business plans and budgets depends on the efficient and uninterrupted operation of planning processes, operational delivery capabilities and internal control environment. Production facilities may be subject to planned and unplanned shutdowns, turnarounds and outages including natural catastrophe, weather, climate change, disruption associated with transportation, utilities and distributors could result in increased costs in securing alternate facilities, significant time to increase production or customer qualification.

Controls and mitigating activities

- Preventative maintenance, critical spares, process and other safety procedures to mitigate the effects of a major incident
- Property damage and business interruption insurance coverage
- Each site is required to develop a business continuity plan that includes emergency response and business recovery protocols; annual reviews, periodic updates, training; and, exercising the plan via periodic drills or table top exercises. We verify business continuity compliance through the HSE auditing process.
- Business continuity scenario planning overseen by ELT
- HSE management programme which includes corporate compliance audits and insurance property surveys
- HSE matters reviewed by ELT on a monthly basis

Developments

- Hurricane Florence insurance reimbursement
- Continued focus on operational reliability
- Risk engineering surveys carried out at Talc sites and insurance programme integration
- New finished goods warehouse at Castle Hayne to mitigate against potential future climate related events
- COVID-19 response plan

Business interruption as a result of supply chain failure of key raw materials and/or third party service provision

Link to strategic objective	2 3
Link to business model	Op SM
Link to KPIs	Read more on page 22-23
Movement in year	→

Description of risks

The Group is dependent on numerous raw materials from various sources. In the event of a long term supply disruption or market volatility, it may not be possible to secure sufficient supplies of raw materials from alternative sources on a timely basis or in sufficient quantities or qualities or on commercially reasonable terms. The lead time and effort needed to establish a relationship with a new supplier could be lengthy and could result in additional costs, diversion of resources and reduced production yields.

Controls and mitigating activities

- Preventative maintenance, critical spares, process and other safety procedures to mitigate the effects of a major incident
- Property damage and business interruption insurance coverage
- Implement annual review and periodic testing of business continuity plans at all sites
- Business continuity scenario planning overseen by ELT
- HSE management programme which includes corporate compliance audits and insurance property surveys
- HSE reviewed by ELT on a monthly basis

Developments

- Supply chain contingency planning to mitigate Brexit and/or other trade related risks continually updated to address changing environment
- Strategic supplier relationships for raw materials provided for lower raw material cost
- Improved planning process ensured appropriate inventory levels
- Continued focus on qualification of new sources of supply

Link to business model

In Innovations | Op Operations | SM Sales and marketing

Read more on page 20-21

Change in risk

Increasing risk profile | Decreasing risk profile | No change in risk profile

Increasing regulatory and product stewardship challenges

Link to strategic objective	1 2 3
Link to business model	In Op SM
Link to KPIs	Read more on page 22-23
Movement in year	Increasing

Description of risks

Emerging regulations in global markets can lead to hurdles and additional costs to deliver on strategic objectives. Non-compliance and suspected non-compliance could lead to regulatory action. The Group is subject to extensive and evolving risk in multiple jurisdictions.

Controls and mitigating activities

- Global Product Stewardship team oversees, manages, and monitors regulatory developments in various jurisdictions.
- Coordination with R&D team to enable a faster speed-to-market of new technologies and applications.
- Safety Data Sheets, labels, and regulatory information is provided for global customers specific to the requirements in their jurisdiction. Multiple languages are used to communicate these requirements.

Developments

- Brexit planning for uninterrupted supply in Europe and UK
- Successful implementation of Korea REACH, Turkey REACH, and Russia REACH
- Integration of Talc business into product stewardship programs
- Continued expansion of ISO 16128 Natural and COSMOS product offerings

Major regulatory enforcement action, litigation and/or other claims arising from products and/or historical and ongoing operation

Link to strategic objective	2
Link to business model	Op SM
Link to KPIs	Read more on page 22-23
Movement in year	Increasing

Description of risks

The global nature of the Group's operations means that the Group is subject to a wide range of legislation and regulation, including for example, anti-bribery and anti-competition legislation, taxation, data privacy, employment and import/export controls.

Failure to comply can lead to litigation, claims, damages, fines and penalties. The Group may be involved in legal proceedings and claims within the ordinary course of business including legacy claims from businesses that have been acquired or disposed of by the Group or ongoing operations.

Adverse results in legal proceedings could result in reputational and financial damages and diversion of management time and resources.

Controls and mitigating activities

- Active compliance and risk management programmes in place (including policies, procedures and training)
- Insurance programme and risk transfer strategy in place to mitigate potential financial losses
- Experienced General Counsel supported by in-house and external legal teams
- Regular reviews of litigation and compliance reports by the Board and the Audit Committee as well as the internal audit programme help ensure these key risks are managed effectively
- Business processes are supported by HR policies and the Code of Conduct
- Data Protection Steering Committee meets regularly to oversee compliance with applicable data privacy laws

Developments

- Internal audit of GDPR processes and completeness assessment in the event of a GDPR event
- Audit of all policy universe & policy protocols.
- Review of internal controls in China and Taiwan and health checks completed relating to the financial controls within the Talc business.

Intellectual property and know-how

Link to strategic objective	1
Link to business model	In Op SM
Link to KPIs	Read more on page 22-23
Movement in year	No change

Description of risks

Failure to adequately protect and preserve intellectual property and proprietary know how in both existing and new markets could harm our competitive position.

Controls and mitigating activities

- Experienced General Counsel supported by in-house and external legal teams
- Employment and computer policies (supported by training) ensure employees are made aware of their obligations relating to confidential information and access controls to protect HR processes in place to ensure new hires undergo appropriate background and reference checks
- Trademark and patent watch lists
- Litigation and compliance reports reviewed by Audit Committee and Board

Developments

- Freedom to operate practices for all new product innovations
- Patent and Intellectual Property disclosures to keep distinction in our new launches
- Increased partnerships with key technology leaders under confidentiality agreements
- Monitoring competitive Intellectual Property landscape for our segments
- Actively enforcing our proprietary advantages

Principal risks and uncertainties continued

Portfolio innovation and technology

Link to strategic objective 1 2

Link to business model In Op SM

Link to KPIs Read more on page 22-23

Movement in year →

Description of risks
The ability of the Group to compete is highly dependent on its ability to meet the changing needs of customers and keep pace with technological innovations and sustainability trends.

New or substitute products and technologies developed by competitors could erode the Group's ability to compete and lead to declines in sales and market share.

Controls and mitigating activities
- Global R&D team aims to develop new products and technologies used in an evolving market to meet the changing needs of our sophisticated customers
- Collaborative relationships with customers and industry formulators ensures our efforts are aligned with latest market trends
- Innovation stage gate process with systematic prioritisation enables the Group to deliver high value solutions for the market
- Hectorite and high quality talc minerals are natural resources enabling the Group to consistently deliver high performance innovation

Developments
- 13 new product launches in 2019
- >25 planned for 2020
- New KPI's measuring Distinctive Product Innovation sales
- "Sustainability" Innovation pipeline
- Synergistic combinations of existing technologies
- Leveraging Hectorite and Talc backward integration into our pipeline
- Market adjacencies expansions

Talent management and succession planning

Link to strategic objective 1 3

Link to business model In Op SM

Link to KPIs Read more on page 22-23

Movement in year ↓

Description of risks
The Group operates in highly competitive labour markets and relies upon the expertise and services of talented individuals and teams to succeed. Loss of key people or disruption to teams without timely action could result in a disruption to business operations.

Controls and mitigating activities
- Formal talent and succession management programmes in place with individual development goals reviewed
- Succession to the ELT reviewed with the Board
- Global Talent Director supports the CHRO with focus on Talent
- HR systems functionality for performance management and compensation planning
- Formal system for job grading and compensation benchmarking in place supported by external expertise

Developments
- Orderly transition of new incumbents to SVP's of Technology, Supply Chain and Strategy/ Transformation completed.
- Key talent from Mondo acquisition retained and developed into broader Elementis roles.
- Talent and succession planning process reviewed with ELT and updated to include succession to critical Level 3 roles.
- Employee experience survey launched to gain feedback on talent and development opportunities

IT, Cyber and GDPR

Link to strategic objective 3

Link to business model Op SM

Link to KPIs Read more on page 22-23

Movement in year →

Description of risks
The Group is expected to increasingly rely on IT systems for its internal communications, controls, reporting and relationships with customers and suppliers. A significant disruption could cause delays to key operations and inability to meet customers' requirements and result in increased operating costs, legal liability and reputational damage. In addition, GDPR has created a range of new compliance obligations with increased financial penalties for non-compliance.

Controls and mitigating activities
- Security controls including policies and procedures, staff awareness and training, risk management and compliance, systems and information management and protection process
- Regular IT, cyber and GDPR updates to the Board
- Business continuity and emergency response plans are in place at each of our manufacturing sites
- Internal audits are scheduled on a regular basis

Developments
- Cyber security maturity workshop carried out
- Continued focus on cyber risk and security protocols
- GDPR completeness assessment carried out by Internal audit function
- Implementation of single-sign on/multi-factor authentication

Viability and going concern statement

Going Concern

The Directors have assessed the Group as a going concern, having given consideration to 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's net debt position at the 2019 year end was $454.2m. It has access to a syndicated revolving credit facility of $375m with an expiry date of September 2024 and long term loan facilities of $200m and €172m which have an expiry date of September 2023.

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

The Directors are satisfied that, after considering all of the above, it is appropriate for the Group and the Company to adopt the going concern basis of accounting in preparing these Group and parent company financial statements, and that there are no material uncertainties to the ability of the Group and Company to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

Business Viability Assessment

The basis of the assessment includes a detailed review of strategic and operating plans, underpinned by one and three year financial forecasts including profit and loss and cash flows. Consideration is therefore given to capital expenditures, investment plans, returns to shareholders and other financial commitments, as well as to the Company's debt bearing capacity, its financial resources, borrowings and the availability of finance. No review of business plans and financial forecasts is complete without a robust assessment of the risks and opportunities in such planning models and the assumptions used. These reviews include consideration and discussion of the materials prepared and presented to the Board by management and its advisers (where appropriate), as well as additional information requested by the Board.

The Board's programme of monitoring major risks is therefore, an important component of the business viability assessment. Business and segment growth scenarios, rate of return on investments, assumptions on global GDP growth rates, relevant currency rates, commodity prices in business plans and financial forecasts are all considered, with stress testing on financial models where appropriate. Finally, a review of litigation and tax reports, legal and compliance risks throughout the year and at a formal year end risk review ensures that the viability statement is made with a reasonable degree of confidence.

Principal risks

For each principal risk that is deemed to be both permanent and have a high impact, a severe but plausible scenario has been considered. In making the business viability statement the Board has reviewed and discussed the overall process undertaken by management and has assessed the outcome of the stress-testing, carried out using the Group's three-year financial forecast as the base case.

The three-year financial forecast considers the Group's cash flows, interest cover, Net Debt:EBITDA covenant ratio and other key financial ratios over the period. These metrics are assessed against the Group Risk Register to determine the most impactful ones to stress test against, and this is carried out to evaluate the potential impact of the Group's principal risks actually occurring. Based on the results of its review and as set out above, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Business Viability statement

In accordance with the UK Corporate Governance Code provision 31, the Directors have reviewed the Group's current position and carried out a robust assessment of the principal risks and uncertainties that might threaten the business model, future performance, solvency and liquidity of the Group, including resilience to such threats, and consider that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a period of at least three years.

A period of three years was chosen as being consistent with the Group's business and financial planning models, R&D plans, a number of key supply contracts and external borrowing facilities. In addition, three years is the period used for mid-term business planning purposes. Whilst the Directors have no reason to believe that the Group will not be viable over a longer period, a three year period allows the Directors to make the viability statement with a reasonable degree of confidence whilst providing shareholders with an appropriate longer term outlook. The Directors' viability assessment of the Group's prospects is based on reviews of annual operating and three year business plans, bank covenant compliance forecasts, including sensitivities, the Group's strategy and strategic priorities, principal risks and how these are managed and mitigated. How these reviews were carried out, the principal risks and how they are being managed are more fully described and explained in the Principal Risks and Uncertainties section on pages 50 to 52, together with relevant assumptions and qualifications.

Strategic Report

The Strategic report was approved by the Board of Directors on 4 March 2020 and is signed on its behalf by:

Paul Waterman CEO	**Ralph Hewins** CFO

Chairman's Corporate Governance Statement

Andrew Duff
Chairman

I am pleased to present our Governance report for the year ended 31 December 2019 in accordance with the 2018 UK Corporate Governance Code (the Code). The report on pages 60 to 71 sets out our approach to governance, our key areas of focus during the year, our ways of working and how we, as your Board, remain effective as stewards of your company.

Board leadership and effectiveness

Together with the support of the Group Company Secretary, we conducted an internal review of Board effectiveness. I am delighted to confirm that your board represents a strong mix of skills, experience, diversity and knowledge and that each board member continues to demonstrate and effectively contribute to board affairs. Further information relating to the evaluation process and areas for development can be found on page 70.

Understanding our business

During the year, the Board visited operations in Finland, Amsterdam and Shanghai. The Board were delighted to visit our Talc sites for the first time following the acquisition in October 2018. The Board were impressed with the quality of the operations at our Finland and Amsterdam sites.

In October, the Board visited our Shanghai site to deepen its understanding of the business in Asia. The Board were keen to meet new management and understand how the marketplace had evolved since the last visit in 2016.

Purpose, Culture, Strategy and Values

The Board considered the Code requirements during the year and several discussions took place on the development of the company's purpose, how the Board assess culture and ensures that the strategy and values are appropriate. Further information can be found on page 64.

Diversity

The Board is committed to actively promoting diversity in its broadest sense and recognises the benefits to the business of bringing a variety of perspectives and thought leadership to senior management and Board decisions. We seek to maintain a Board with a wide range of skills, expertise, backgrounds and experiences of which ethnicity and gender diversity play a role. In terms of gender balance, we are proud to report that women represent 37.5% of the Board's composition.

Stakeholder engagement

It is each directors' duty to promote the long-term success of the Company and during the year, the Board considered stakeholder views in material decision making processes. Further information on how the Board considers and engages with stakeholders can be found on pages 68 and 69.

Workforce engagement

In October 2019, the Board approved the appointment of Sandra Boss as Designated Non-Executive Director for workforce engagement.

Sandra reviews and monitors employee insight driven by the employee engagement survey and participates in an engagement programme which includes a variety of engagement channels such as focus groups, town hall meetings and employee engagement data. Sandra reports on engagement activities and employee sentiment to the Board and we strongly believe that this adds an additional perspective to board matters when we make decisions that may have a significant impact on employees. Further information regarding the role and activities planned for 2020 are on page 63.

Succession

During the year, as part of the Board's ongoing succession planning processes, we announced that Nick Salmon, our Senior Independent Director would be stepping down from the Board at the 2020 AGM. Following a thorough recruitment process led by the Nomination Committee, John O'Higgins was appointed as a Non-Executive Director with effect from 4 February 2020 and will become Senior Independent Director following the AGM. John is currently a non-executive director of Johnson Matthey plc and Oxford Nanopore Technologies Limited.

For further information on the recruitment process, and John's biography, please refer to pages 73 and 57 respectively.

Accountability

The Board acknowledges its responsibility to give a fair, balanced and understandable view of the business' financial position and future prospects. On behalf of the Board, at the recommendation of the Audit Committee based on its assessment detailed on page 77, I confirm that we believe the 2019 Annual Report presents a fair, balanced and understandable assessment of the Company's position, its performance and its prospects as well as its business model and strategy.

Annual General Meeting

As ever, I am grateful to you, our shareholders for your continued support and I look forward to welcoming you at our AGM where you will have the opportunity to meet with the Chairs of the Board Committees and senior management. The AGM will be held on Wednesday, 29th April 2020 at 9am at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG.

Andrew Duff
Chairman

Compliance statement

The Financial Reporting Council requires listed companies to disclose whether they have complied with the provisions of the UK Corporate Governance Code (Code) throughout the financial year. The Code provides the standard for corporate governance in the UK.

For this Annual Report and Accounts we are reporting in accordance with the 2018 Code requirements and we describe how we have applied the main principles and complied with the provisions, for the whole of the year ended 31 December 2019, on our website: www.elementis.com

The Code can be accessed at **www.frc.org.uk.**

Board of Directors

Key to Committee membership
A Audit Committee
N Nomination Committee
R Remuneration Committee
* Chairman of the Committee

Andrew Duff
Chairman

Tenure
Andrew joined the Board as a Non-Executive Director and Deputy Chairman on 1 April 2014 and was appointed Non-Executive Chairman in April 2014.

Experience and role
Andrew has significant boardroom experience gained from serving as a director and chairman of a number of UK and international companies. This, combined with experience in the manufacturing, energy and utilities sectors, enables Andrew to effectively lead the Board and deliver value to shareholders and other stakeholders.

From 2003 until 2009, Andrew was chief executive officer of npower, the successor entity to Innogy plc which in 2000 was demerged from National Power, restructured and then sold to RWE, the German electricity and gas company. He was also a member of the RWE's executive committee. Before this, he spent 16 years at BP in downstream international markets. Andrew was a non-executive director of Wolseley plc, the international plumbing and building materials company, between 2004 and 2013, where he was also the senior independent director and chairman of the remuneration committee.

Andrew holds a BSc (Honours) degree in Mechanical Engineering and is a Fellow of the Energy Institute.

Committee membership
N*

External appointments
- Non-executive chairman of Severn Trent plc (from July 2010) and chairman of the nominations committee and member of the corporate responsibility committee and remuneration committee. (He will be stepping down from the Severn Trent board in April 2020.)
- Non-executive director of UK Government Investments Ltd (UKGI) (from July 2019). UKGI is responsible for the portfolio of over 20 arm's length bodies and for delivering a range of corporate finance advice to the UK government
- Member of the CBI President's Committee
- Trustee of Macmillan Cancer Support

Nationality
British

Paul Waterman
CEO

Tenure
Paul was appointed CEO on 8 February 2016.

Experience and role
Paul has a proven track record in developing markets, products and opportunities for creating value, business optimisation and transformation. Paul's global experience provides the skill set required to deliver the Company's strategy and provide inspiring leadership.

Prior to joining Elementis, Paul was global CEO of the BP Lubricants business in 2013 after having overseen the BP Australia/New Zealand downstream business. In 2010, Paul was country president of BP Australia. Prior to this he was CEO of BP's global aviation, industrial, marine and energy lubricants businesses (2009 to 2010) and CEO of BP Lubricants Americas (2007 to 2009). He joined BP after it acquired Burmah-Castrol in 2000, having joined the latter in 1994 after roles at Reckitt Benckiser and Kraft Foods.

Paul holds a BSc degree in Packaging Engineering from Michigan State University and an MBA in Finance and International Business from New York University, Stern School of Business.

Committee membership
–

External appointments
None

Nationality
American

Ralph Hewins
CFO

Tenure
Ralph was appointed CFO-Designate and Executive Director on 12 September 2016 and became the Elementis Group CFO on 1 November 2016.

Experience and role
Ralph is an accomplished CFO who has a strong track record in finance, strategy development and implementation and M&A which enables him to provide effective financial leadership to underpin the delivery of the Company's strategy.

Ralph had a 30 year career with BP, where he held a number of significant leadership positions, including roles in financial management, sales and marketing, corporate development, M&A, strategy and planning. In 2010, Ralph was CFO of BP Lubricants and served on the board of Castrol India Limited from 2010 until 2016.

Ralph holds an MA degree in Modern History and Economics from the University of Oxford and an MBA from INSEAD.

Committee membership
–

External appointments
None

Nationality
British

Board of Directors continued

Nick Salmon
Senior Independent Director

Tenure
Nick was appointed a Non-Executive Director on 20 October 2014 and became Senior Independent Director on 16 December 2014. He will be stepping down from the Board at the AGM in April 2020.

Experience and role
Nick has extensive experience gained from non-executive roles and as an accomplished executive in specialty chemicals, utility and engineering sectors. He has been responsible for leading several major restructuring projects and negotiating complex acquisitions and disposals which is highly valuable in Board debates.

Nick was chief executive of Cookson Group plc from July 2004 to December 2012 when Cookson demerged to create two new listed companies, Vesuvius plc and the specialty chemicals company, Alent plc. Nick was formerly executive vice-president of Alstom S.A. and chief executive of Babcock International Group plc. He held other senior management positions at GEC and GEC Alsthom and the China Light and Power Company. Previous non-executive director roles include United Utilities plc from 2005 to 2014, where he was also senior independent director from 2007 onwards and non-executive director at Interserve plc from 2014 to 2019.

Nick holds a BSc degree in Mechanical Engineering and is a Fellow of the Royal Academy of Engineering.

Committee membership
A, N, R

External appointments
- Independent chairman of South East Water Limited (from April 2015)
- Non-executive director of Scotia Gas Networks Ltd (from March 2019)

Nationality
British

Sandra Boss
Independent Non-Executive Director and Designated Non-Executive Director for workforce engagement

Tenure
Sandra was appointed a Non-Executive Director on 1 February 2017. Sandra was appointed as Designated Non-Executive Director for workforce engagement in October 2019.

Experience and role
Sandra brings strategic advisory and corporate finance experience gained as a consultant to complex global companies on transformational change. Her knowledge of financial global markets and economic matters, alongside risk management in regulated industries provides the Board with valuable insight.

Sandra was a senior partner at McKinsey & Company from 2005 to 2014 (and a partner from 2000), where she specialised in investment banking and risk, and held several senior management positions in the United Kingdom and the United States. At McKinsey, Sandra acted as an adviser to global financial institutions, corporates and public sector bodies on a wide range of strategic, operational and policy issues. Sandra has held other non-executive and advisory appointments with the Institute of International Finance, the McKinsey Master Retirement Trust and the Edith Wharton Restoration.

Sandra has a BA degree in American Studies and Economics from Stanford University and an MBA from Harvard Business School.

Committee membership
A, N, R

External appointments
- External member of the Bank of England's Prudential Regulation Committee (from September 2014) and an independent member of its RTGS/CHAPS board which oversees the UK's high value payment system, chair of the RTGS/CHAPS board risk committee and member of the RTGS renewal committee
- A non-executive director of Enstar Group Limited (from November 2015), chairman of the risk committee and a member of the compensation and nominating committees. (She will be stepping down from the Enstar Group Board on 31 March 2020)

Nationality
British/American

Dorothee Deuring
Independent Non-Executive Director

Tenure
Dorothee was appointed a Non-Executive Director on 1 March 2017.

Experience and role
Dorothee provides the Board with valuable insight into the wider European chemicals and industrial sectors as well as sector specific acquisition expertise.

Dorothee manages her own corporate advisory consultancy serving a number of European clients in the pharma/biotech sector. She is active in various industry bodies. Her previous executive roles included managing director and head of Corporate Advisory Group (Europe) at UBS in Zurich, head of M&A chemicals and healthcare at a private investment bank in Germany and as a senior executive in the corporate finance department at the Roche Group.

Dorothee holds a master's degree in Chemistry from the Université Louis Pasteur, Strasbourg and an MBA from INSEAD.

Committee membership
A, N, R

External appointments
- Non-executive director of the supervisory board of Bilfinger SE (from May 2016) and member of the audit committee
- Non-executive director of AXPO Holding AG (from March 2017)
- Non-executive director of PIQUR Therapeutics AG (from May 2019)
- Non-executive director of Selecta Group (from January 2020)
- Nominated as non-executive director of Lonza Group AG (subject to shareholder approval in April 2020)

Nationality
Austrian

Key to Committee membership
A Audit Committee
N Nomination Committee
R Remuneration Committee
* Chairman of the Committee

Steve Good
Independent Non-Executive Director

Tenure
Steve was appointed a Non-Executive Director on 20 October 2014 and became Chairman of the Remuneration Committee in April 2017.

Experience and role
Steve has strong and relevant international experience in specialty chemicals businesses, manufacturing and diverse industrial markets which enables him to provide guidance and challenge to management. Steve's involvement with remuneration committees in other organisations enables him to provide judgement and demonstrate sound knowledge of topical remuneration matters in his capacity as Remuneration Committee chair.

Steve was chief executive of Low & Bonar plc between September 2009 and September 2014. Prior to that role, he was managing director of its technical textiles division (2006-2009), director of new business (2005-2006), and managing director of its plastics division (2004-2005). Prior to Low & Bonar, he spent 10 years with BTP plc (now part of Clariant) in a variety of leadership positions managing international specialty chemicals businesses. Steve has previously served as non-executive director and chairman of the remuneration committee of Cape plc (2015-2017) and non-executive director of Anglian Water Services and member of the audit, nomination and remuneration committees (2015-2018).

Committee membership
R*, N

External appointments
- Non-executive chairman of Zotefoams plc (non-executive director from October 2014 and chairman from April 2016) and chairman of the nomination committee and member of the remuneration committee
- Non-executive chairman of Devro plc (from June 2019)
- Non-executive director of Dialight plc (from June 2018) and member of the nominations committee and remuneration committee (He will be stepping down from the Dialight plc Board on 31 March 2020)
- Director of Low & Bonar Pension Trustee Ltd (from July 2018)

Nationality
British

Anne Hyland
Independent Non-Executive Director

Tenure
Anne was appointed a Non-Executive Director on 1 June 2013 and became Chairman of the Audit Committee in August 2013.

Experience and role
Anne brings significant and current financial, internal controls, audit and tax expertise to the Board which enables her to be effective in her role as Audit Committee chair. Anne's background with global companies enables her to effectively contribute in the context of Elementis' existing markets and new business opportunities.

Anne is currently CFO of Kymab Group Ltd, a bio-pharmaceutical company funded by the Wellcome Trust and the Bill & Melinda Gates Foundation. Prior to her current executive role, she was CFO and company secretary of both BBI Diagnostics Group Ltd and Vectura Group plc. Previous senior finance positions held include director of corporate finance at, the then FTSE 100, Celltech Group plc, Medeva plc and KPMG.

Anne holds a degree in Business Studies from Trinity College, Dublin and is a chartered accountant (FCA) and a corporate tax adviser (CTA-AITI).

Committee membership
A*, N

External appointments
- Non-executive director of Clinigen Group plc from January 2018) and chairman of the audit committee
- CFO of Kymab Group Ltd (from March 2015)

Nationality
Irish

John O'Higgins
Independent Non-Executive Director

Tenure
John was appointed a Non-Executive Director on 4 February 2020 and will become Senior Independent Director following the conclusion of the 2020 AGM.

Experience and role
John brings strong strategic and operational experience gained from his CEO role at Spectris plc (January 2006 to September 2018), leading the business through a period of significant strategic transformation and development. John's background in global markets, chemicals and manufacturing will enable him to provide valuable knowledge and guidance to the Board.

Prior to Spectris plc, John spent 14 years at Honeywell International in a number of senior management roles including Chairman of Honeywell Automation India and President of Automation & Control for Asia-Pacific. His early career was spent at Daimler Benz A.G. as a research and development engineer.

Previous non-executive director roles include Exide Technologies, a US based supplier of battery technology to automotive and industrial users (from 2010 to 2015).

John holds a master's degree in Mechanical Engineering from Purdue University (USA) and an MBA from INSEAD.

Committee membership
A, N, R

External appointments
- Trustee of the Wincott Foundation
- Member of the Corporate Advisory Board of Great Ormond Street Hospital Children's Charity
- Non-executive director of Oxford Nanopore Technologies
- Non-executive director of Johnson Matthey plc and a member of the audit, nomination and remuneration committees

Nationality
Irish

Executive Leadership team

1. Paul Waterman
CEO

Full biography can be found on page 55.

2. Ralph Hewins
CFO

Full biography can be found on page 55.

3. Luc Van Ravenstein
SVP Global Coatings and Energy

Tenure
Joined Elementis in 2012

Based
New Jersey, US

Experience and role
Luc is responsible for leading the Global Coatings and Energy businesses. As the transformation programme in Global Coatings was completed in 2019, Luc's focus in 2020 will be to drive the execution of our growth strategies as laid out in our recent capital markets day.

Luc started his career at Elementis leading the Personal Care and Surfactants businesses following leadership positions at specialty chemicals company Croda.

Luc has an MSc degree in Chemistry and Chemical Engineering and a Professional Doctorate in Engineering from Eindhoven University of Technology.

4. Marci Brand
SVP Global Personal Care

Tenure
Joined Elementis in 2018

Based
New Jersey, US

Experience and role
Marci is responsible for the Personal Care business which includes the Cosmetics, AP Actives and Pharma businesses. As SVP Global Personal Care, Marci's focus is on directing the Personal Care sales and marketing teams and driving synergies in the business following the acquisitions of SummitReheis (2017) and Mondo (2018).

This role follows her 35 years' experience at BP in marketing and sales leadership roles developing strategic business opportunities in both business, b2b and b2c environments.

Marci holds a BSc degree in Marketing from Seton Hall University and is a graduate of the Sales and Marketing Executive Programme from the Kellogg School of Business at Northwestern University.

5. Christian Kather
SVP Global Talc

Tenure
Joined Elementis in 2018

Based
Amsterdam, Netherlands

Experience and role
Christian has led the Talc business since 2011, having joined Mondo in 2010. Following the acquisition of Mondo he is currently focusing on growing the Talc business on a global basis and delivering the integration synergies.

Previously Christian worked as Senior Vice President & General Manager at Evonik Degussa Corp., in Parsippany, NJ. There he was heading the Business Unit Coatings and Additives and was responsible for the global pigment dispersion business. Before that he held a number of senior executive positions with the Degussa Group, both in Europe and the USA.

He has a business education from Harvard Business School and Insead and a PhD in International Law from the University of Munster, Germany.

6. Eric Waldmann
SVP Global Chromium

Tenure
Joined Elementis in 2007

Based
New Jersey, US

Experience and role
Eric is responsible for the leadership of our global Chromium operation which includes the commercial team and strategic sourcing.

Eric has held a number of roles in our Chromium business, most recently as VP Finance and Sourcing. Prior to joining Elementis, Eric's experience was focused in the areas of finance, accounting, mergers and acquisitions and sourcing.

Eric holds a bachelor's degree in business administration from Bucknell University, and an MBA from Villanova University. Eric is a member of the International Chromium Development Association (ICDA) Council, which overseas and sets the strategy for promoting the value and sustainability of chromium and represents the chromium industry worldwide.

7. Steve Ridge
SVP Global Supply Chain & Manufacturing

Tenure
Joined Elementis in 2019

Based
New Jersey, US

Experience and role
Steve brings to Elementis his solid experience in overseeing a global manufacturing and supply chain footprint. With a proven track record of leading international teams and a passion for safety and continuous improvement, Steve drives a strong safety culture and operational excellence across all of Elementis' facilities around the world. Steve is responsible for supply chain, manufacturing, capital projects, procurement, quality and health and safety.

Steve joined Elementis from FMC where he was the global manufacturing director. Prior to FMC, Steve was the global EHS and Operational Excellence Director at Celanese.

Steve earned a master's degree in Chemical Engineering from Texas A&M University and a batchelors degree in Chemistry and Mathematics from Florida Southern College.

8. Joe Lupia
SVP Global Technology

Tenure
Joined Elementis in 2019

Based
New Jersey, US

Experience and role
Joe joined in 2019 to run Global R&D and Product Stewardship. His former commercial experiences enable him to ensure our innovation pipeline is capable of delivering both technical and financial success. Joe is responsible for collaborating with the business leaders to develop new technologies that enhance our customers' product performance as it pertains to the quality, sustainability and efficiency needs of our partners. He is also responsible for product stewardship and sustainability matters.

Joe has 30 years' experience in the chemicals industry and joined us from BASF where he had many different technical and commercial roles over his 24 year tenure.

Joe has a Ph.D. in Organic Chemistry from Seton Hall University.

9. Ajeeth Enjeti
SVP, Strategy and Transformation

Tenure
Joined Elementis in 2018

Based
Amsterdam, Netherlands

Experience and role
Ajeeth joined Elementis as part of the Mondo Minerals acquisition and leads the Strategy and Transformation agenda for the Company. Previously, Ajeeth was COO and a board member of Mondo Minerals (now Elementis Talc), where he was part of the leadership team that led the Mondo Minerals transformation into a higher value company.

Prior to Mondo, Ajeeth was a strategy consultant with Bain & Company, overseeing major strategic projects for Fortune 500 corporations. Earlier in his career, Ajeeth also held various senior commercial roles at multinationals such as PepsiCo and IBM in Asia and the Middle East.

Ajeeth earned his MBA from IMD (Switzerland) and holds a master's degree in Marketing and a bachelor's degree in Electrical Engineering.

10. Chris Shepherd
Chief Human Resources Officer

Tenure
Joined Elementis in 2017

Based
London, UK

Experience and role
Chris leads the Group Human Resources and Communications function and is responsible for talent, succession, HR operations, reward programmes and internal communications. Chris' focus is on embedding the Company's culture and values throughout the organisation, developing internal talent and standardising our global people processes.

Chris has over 20 years' experience of global human resources gained in a mix of privately held US and UK listed plcs with the first 12 years of his career in manufacturing and supply chain.

Chris holds an MEng in Mechanical Engineering from the University of Liverpool.

11. Walker Allen
General Counsel and Chief Compliance Officer

Tenure
Joined Elementis in 1999

Based
New Jersey, US

Experience and role
Walker leads the Group's Legal function with global responsibility for all legal matters within the Group including litigation, M&A and intellectual property matters. As Chief Compliance Officer, Walker's remit includes oversight of the Group's compliance programme including the development of our Group compliance policies and procedures.

Walker has 25 years' experience as an in house lawyer within global businesses having started his career in private practice in two New York City law firms.

Walker is a member of the New York Bar and is admitted as in-house counsel in New Jersey.

12. Laura Higgins
Group Company Secretary

Tenure
Joined Elementis in 2018

Based
London, UK

Experience and role
Laura is the Group's Company Secretary and is responsible for providing Board support and advice on corporate governance, UK listing obligations and corporate transactions. Laura is also responsible for overall Group risk management processes and the global insurance programme and is a pension trustee.

Laura has held various senior company secretarial positions at public quoted companies including Sky, Britvic, Betfair and Rio Tinto.

Laura holds a postgraduate diploma in Legal Practice and a BA (Honours) in Law and Legal Studies with History. She is also a Fellow of the Chartered Governance Institute.

Board leadership

Governance framework

Shareholders

↑

The Board
The Board is collectively responsible to shareholders for the delivery of long term value and success and provides effective challenge and support to management in relation to the execution of strategy, while ensuring the Group maintains effective risk management and internal controls systems.

↑

Board Committees
The Board is supported in its activities by Board Committees that have specific delegated responsibilities, as set out in separate terms of reference.

Audit Committee
- Overseeing financial reporting and the Group's financial systems
- Monitoring internal controls and risk management
- Maintaining an appropriate relationship with our internal and external auditors

For further information, please see pages 75 to 77

Nomination Committee
- Responsibility for the structure, size and composition of the Board, ensuring the Board and Committees have the correct balance of skills, knowledge and experience
- Ensuring and overseeing succession planning and responsibility for the annual review of Board effectiveness
- Identifying and nominating suitable candidates for appointment to the Board
- Promoting diversity

For further information, please see pages 72 to 74

Remuneration Committee
- Setting the remuneration policy and determining the reward structure for the Chairman, Executive Directors and Executive Leadership team, to align their remuneration with the long term interests of the Company
- Approves bonus plan, long term incentive plan targets and share awards

For further information, please see pages 79 to 95

Board meeting attendance during 2019

The attendance of the Directors for eight scheduled Board meetings for the year ended 31 December 2019:

Andrew Duff	100%
Paul Waterman	100%
Ralph Hewins	100%
Sandra Boss	100%
Dorothee Deuring	100%
Steve Good	100%
Anne Hyland	100%
Nick Salmon	100%

Associated documents

The matters reserved for the Board and terms of reference for the Committees can be found on the corporate website: www.elementis.com

Board roles and responsibilities of the Directors

The Board has agreed a clear division of responsibilities between the Chairman and the Chief Executive as well as those of the other Directors.

Role	Responsibility
Chairman	• Leadership of the Board, setting the agendas in consultation with the CEO, CFO and Group Company Secretary • Promoting open, honest and constructive debate and challenge during meetings and guides the CEO and CFO in delivery of the Company's strategy • Ensuring the Board conforms with the highest standards of corporate governance • Chairs the Nomination Committee and ensures the Board has an appropriate balance of skill and experience and effective succession planning in place and leads the annual Board effectiveness review • Effective engagement and communication with shareholders and other stakeholders and ensuring that their views are understood by the Board
CEO	• Day-to-day management of the business • Execution of strategy and operational performance • Providing regular updates to the Board on all significant matters relating to the Group • Ensuring the Company has a strong team of high-calibre executives, and putting in place management succession and development plans
CFO	• Supporting the CEO in the delivery of the Company's strategy and financial performance • Leading the Group Finance function and responsible for financial reporting, investor relations, IT, risk and insurance and tax matters
Senior Independent Director	• Acting as a sounding board to the Chairman, providing support and advice where necessary • Point of contact for shareholders and other stakeholders to discuss matters of concern • Leading the Board on the performance evaluation of the Chairman
Independent Non-Executive Directors	• Providing independent oversight objectivity to the Board's deliberations • Using their broad range of experience and expertise to challenge management and aid decision making • Playing a leading role in the effectiveness of the Board Committees
Group Company Secretary	• Supporting the Chairman in ensuring the Board operates efficiently and effectively • Providing the Board with advice on governance developments • Facilitating the Directors' induction programmes and assisting with ongoing training and development • Assisting the Chairman with the Board effectiveness review process
Designated Non-Executive Director for workforce engagement	• Representing the Board when engaging and communicating with employees and providing communication on any outcomes

Independence of the Non-Executive Directors

Each of the Non-Executive Directors is considered independent in character and judgement. The Chairman was considered independent on appointment and the Board confirms that he remains effective. The independence of Non-Executive Directors is reviewed annually by the Nomination Committee.

Further information can be found in the Nomination Committee report on pages 72 to 74.

The biographies of the Directors can be found on pages 55 to 57 and details of the membership of each Board Committee can be found on pages 72, 75 and 79 respectively.

Conflicts of interest

The Board operates a policy to identify and, when appropriate, manage actual or potential conflicts of interest that may arise.

Directors are required to seek Board approval for any actual or potential conflicts of interest. Conflicts of interest are considered formally by the Board, at each meeting, and are kept under review throughout the year.

Ralph Hewins is in receipt of a conflict authorisation from the Company in respect of him acting as a trustee of the Elementis Group Pension Scheme. Further details can be found in the Directors' report on page 96.

Board leadership continued

Directors' insurance and indemnities

The Company maintains Directors' and Officers' liability insurance, in the event of legal action brought against its Directors.

The Company has also granted indemnities to each of the Directors. These indemnities are uncapped in amount, in relation to certain losses and liabilities which they may incur to third parties in the course of acting as a Director of the Company. Neither the indemnity or insurance provides coverage in the event that a Director is proved to have acted fraudulently or dishonestly.

Board training and independent advice

All Directors have access to the advice and services of the Group Company Secretary and may take independent professional advice, as appropriate, at the expense of the Company.

Directors are given the opportunity throughout the year to undertake training and attend seminars, as necessary, to keep their skills and knowledge up to date. In addition, technical briefings are regularly included in Board and Committee papers.

The Group Company Secretary supports the Chairman in ensuring that the Board and its Committees operate within the governance framework and that communication and information flows within the Board and its Committees and between management and Non-Executive Directors remain effective.

Information flows

The Chairman and the Group Company Secretary ensure that the Directors receive clear and timely information on all relevant matters. Board papers are circulated in a timely manner in advance of the meetings to ensure that there is adequate time for them to be read and to facilitate robust and informed discussion. A fully encrypted electronic Board portal is used to distribute Board and Committee papers and to provide efficient distribution of business updates and other resources to the Board.

Board induction

The Chairman, with the support of the Group Company Secretary, is responsible for preparing and coordinating an appropriate induction programme for newly appointed Directors.

The programme may include elements of the following:

Induction programme

Induction – General Topics

- The role of a Director
- Board and Committees
- Board meetings
- Rules, regulations and guidance
- Board procedures
- Current issues
- Nature of the Company, its business and its markets
- The Company's main relationships

Induction – Board Committees (as appropriate)

- Role and remit of the Committee
- Link between the Committee's policy and the Company's strategic objectives
- The annual meeting schedule for the Committee
- The main business conducted by the Committee
- The legal requirements relevant to the Committee's operations
- Market practice and current trends relevant to the Committee
- Current issues
- Views of investors on matters considered by the Committee and potential areas of focus
- Any technical training on key matters

Induction – External Advisers

Meetings with:

- External auditors
- Internal audit function
- Remuneration consultants
- Brokers
- Lawyers

Induction – Senior Management meetings

Meetings with:

- CEO
- CFO
- SVP Global Coatings & Energy
- SVP Global Personal Care
- SVP Global Chromium
- SVP Global Talc
- SVP, Strategy and Transformation
- Chief HR Officer
- SVP Technology
- SVP, Global Supply Chain & Manufacturing
- General Counsel & Chief Compliance Officer
- Group Company Secretary

Induction – Site visits

- SciPark (New Jersey, US), Amsterdam, Netherlands (Talc), Castle Hayne, North Carolina, US (Chromium) and others as agreed during the course of the year

Engaging our workforce

Sandra Boss
Non-Executive Director and Designated Non-Executive Director (DNED) for workforce engagement

Purpose of the role

In line with the requirements of the UK Corporate Governance Code 2018 (Code), the role of Designated Non-Executive Director (DNED) exists to ensure that the views and concerns of the workforce are brought to the Board and taken into account and are consistent with the Company's values and support its long term sustainable success.

During the year, Sandra Boss was appointed as the DNED and is expected to:

- Understand the concerns of the workforce
- Articulate those views and concerns in Board meetings
- Ensure the Board takes appropriate steps to evaluate the impact of proposals and developments on the workforce and consider what steps should be taken to mitigate any adverse impact
- Feedback to the workforce on steps taken to address concerns or explain why particular steps have not been taken

Responsibilities:

- To review and monitor insight driven by the engagement survey or other qualitative data (quarterly updates) with the support of the CHRO, Group Company Secretary and SVP, Global Supply Chain and Manufacturing (together the DNED Sub Committee)
- To actively participate in a programme of workforce engagement which may include a variety of engagement mechanisms/ channels such as focus groups and townhalls
- As a standing agenda item at the Board, the DNED is expected to report on the programme of engagement activity and workforce concerns
- The DNED is expected to feedback any concerns regarding remuneration directly to the Remuneration Committee
- Supported by the DNED Sub Committee, the DNED is expected to prepare appropriate responses to address workforce concerns
- Supported by the DNED Sub Committee, the DNED is expected to explain how the Code provisions relating to workforce engagement have been met

Activities carried out in 2019

- Communicated the appointment of Sandra Boss (DNED) to the wider workforce
- Developed workforce engagement plan for 2019-2020
- Launch of engagement survey
- China focus group following Board site visit to China. The purpose of this activity was to understand sentiment based on local management changes, organisational review and other Values based questions

Activities planned for 2020

- Focus groups facilitated across selected sites
- Physical attendance by DNED as part of the Board's site visit programme to Castle Hayne and New Jersey
- Review of engagement survey data at regular intervals
- Workforce engagement reports at Board meetings
- DNED communications to workforce in response to insight gained from focus groups and site visits

Further information on workforce engagement can be found on pages 34, 36, 67 and 69.

Company purpose and culture

How the Board monitors culture

KPIs
A number of non-financial KPIs are regularly monitored by the Board which underscore the Company's commitment to minimise the impact of the company's operations on the environment and ensure that safety remains a top priority.

Risk management
The Company places the highest priority on preventing loss of life, other harm to people and the environment, legal and regulatory breaches and damage to reputation or brand. The Board receives risk management, insurance and internal audit reports.

Strategy
The Board receive strategic updates from each of the business leaders throughout the year which enables a deeper understanding of the Company's strategic ambitions. These updates provide valuable context for the 3 year plan and annual operation plan discussions

Stakeholder engagement
During 2019, the Board has directly engaged with investors (retail and institutional) and employees. The Board have received updates on customers,suppliers and environmental matters.

Ethics, whistleblowing, fraud and anti-bribery
Our Code of Conduct sets the standard for how we expect our employees to behave. The Audit Committee and the Board receive bi-annual compliance and ethics updates, including whistleblowing reports.

Defining purpose

With the support of the Group Company Secretary, the Board discussed and agreed the Company's purpose.

Our purpose is to achieve sustainable progress across the world through innovative specialty chemical products that deliver cleaner and better performance.

We are collaborative industrial innovators; developing long-term partnerships with our customers, innovating at pace to keep them at the forefront of their markets. Combining our access to unique natural resources with our unmatched rheology and technological expertise, we responsibly transform raw materials into advantaged ingredients that provide crucial end product benefits. This enables our customers to solve their product performance and sustainability challenges.

The Board considered how to align the company's culture with purpose, values and strategy.

The process included:

- Research of UK specialty chemicals marketplace including competitive advantage
- Selected stakeholder interviews to identify and develop company purpose themes
- Discussion of a draft overarching purpose statement with a supporting narrative
- Company values were established during 2018 following a refresh and engagement with employee focus groups
- Strategy is discussed regularly and includes the 3 year plan, annual operating plan and is formally agreed as part of the Board's annual programme
- The Company's values of Safety, Solutions, Ambition, Respect and Team underpin the behaviours expected to cultivate an open and inclusive culture

Maintaining a healthy culture

To ensure that the Company is creating the right environment for longer term success, a variety of mechanisms are available to measure company culture, for example:

- Whistleblower reports
- HSE updates
- Internal and external audit reports
- Compliance reports
- Engagement survey insight and other HR metrics
- Townhall meetings and site visits
- Business and functional deep dives

There are also other mechanisms for measuring culture which can be directly linked to the Company's values, such as:

- Safety – Near misses or process safety incidents
- Solutions – Number of products or customer innovation projects
- Ambition – New business opportunities and market participation
- Respect – Compliance training and speaking up channels
- Team – Employee engagement survey, talent and succession plans

Board activities

2019 Board activities timeline

Jan

Feb

Board meeting (London)

Full year results review

Mar

2018 full year results announced
Investor relations roadshow
Board call
Investor feedback

Apr

Board meeting (London)
Strategic update: Global Coatings transformation, IT and Cyber

Q1 trading update announced

AGM

Jun

Board meetings and site visits (Finland and Amsterdam)
Strategic update: Talc

Jul

Board meeting (London)
Interim results
Strategic updates: HSE and Innovation

2019 interim results announced

Investor roadshow

Sep

Board meeting (London)
Strategic updates: Chromium and Personal Care

Oct

Board meeting and site visit (China)
Visit to Songjiang site and townhall meetings with Anji and Hsinchu

Three year plan

Q3 trading update announced

Nov

Non-Executive Directors only meeting

Capital Markets Day

Dec

Board meeting (London)
Annual operating plan

Strategic updates: HR and Supply Chain

Capital Markets Day feedback

Board activities

The Board has a formal annual programme of activities which is supplemented by ad-hoc meetings and conference calls, as and when appropriate.

At each of its formal meetings, the Board receives standing updates, as part of the CEO's report, regarding financial, operational, governance, compliance, HSE performance and investor engagement.

The Board also meets for dinner and uses this time as an opportunity to informally discuss relevant matters.

The Board regularly invites ELT members to attend Board meetings and receives presentations from their relevant business and functional areas.

During 2019, the Board meetings took place in London, Finland, Netherlands and China.

Board activities continued

The Board's focus in 2019 was as follows:

Innovation, Growth and Efficiency strategy

- Talc integration update
- Transformation updates for Supply Chain and Coatings
- India supply chain investment
- Innovation pipeline
- Capital Markets Day strategy
- Strategic reviews of Coatings, Personal Care, Energy, Chromium and Talc
- China route to market partnership and Asia specific deep dive
- Three year plan
- Divestment of dental plant

Operational performance

- Regular CEO reports (Product Stewardship, Innovation, Business Development, People, Communication, Safety and Supply Chain priorities)
- Health, Safety and Environment reports
- Group insurance and risk management activities programme
- Group risk review including Brexit plans
- GDPR and data privacy update
- Digital and cyber update

Shareholders, stakeholders and governance

- Investor relations reports, roadshows and other investor meetings and feedback
- Corporate broker review
- Board effectiveness evaluation
- People strategy including talent management, succession planning, values and culture
- Updates on the revised UK Corporate Governance Code including purpose and culture
- Modern Slavery Statement
- Litigation and compliance reports
- Directors' duties training and UK Corporate Governance Code updates
- Updates from Board Committee chairs
- Board diversity policy
- Employee engagement, townhalls and site visits
- Designated Non-Executive Director workforce engagement appointment and engagement updates
- Health, safety and environment update
- Committee terms of reference
- Chairman's site visits to US, India and Shanghai

Finance matters

- Financial performance reports and forecasts
- Dividend policy, distributable reserves and recommendation of payment
- Treasury and hedging reports
- Financial statements for full and half year and Q1 and Q3 trading statements
- Full and half year results presentations
- Tax reports, tax strategy and updates on EC state aid
- Annual operating plan
- Review of subsidiary financing structure
- Working capital update

Board visits

The Non-Executive Directors are encouraged to visit Group manufacturing sites to enable them to gain a greater understanding of the Group's activities and to meet people across the business.

June 2019 – Finland and Netherlands

Following the acquisition of the Talc business in October 2018, the Board agreed to visit Talc assets in Finland and Netherlands. Recognising the flow of operations from mine to customer, the Board was keen to gain and deepen its understanding and to meet Talc employees for the first time.

It was decided to visit the Sotkamo site (Finland) first, followed by Amsterdam the following day to make the most effective use of the Board's availability. The Board was unable to visit operations in Finland before June as a result of typical freezing temperatures for a large part of the year.

At the Sotkamo site, the Talc management team provided the Board with a presentation followed by a visit to the mine and processing facilities. A townhall meeting with employees followed and was held facilitated via a web-link with the Vuonos site with local translation provided. The townhall provided an opportunity for the Board to reiterate the strategic importance of the Talc business and for employees to engage directly with the Board.

The following day the Board travelled to Amsterdam to visit the processing and warehouse facilities and continue Board discussions which concluded their visit of the Talc operations.


Finland visit


Amsterdam visit

October 2019 – China

As part of the Board's 12 month planner, the Board expressed significant interest in returning to Shanghai having last visited in 2016. New local management had recently been hired and the Board was keen to meet with the new team and understand the impact of the transition on workplace culture and similarly to deepen their knowledge of local and global economic factors.

The Board was provided with a presentation from the Asia management team and subsequently participated in a tour of the Shanghai site which included processing, warehousing and technical laboratories. A townhall meeting with employees was facilitated by the management team and was held via a web-link with other sites in Anji (China) and Hsinchu (Taiwan).

Capital Markets Day

November 2019

The Company held a Capital Markets Day in November 2019 with over 100 analysts and investors physically attending the event. Other stakeholders were able to participate via a weblink.

Following a presentation on the medium term strategic priorities, attendees were invited to participate in three breakout sessions with demonstrations on how Elementis products were meeting innovation and consumer trends from the Personal Care, Coatings and Talc businesses. The presentation is available in the Investors section of the corporate website at www.elementis.com.

Engaging with our stakeholders

Section 172 Companies Act 2006

The Board acknowledges that there is a legal requirement for the Company to report on how the Board and its Committees have considered the requirements of section 172 of the Companies Act 2006 in their decision making.

Section 172 requires directors to act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole, taking into account the factors as outlined in section 172 of the Companies Act 2006.

Further information on how the Board considers stakeholder views in its decision making processes can be found on page 36.

The Board acknowledges that not all section 172 factors may be relevant, however, it is important to fully consider in its deliberations.

Customers

How do we listen to our customers?
Our customers demand high quality and consistent products which are able to demonstrate superior performance, efficiency and sustainability features. They rely on us to deliver innovation and technical expertise in line with consumer and industrial trends.

What matters the most to them?
We seek opportunities to collaborate and build long term relationships with our customers to ensure we are able to keep them at the forefront of their industries.

How do we respond?
We use innovation as a platform for customer engagement, through trade shows, conferences, ongoing customer relationship meetings and technical 'teach ins' to demonstrate our expertise, capability and new products.

How the Board engages
The Board receives annual strategic updates from each of our business segment leaders which include a deeper understanding of the 'voice of the customer' in the boardroom which includes information on the competitive landscape, trends and customer insight.

Investors

How do we listen to our investors?
Our investors want to ensure that we continue to grow and deliver sustainable financial returns. Regular investor dialogue throughout the year illustrates themes such as profitability, debt, ability to continue to pay dividends, ESG matters and continued strategic progress.

What matters the most to them?
To build trust and transparency with existing and prospective investors and provide sustainable financial returns.

How do we respond?
We engage with investors through a variety of channels which include meetings and roadshows with institutional investors on a range of ESG, operational, financial and strategic matters. The Company engages with investors via the Director of Investor Relations or the Group Company Secretary who are available to deal with shareholder queries.

How the Board engages
The Board receive investor feedback at each of its meetings. The Board also receive investor views from the Company's corporate brokers. All shareholders (irrespective of size of holding) are able to engage with the Board at its annual shareholder meeting. In addition, the Chairman meets with institutional investors throughout the course of the year.

Employees

How do we listen to our employees?
We recognise our people are our greatest asset for our success. During 2019, we introduced our employee engagement survey which will become an area of focus for management on an ongoing basis.

What matters the most to them?
Employees want to contribute and share in the company's success. Relevant matters include employee pay and benefits, investment in training, talent and succession planning, working conditions, health and safety, diversity and inclusion and sustainability.

How do we respond?
We engage with employees through a variety of channels which include CEO and business segment communications, line manager dialogue, whistleblowing services and reward matters.

How the Board engages
The Board directly interacts with employees during its ongoing schedule of site visits and townhall meetings. The Board receives a regular updates from the CEO which includes people and organisation related matters. The CHRO annually presents the people strategy which includes talent and succession planning. The DNED for workforce engagement will further drive the Board's understanding of employee matters including culture throughout the organisation.

Suppliers

How do we listen to our suppliers?
We strive for the highest ethical standards and hold our suppliers and partners to the same standards.

What matters the most to them?
Our supplier community recognise the value of maintaining long term relationships and that business dealings and practices are fair.

How do we respond?
We engage with our suppliers through ongoing relationship management, commercial terms and conditions, contract negotiation.

We circulate a survey to our top 80% (by value) of suppliers, attend supplier conferences and have a Purchasing Code of Practice in place to drive engagement with our suppliers.

How the Board engages
The Board receive regular updates from the SVP, Global Supply Chain and Manufacturing and from each of the business leaders. As part of its Matters Reserved for the Board, the Board has authority to consider supplier contracts or agreements over a particular threshold value.

Communities

How do we consider our communities?
We are committed to minimising the impact of our business operations on the environment. Respect and care for our environment and our communities are core values at Elementis.

What matters the most?
Our behaviours impact the people who work for us, as well as the wider environment. Our communities have vested interests in the sustainability of our products and operations, reputation and ethical behaviour.

How do we respond?
We contribute to local economies, encourage open dialogue and participate in community related matters such as biodiversity and other environmental initiatives.

How the Board engages
Through site visits, the Board is able to deepen its understanding of the issues that are most relevant to the communities in which we operate.

Board evaluation

Board evaluation

In line with the UK Corporate Governance Code, an externally facilitated review of Board effectiveness is carried out every three years. The last externally facilitated review was carried out in 2018. In 2019, it was agreed that an internally facilitated review would be appropriate.

Board effectiveness cycle

Year 1 (2018)
An independent externally facilitated review

Year 2 (2019)
An internal review facilitated by the Company Secretary

Year 3 (2020)
An internal review facilitated by the Company Secretary

Process

A discussion is held by the Nomination Committee to consider the approach and process for evaluation. Following agreement, the Group Company Secretary and the Chairman of the Nomination Committee agree the timetable, process and resources required for the evaluation activity.

During 2019, the process was divided into four stages:

Stage 1

The Group Company Secretary and Chairman agree the format of the evaluation.

The internal review is usually carried out by means of an online questionnaire. Directors are invited to give their responses on the individual and collective performances of the Board and its Committees.

Stage 2

If there are any issues raised, the Group Company Secretary will reach out to the individual and discuss their concerns or issues.

Individual responses are collated into a report prepared by the Company Secretary.

Stage 3

The Group Company Secretary discusses the underlying themes of the evaluation with the Chairman and prepares a formal paper for discussion.

The Chairman meets with each Director individually to air any concerns they may have around Board dynamics and operation of Board and Committee effectiveness.

Stage 4

The report is presented and discussed with the Board.

The Board agrees on the areas of development for the forthcoming year.

2019 areas of focus

Following the FRC's guidance on Board effectiveness in July 2018, the internal review questions focused on the following themes:

- Board leadership and Company purpose
- Division of responsibility
- Composition, succession and evaluation
- Audit, risk and internal control
- Remuneration
- Final comments and observations

2019 internal review outcome

Strengths

- The Board and its Committees continue to perform effectively
- High quality of debate and challenge in an inclusive, collaborative, trusting and supportive environment
- Relationships between Board and Executive Directors are open and constructive
- Effective understanding of risks and internal control environment
- Aligned views on priorities and challenges over the next 1-3 years

Focus for 2020

- Continue to identify ways of leveraging Non-Executive Directors' expertise
- Deepen the Board's understanding of the 'customer voice' through business unit deep dives
- Continued focus on Board succession planning

Diversity

Diversity

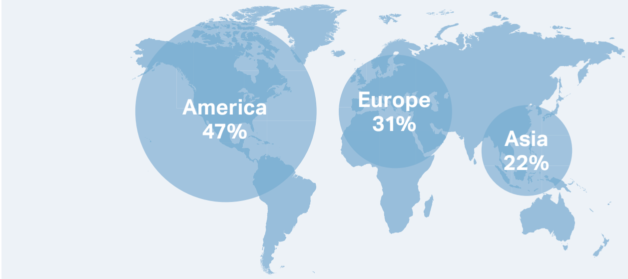
Diversity of our people is intrinsic to better business decisions. Appointments are made on merit and we seek to leverage the benefits of the wide and diverse talent pool.

We are dedicated to increasing diversity through our recruitment and talent review processes and creating awareness and understanding of the value of diverse teams at all levels.

Our Directors and ELT have committed to continue to build diverse teams that succeed through all aspects of diversity, e.g. gender, age, nationality and ways of thinking.

The overview information below is as at 31 December 2019.

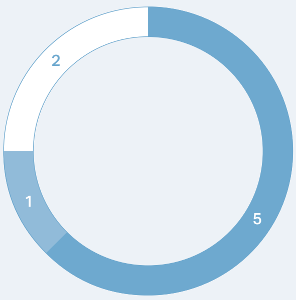
Employee location



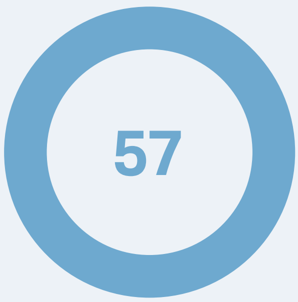
Diversity overview

Composition of the Board

Independent Non-Executive Directors	62.5%
Chairman*	12.5%
Executive Directors	25%

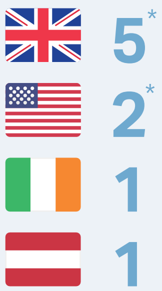


Average age of Board as at 31 December 2019

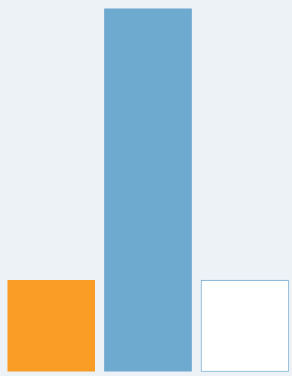


Nationality of the Board

* Sandra Boss has dual nationality

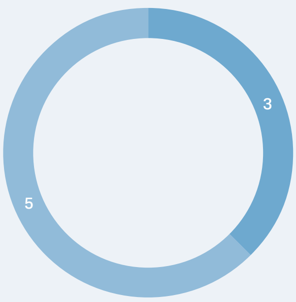


Length of tenure of the Board



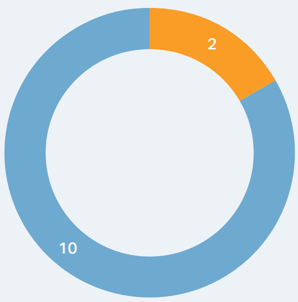
Gender of Board

Female	37.5%
Male	62.5%



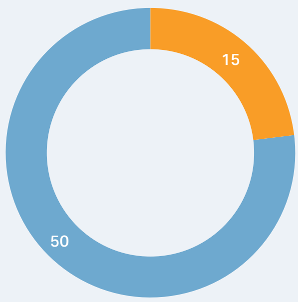
Gender of ELT

Female	16.7%
Male	83.3%



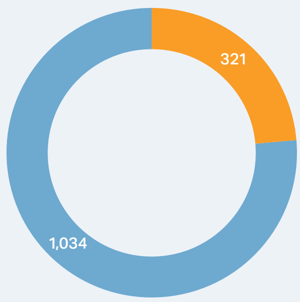
Gender – ELT Direct Reports

Female	17.2%
Male	82.8%



Gender – Company wide

Female	23.7%
Male	76.3%



* In accordance with the UK Corporate Governance Code, the Chairman was considered to be independent on appointment.

Nomination Committee report

Andrew Duff
Chairman
Nomination Committee

Membership, meetings and attendance

Andrew Duff (Chair)	●●●●●
Sandra Boss	●●●●●
Dorothee Deuring	●●●●●
Steve Good	●●●●●
Anne Hyland	●●●●●
Nick Salmon	●●●●●
John O'Higgins*	

* John O'Higgins joined the Committee on 4 February 2020

Role of the Committee

The Committee is responsible for the structure, size and composition of the Board ensuring that the Board and Committees have the most appropriate balance of skills, knowledge and experience. This Committee ensures and oversees succession planning and has responsibility for the annual review of the Board.

Key responsibilities

- Regularly reviewing the structure, size, diversity and composition of the Board
- Ensuring that the Company has the right leadership, balance of skills and experience to deliver the Company's strategy and enable the Board to effectively fulfil its obligations
- Succession planning for the Board and ELT
- Leading on the annual performance evaluation of the Board and its Committees
- Identifying and nominating, for approval of the Board, candidates to fill Board vacancies as and when they arise
- Identifying and managing any potential conflicts of directors' interests

The Committee's terms of reference are available on the Company's website at www.elementis.com.

The Committee is chaired by the Chairman and comprises all the Non-Executive Directors, who are considered to be independent. Members' biographies can be found on pages 55 to 57. The CEO has a standing invitation to attend meetings and external advisers attend where relevant.

Committee members take no part in any discussions concerning their own membership of the Board or appointment as a Chair of a Committee but are involved in the recommendations on Committee membership changes.

Re-appointment of Directors

All Directors are subject to re-election at the next Annual General Meeting (AGM), as required by the UK Corporate Governance Code. Following the appraisal process, the Committee concluded that each of the Directors continued to make an effective contribution to the Board and provided sufficient time to the Company.

In accordance with the Code, each of the Directors will submit themselves for re-election at the 2020 AGM, with the exception of Nick Salmon who will step down at the AGM.

Dear Shareholders

As Chair of the Nomination Committee, I am pleased to present the Nomination Committee report covering the work of the Committee in 2019. This report should be read in conjunction with the separate section on compliance with the UK Corporate Governance Code on page 54.

Activities during the year

- Annual review of Director's independence and conflicts in accordance with the Committee's terms of reference
- Engagement with Korn Ferry to conduct a search for a new Senior Independent Director
- Reviewing structure, size, diversity and composition of the Board
- Adoption of Diversity policy
- Succession planning for the Board and ELT
- Ensuring that at least annually the Non-Executive Directors meet without the Executive Directors present
- Investor meetings with Chairman of Nomination Committee

NED re-appointments

The re-appointments of Anne Hyland (for a third term from June 2019), Sandra Boss (a second term from February 2020) and Dorothee Deuring (a second term from March 2020) were approved and recommended to the Board during the year.

Board effectiveness

On an annual basis, the Chairman is responsible for conducting an appraisal with each Non-Executive Director in respect of their skills, experience, contribution and time commitment to the Company. The Committee oversees the evaluation process which for 2019 comprised of an internal evaluation. The last externally facilitated review was carried out in 2018 and it is anticipated that the next external review will be conducted in 2021.

Following the review, the Board is satisfied that all Directors possess relevant experience and appropriate levels of independence and financial and commercial experience across various industries.

Further information regarding the process can be found on page 70.

Board composition and skills

Following the internal effectiveness review, the Committee considers that the current Board membership has the right balance of commercial and governance experience, independence and challenge and that the diverse range of skills and experience of the Directors prevents any influence, either individually or collectively, over the Board's decision making.

Further information can be found on page 74 with a skills and experience matrix.

Succession planning

As part of the Board's succession planning processes, Nick Salmon agreed to step down from the Board as Senior Independent Director (SID) at the Company's Annual General Meeting in April 2020. The Committee appointed Korn Ferry, external search consultants, to undertake a search for suitable candidates.

Following a thorough recruitment process, John O'Higgins was appointed as a Non-Executive Director with effect from 4 February and will become SID following the AGM on 29 April 2020.

Please see page 57 for John's biography.

SID recruitment process

The Chairman of the Board, assisted by the Nomination Committee members and Group Company Secretary, led the process in the search for a new SID.

Following a Committee discussion, a role specification was prepared and shared with Korn Ferry. The Committee agreed that the attributes for the candidates should demonstrate:

- Current, proven and well regarded Independent Director from the broad industrial/manufacturing sector
- Significant international business experience in his/her former executive career as either a CEO or Main Board Executive of a complex multinational B2B company
- An able strategic thinker who can play a role in Board discussions on Elementis' strategy
- Due regard to the benefits of a candidate with diversity, including gender, social and ethnic backgrounds

Korn Ferry prepared a long list of 13 potential candidates based on the role specification. The Committee duly discussed the merits of each of the candidates and agreed that seven candidates would be shortlisted. During the shortlisting process, Korn Ferry updated the Committee based on their confidential discussions with the candidates regarding their interest for the role. The next stage included candidate meetings with the Chairman of the Board. After each of the meetings, the Chairman provided the Committee with feedback and evaluation of each of the candidate's experience and skills.

The next step was to identify which candidates would be taken through to the next stage and a final shortlist of candidates were invited to interviews with the other Non-Executive Directors, Executive Directors and Group Company Secretary.

Following the interviews and taking into account; the references of the preferred candidate, external responsibilities and potential conflicts, the Committee agreed to recommend to the Board that John O'Higgins be appointed as a Non-Executive Director on 4 February 2020 and assuming the role of SID at the AGM in April 2020.

2019 Meetings summary

April	• Adoption of revised diversity policy
June	• Recommendation for Anne Hyland to be issued with a letter of re-appointment
September	• Board succession planning
November	• Senior Independent Director recruitment update
December	• Discussion of board effectiveness outcomes • Senior Independent Director recruitment update • Recommendations for Sandra Boss and Dorothee Deuring to be issued with letters of re-appointment • Recommendation of revised Terms of Reference • Composition of Board and Committees • Review of Directors' independence and conflicts

Diversity and inclusion

Our approach to diversity and inclusion is set out in the Board's diversity policy which is reviewed annually by the Committee. The diversity policy was revised during the year, a copy of which can be found on the Company's website at www.elementis.com.

When a new search for a Board member is undertaken, a briefing is prepared and shared with external search consultants to ensure that diversity of gender, social and ethnic backgrounds and skills is promoted in the selection of candidates.

Since 2017, the Board continues to exceed the Hampton-Alexander target, for the percentage of women on Boards to reach one third by 2020. It is acknowledged that there is a need to identify and develop the next generation of talent within the Group and processes are in place to ensure the Board has visibility.

Further information can be found on page 71.

Andrew Duff
Chairman Nomination Committee

Looking ahead to 2020
In the coming year, the Committee's focus will be on:

- John O'Higgins induction programme
- Focus on succession planning
- Review of 2019 evaluation outcomes and planning for 2020 evaluation

	Andrew Duff	Steve Good	Anne Hyland	Nick Salmon	Sandra Boss	Dorothee Deuring	John O'Higgins	Paul Waterman	Ralph Hewins
Sector experience									
Manufacturing/industrial processing	●	●		●		●	●	●	
Specialty chemicals		●		●		●	●		
Industry verticals	●	●		●			●	●	●
Commodity chemicals/pharma	●		●			●		●	●
Investment banking/corporate finance			●		●	●			●
Global markets		●		●		●			
Not for profit	●		●		●		●		
Professional services			●		●				
Geographical experience (lived and worked for 12 months)									
North America	●	●		●	●			●	
Europe (excl UK)	●	●	●	●		●	●		●
Asia Pacific (inc India)	●	●	●	●			●	●	●
Functional experience									
Pension trustee		●							●
M&A/capital raising	●	●	●	●	●	●	●		●
Financial/accounting expertise (recent/relevant)		●	●						
Tax/treasury			●						
Sales/marketing/customer	●	●					●	●	
Strategy/business development	●	●	●	●	●	●	●	●	●
Research/technology/innovation		●	●	●			●	●	
Regulated markets	●	●		●	●	●			
Regulators/legal					●				

Audit committee report

Anne Hyland
Chairman
Audit Committee

Membership, meetings and attendance

Anne Hyland (Audit Chair)	●●●
Sandra Boss	●●●
Dorothee Deuring	●●●
Nick Salmon	●●●
John O'Higgins*	

* John O'Higgins joined the Committee on 4 February 2020

Role and responsibilities

- Monitoring the integrity of the Group's financial statements, financial reporting and related statements
- Ensuring the appropriateness of accounting policies, any changes to these, and any significant estimates and judgements made
- Reviewing the effectiveness of internal control, compliance and risk management systems (including whistleblowing arrangements)
- Overseeing all aspects of the relationship with the internal and external auditors; approving the policy on non-audit services; effectiveness of the audit process, making recommendations to the Board for their dismissal or changes; and supervising any tender process

The Committee's terms of reference, which are reviewed and approved periodically, are available on the Company's website at www.elementis.com.

All members of the Committee are independent Non-Executive Directors. Members' biographies can be found on pages 55 to 57.

The Chairman of the Board, CEO, CFO and Group Financial Controller, alongside representatives from the external auditors, Deloitte, and internal auditors, PwC, have a standing invitation to attend Committee meetings.

As required by the UK Corporate Governance Code, the Board is satisfied that Anne Hyland has recent and relevant financial experience to chair this Committee. The Committee as a whole has the financial and commercial competence to meet its responsibility in an independent and robust manner.

The Chair of the Audit Committee is available to meet with shareholders at the Company's AGM and on request during the course of the year.

Main activities during the year

The Committee's focus in 2019 has been:

- Meetings with both the internal and external auditors to review their key findings
- Reviewing the internal control systems and considering the output of internal audit reviews and management's action plans
- Reviewing the integrity, consistency and key accounting judgements made by management in both the Company's full and half year results
- Advising the Board on whether the Annual Report and Accounts preparation process is fair, balanced and understandable and provides the information necessary to shareholders to assess the Group's position and performance, business model and strategy
- Reviewing the going concern and viability statements and the supporting assumptions and assessments in the Company's Annual Report and Accounts
- Ensuring compliance with applicable accounting standards, monitoring developments in accounting regulations which affect the Group and reviewing appropriateness of accounting policies and practices currently in place
- Reviewing effectiveness of the internal and external auditors, their independence and objectivity and terms and scope of engagement and recommending their re-appointments
- Overseeing matters relating to tax including the impact of tax rates on the financial statements and approving the Company's tax strategy
- Litigation and compliance reports for both the full and half year
- Considering the material legal risks impacting the Company and the associated provisioning for both the full and half year
- Receiving updates on the Code of Business Conduct and Ethics, compliance training and whistleblowing policies
- Technical updates on the 2018 UK Corporate Governance Code and IFRS 16
- Reviewing the Group's risk management activities undertaken by each business area, and at Group level to identify and assess the Group's principal risks
- Monitoring and assessing the Group's insurance arrangements

Audit committee report continued

The report of the Audit Committee for the 2019 financial year explains how its responsibilities have been carried out during the year.

External auditors

Deloitte have served as external auditors for four years. The Committee engages with Deloitte to ensure this key area of oversight is appropriately maintained. The Committee periodically meets privately with the lead audit partner and senior members of the audit team to discuss their work and findings. No areas of significant concern have been raised.

Audit of the 2019 Annual Report and Accounts

At the end of 2019, Deloitte presented their audit plan for the year ahead which the Committee considered and then approved. Deloitte highlighted the key areas of risk, which were primarily identified as areas of judgement and complexity and were consistent with those areas identified by the Committee. As part of the audit process, Deloitte then presented a detailed report of their audit findings, which were reviewed and discussed. A similar process is undertaken for the half year results.

Auditor rotation and tendering and competition and markets authority order – statement of compliance

The Committee carried out an audit tender process in 2015 resulting in the appointment of Deloitte as external auditors in April 2016. Deloitte's re-appointment in 2019 was approved by shareholders at the Company's AGM in April 2019. The year ended 31 December 2019 was the third year for the lead engagement partner Christopher Powell. The Committee confirms that the Company is compliant with the provisions of The Statutory Audit Services for Large Companies market Investigation (mandatory use of Competitive Tender processes and Audit Committee Responsibilities) Order 2014 for the year ended 31 December 2019.

Audit effectiveness

To support the Committee in evaluating the effectiveness of the external auditors, a questionnaire based evaluation is completed by the Finance team. The data is collated into a score card that can then be used to assess the strengths and weaknesses of the external auditors. Management and the external auditors then address any areas of weakness in their regular review meetings, and the senior audit partner from Deloitte updates the Committee on how areas of weakness are being addressed.

The Committee also monitors audit effectiveness by reviewing the Audit Quality Inspection reports published by the FRC.

Following the 2019 review, the Committee considers the auditors' performance to be satisfactory and that the audit is effective as measured against their letter of engagement and the scope of services agreed.

Auditor independence

The Committee considers the external auditors' objectivity and independence at least twice a year. It receives reports from Deloitte on its internal quality controls and independence rules and considers carefully the extent of the non-audit services provided by Deloitte.

The Committee is of the view that Deloitte were objective and independent throughout the 2019 audit process notwithstanding the level of non-audit services provided.

Non-audit services

This is further maintained by the Group policy on non-audit services which contains guidance on the types of non-audit work that the external auditors may be considered for.

Key judgements and areas of significant focus

The following table sets out the significant matters considered by the Committee during the year in relation to the Financial Statements. Further information on these judgements is detailed in Note 1 of the accounts.

Key judgement	How the Committee has addressed these matters
Environmental provision	A process consistent with 2018 for the evaluation of environmental provisions was followed by management, the key area of judgement being the discount rate used for future liabilities. In 2018, this discount rate was 2.5%. The Committee considered this discount rate and decided that a revised rate of 1% for the UK and 2% for the US would reflect current market assessments of the time value of money and risks specific to the liabilities and therefore appropriate for 2019.
Impairment testing of goodwill in relation to the Talc CGU	Critical accounting estimates arise in determining the value in use for the goodwill balances tested, which require assessments of the achievability of business plans (and therefore future cash flows), growth rates beyond the period covered by the five-year business plans and appropriateness of the discount rates applied to future cash flows. A report from management was discussed setting out the basis for the assumptions and confirmation that the cash flows used were derived from the 2019 three year plan (which in their role as members of the Board, Committee members had previously reviewed and approved). The Committee has reviewed the robustness of the impairment model, challenged the appropriateness of the key assumptions used to calculate value in use including forecast sales volumes, selling prices, growth rates used to extrapolate beyond the forecast period and the discount rates applied to the resulting cash flows. The Committee agreed with management that no impairment was required.
Revenue recognition	The main area of judgement continues to be in relation to recognition of revenue for shipments by sea. The Committee satisfied itself that the Group had appropriately recognised revenues in accordance with their contractual obligations during the period, paying particular attention to period end cut-off.
Determining lease contract terms with extension options	Following the adoption of IFRS 16 Leases in the year management have exercised judgement in evaluating whether the Group is reasonably certain to exercise options to renew or terminate leases. There are two leases of land and buildings for which the Group has determined that the extension options contained within the lease contracts are reasonably certain to be exercised. As such the periods covered by the extension options have been included in the lease term and the calculation of the related lease liabilities. The Committee satisfied itself that the Group had made appropriate judgements concerning the likelihood of exercising extension and termination options of its leases.

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

Non-audit services

	2019	2018
Audit fees ($m)	**1.4**	1.4
Assurance related services ($m)	**0.1**	0.1
Non-audit fees ($m)	**0.0**	0.3
Ratio of non-audit fees to audit fees (%)	**0%**	21%
Total fees ($m)	**1.5**	1.8

Examples of services that the external auditors may and may not be allowed to perform under the policy can be found at www.elementis.com.

Based on the Committee's recommendation, the Board is proposing that Deloitte be re-appointed as external auditors to the Company at the AGM in April 2020.

Internal controls and risk management system

The Committee's role is to review the effectiveness of the internal control, compliance and risk management systems which it carries out in support of the Board's formal review of significant risks and material controls, as summarised in the Risk management report on pages 48 to 49.

PwC provides an outsourced internal audit function. The Committee considers that the value of internal audit is enhanced by having a third party perform this function, to support the independent challenge of management and give greater access to expertise and resources than an internal function could provide.

The internal audit plan is based on a review of the Group's key risks which are considered high risk or have not been subject to a recent audit. The 2019 internal audit plan was discussed and agreed between management and PwC ahead of it being considered and subsequently approved by the Committee. During 2019, the focus for internal audit included; Mondo financial controls health check and actions to bring in line with group controls, India investment, GDPR completeness assessment, contract compliance and customer services and pricing. Management reviews the schedule with PwC on a quarterly basis and adapts during the year to incorporate any new or increased risks which materialise. This is then reviewed and approved by the Committee.

The outcomes of the internal reports are provided to the Committee, alongside any remedial actions.

Following an evaluation of the services provided by PwC in respect of the internal audit, the Committee confirms that both the process for determining the internal audit programme, and the programme itself, are appropriate and effective. No significant internal control failings or weaknesses were reported last year. Set out below is a summary of the key features of the Group's internal controls and risk management 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 controls are certified by each operating segment.

Risk identification and review

A formal risk review process exists at Board and ELT levels for the identification, evaluation, mitigation and ongoing monitoring of risks, including emerging risks. Further details can be found on pages 50 to 52.

Internal audit programme

An internal audit programme is proposed by PwC in consultation with the CFO and approved by the 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. As well as conducting audits of operating facilities, sales offices and tolling sites on a two to three year rotational basis, the internal audit programme includes reviews of Group functions and processes.

Controls assurance

The controls assurance framework at Elementis is as follows:

- Board leadership supported by an open and transparent culture of 'no surprises', good governance and compliance. This means knowing and understanding the businesses and quality interactions between the Board and the Executive Leadership team (including a regular programme of presentations and reports to the Board, as well as operational site visits)
- Internal and external audit programmes, regular litigation and compliance reviews with the General Counsel and Chief Compliance Officer
- a programme of compliance audits, regulatory inspections, environmental reviews and property surveys by external specialists
- Code of Business Conduct and Ethics, on which all employees are given training 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

Whistleblowing

The Group's whistleblowing facility is accessible on a 24/7 basis, 365 days of the year and provides arrangements for an independent service provider to receive, in confidence, reports of breaches of any legal or Company policy requirements, including those related to accounting, auditing, risk, internal control and related matters. Any such disclosures are reported to the Committee as appropriate.

Fair, balanced and understandable

The Committee adopted a similar approach as in previous years to ensure that the Annual Report is fair, balanced and understandable. The process was as follows:

- An internal Annual Report Team (ART) was set up to manage the process. The ART consisted of members drawn from Group Finance, Company Secretariat and Investor Relations teams. The ART was responsible for regularly reviewing work and ensuring balanced reporting with appropriate links between key messages and sections of the Annual Report.
- The Committee chairman held meetings with the audit partner, and the Committee held meetings with the external auditors without management being present.
- An audit clearance meeting was held with the Committee chairman, CFO and members of the Finance team alongside the audit partner and audit team members.
- The Committee received updates from management on the Annual Report progress and audit throughout the process as well as from the Company's brokers and other advisers
- The Committee, Chairman and Executive Directors reviewed the Annual Report in its final stages

Following this process, the Committee supporting the Board are able to confirm that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

Anne Hyland
Chairman, Audit Committee

Relations with shareholders

Board engagement with shareholders

Elementis is committed to delivering long term sustainable returns to its shareholders. The Chairman is responsible for effective communication with shareholders.

The CEO and CFO are the Company's principal contacts for investors, analysts, press and other interested stakeholders.

There is a dedicated investor relations programme for current and potential investors, which is managed by the Director of Investor Relations who reports to the CFO.

The Board receives an investor relations report at each of its meetings outlining recent dialogue with investors and feedback received. Analysts' reports are also made available to the Board. The Chairman attends the financial results presentations where he has the opportunity to meet with those analysts who attend.

The Chairman and Senior Independent Director are available to shareholders to discuss governance and strategy concerns as appropriate. The Chairman meets with shareholders to discuss governance or other matters as appropriate. During these meetings, investors are invited to meet with other members of the Board, for example, the Chair of the Audit, Nomination or Remuneration Committees.

Shareholder meetings

In April 2019, we held our annual shareholder meeting. The Notice of AGM was posted to shareholders at least 20 days prior to the meeting. The Board welcomes attendance at these meetings and they provide a valuable opportunity to discuss Company matters and interaction with the Board.

We are grateful to those shareholders who were unable to attend but submitted voting instructions via proxy.

At the AGM, all the members of the Board attended and the CEO provided a presentation to shareholders outlining the performance of the Company during the prior financial year. Shareholders are able to engage directly with the Chairs of the Audit and Remuneration Committees at the AGM.

Each resolution was proposed separately and voting was conducted on a poll taking into account votes cast at the meeting and those submitted via proxy.

Shareholders had the option to vote either for or against a resolution or to withhold their vote.

All proposed resolutions were passed, with votes in favour ranging from 83.16% to 100%.

Following the meeting, the voting results were announced to the London Stock Exchange and published on the Company's corporate website.

Capital Markets day

In November 2019, we held a Capital Markets Day in London for over 100 analysts and investors to outline the next phase of our development. The event provided stakeholders with the opportunity to be updated on our strategic priorities, meet management and see some our products in action. At the events we outlined our medium term performance objectives of:

- Adjusted operating profit margin of 17%
- Operating cash conversion of at least 90% per annum
- Financial leverage of under 1.5x net debt/ EBITDA

2019 investor relations programme

During 2019:

- Institutional investors and analysts were invited to attend the Company's full year and half year results presentation in person or via a webcast
- Over 100 attendees, both current investors and potential investors, attended the Capital Markets Day
- Over 130 investor meetings
- Attended five investor conferences
- Interim and annual results roadshows
- Held ad hoc road shows in Europe and North America

Private investors

The Board is keen to hear the views of our private shareholders and they are encouraged to use our shareholder mailbox, company.secretariat@elementis.com, for detailed enquiries and to access our website for our Company reports and business information.

Specific enquiries may also be addressed to the Group Company Secretary and sent to the registered office.

Shareholder tracing programme

In 2015, a shareholder tracing programme was launched to reduce the number of 'gone-away' shareholders on the share register over a period of four years. In total 769 accounts have been closed with a total value returned of over £665,000.

2019 investor relations calendar

January	February	March	May	July	September	November	December
Paris roadshow	FY 18 results presentation Chairman's Governance roadshow	FY 18 roadshow	UBS small and midcap conference	H1 19 results presentation H1 19 roadshow	Berenberg food ingredients and chemicals conference	Capital Markets Day	Overseas roadshow in North America Credit Suisse chemicals conference Berenberg european conference

Directors' Remuneration Report

Steve Good
Chairman
Remuneration
Committee

Committee members 4

Scheduled meetings 4

Committee members	Scheduled meetings
Steve Good	●●●●
Sandra Boss	●●●●
Dorothee Deuring	●●●●
Nick Salmon	●●●●
John O'Higgins*	

* John O'Higgins joined the Committee on 4 February 2020

Dear Shareholder,
As Chair of the Remuneration Committee (the Committee), I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2019. This statement provides a summary of the work completed by the Committee in the year, the key decisions that have been taken and how the Remuneration Policy was implemented. 2019 was a year of continued progress in transforming our portfolio of businesses to reposition the Company as a premium performance additives company, with advantaged positions in growing markets. This good strategic progress was delivered against a backdrop of challenging macroeconomic conditions in response to which the management team quickly implemented a number of self-help actions to ensure that financial performance would be as robust as possible in the current commercial environment.

From a Committee perspective, 2019 was a busy year considering remuneration payments in the context of the continued strategic progress but challenging financial performance noted above, reviewing the implications of the updated 2018 UK Corporate Governance Code and determining the application of our current Remuneration Policy for the final time in 2020. A new Policy is due to be proposed to shareholders at our 2021 AGM. These factors are covered in the Reports that follow.

The Report is set out in three parts:

1. This **Annual Statement** summarising how the Policy has been implemented and the key decisions the Committee has taken;
2. The **Annual Report on Remuneration** which provides detail on how we paid Directors during 2019 and how we propose to implement the policy in 2020; and
3. A summary of the **Remuneration Policy** (Policy), as approved with over 99% support at the 2018 AGM.

The Report will be presented to shareholders for approval at the AGM on 29 April 2020 and I hope you will vote in support of the resolution.

Remuneration policy
The Remuneration Policy (Policy) promotes sustained performance of the Company and is aligned with shareholder interests with incentive pay based on growing profits and delivering above average total shareholder return. In line with the business operations as a global specialty chemicals company, our Policy is designed with a bias towards long term performance. As a Committee, we have considered whether the Policy is operating as intended and whether any changes for 2020 were needed in light of the updates to our medium term strategic objectives. The conclusion of the Committee was that the current focus on profitable growth and delivering above average total shareholder return remains appropriate. However, in light of institutional investors' expectations in relation to Executive Director pensions, the Committee has agreed with the Executive Directors that their current pension provision should be reduced and as a result a glide path to align them to the average of the UK workforce by end 2022 has been agreed. This change can be accommodated within our existing Policy.

In advance of a new Policy being presented to shareholders at the 2021 AGM, the Committee will again review the Policy over the course of 2020 to ensure it continues to support the long-term business strategy and takes due account of best practice corporate governance developments.

Variable remuneration outcomes for 2019

Annual bonus

As noted earlier, 2019 was a year of strong strategic progress with delivery across a range of objectives set at the start of the year that included completing the integration of Mondo and driving cost synergies across the Group, business simplification within our Coatings business, right sizing our R&D capabilities and upgrading our digital technologies, financial reporting systems and internal controls. With regards to financial performance in the context of challenging macroeconomic conditions, notwithstanding strong management self-help actions and strong free cash flow generation, performance was below the range of targets set at the start of the financial year.

Whilst the performance against individual objectives was strong and resulted in between 80% and 90% of the strategic targets set at the start of the year being achieved, in light of the financial performance of the Company during the year, the Committee used its discretion to reduce the bonuses earned based on the targets originally set by 33%. As a result of the above, following the Committee undertaking a formal assessment of performance against the targets, and then using its discretion, bonuses were payable in the range of 16.7% to 17.3% of maximum for the Executive Directors. Furthermore, to ensure a continued link between the strong delivery achieved against our strategic goals and shareholder returns, 100% of the bonus payable will be deferred into the Company's shares and held for a minimum of two years.

Further details of the targets set for 2019 are disclosed on pages 87 to 90. The Committee continues to provide detailed disclosure for non-financial targets following feedback from shareholders.

Long term incentive plan (LTIP)

The 2017 LTIP Awards vest to the extent that EPS growth and TSR performance targets are met over the three years ending on 31 December 2019. As a result of the challenging macroeconomic conditions during the performance period, the Company's total shareholder returns over the period was below the median performing company in the FTSE All-Share Index (excluding investment trusts) and, therefore, this portion of the award will not vest.

The threshold EPS target has not been met and this portion of the award will also lapse. As a result, none of the 2017 award will vest.

The Committee believes that the overall incentive out-turns detailed above are appropriate based on the Company's performance over the whole period and demonstrates that the Committee has, and will continue to, set performance targets which it considers to be meaningful and appropriately stretching.

Application of Remuneration Policy in 2020

As detailed above, the current Policy is considered to be working effectively with the change to Executive Directors pension arrangements, the only material changes to the current application of Policy for 2020.

The key points to note include:

Salary review: In line with the average increases awarded to the salaried workforce in the US and the UK, the salary of the CEO was increased by 2% to $917,741 and the CFO's salary was increased by 2.2% to £362,237. These changes are effective from 1 January 2020.

2020 annual bonus: There will be no change to the quantum and as such the CEO will have the opportunity to earn 150% of salary and the CFO 125% of salary.

As for 2019, the bonus will be based 70% against a challenging range of financial targets (50% on adjusted Group profit before tax and 20% on average trade working capital to sales ratio (AWC) on total operations) and 30% based on the delivery of specific and measurable objectives that are related to the Company's strategic priorities.

Summary details of our approach to target setting are detailed on page 84 and full details of the financial target ranges and our performance against them will be disclosed on a retrospective basis in next year's report. The Committee has discretion to modify the overall amount of bonus payable to ensure it is appropriate.

2020 LTIP Awards: Awards are expected to be granted at the same levels as in 2019 at 200% of salary for the CEO and 175% of salary for the CFO. In determining the award sizes, the Committee considered the degree of stretch in the targets noting both the minimal vesting at the threshold performance levels (which is well below market norms) and the demanding nature of the financial targets set in light of ongoing challenging market conditions.

The primary performance targets will be the same EPS and TSR performance conditions (split 50:50) as operated in 2019.

The range of EPS growth targets will be average annual EPS growth of 3% to 12% p.a. for threshold to maximum vesting which runs from 0% to 100% on a straight line basis. Growth will be measured from the 2019 EPS result to the EPS achieved in 2022. The Committee considers this high growth range to be appropriately stretching in light of the progress made with our Company's strategy after having had regard to current internal planning and external broker forecasts for our future performance in light of current market conditions.

TSR will continue to be assessed against the constituents of the FTSE All Share index (excluding investment trusts). Threshold vesting starting at 3.85% for median performance, increasing on a graduated basis with 100% vesting for achieving stretch targets, which for TSR will require at least upper quartile performance.

The 2020 LTIP awards will also be subject to a return on capital employed underpin. This will require the Committee to consider the vesting result determined based on the application of the EPS and TSR performance conditions in light of the return on capital employed achieved during the three year period ending 31 December 2022 relative to the Board's internal plans over the period. If the Committee does not consider the vesting result appropriate in light of the return on capital employed achieved in this context, the underpin enables vesting to be reduced to a more appropriate level.

Non-Executive Directors' fees: The Committee, following a recommendation by the Board, approved a policy in 2016 to increase the Chairman's fee and the Non-Executive Directors' basic and any additional role fees annually by the same percentage increase as the average UK salaried workforce for the year being reported. As such, the 2020 fees have been increased by 2.2%.

Following the appointment of Sandra Boss as Designated Non-Executive Director for workforce engagement, fees were agreed at £4,358 per annum. These fees were also increased by 2.2% on 1 January 2020.

Governance developments

Changes to Executive Director Pension Benefits

As a result of the 2018 UK Corporate Governance Code, and wider institutional investor guidance recommending pension alignment between executives and employees, the Committee has reviewed the current Executive Directors' pension provision. The conclusion of the Committee, with the agreement of the Executive Directors, is that pension benefits should be reduced to reflect pension provision more generally in the UK but also take account of the timing of individual appointments and pension provision at that time. Setting the quantum of Directors' pension with reference to general provision across the Company's UK employees is appropriate given that Executive Director remuneration has been set to reflect UK market practice in terms of quantum and structure in light of Elementis being Premium Listed on the London Stock Exchange.

The policy the Committee has adopted is as follows in relation to future pension provision:

For incumbent Executive Directors (contribution to a pension scheme or a cash alternative):

- From 1 January 2020: 25%
- From 1 December 2020: 24%
- From 1 December 2021: 22.5%
- From 1 December 2022: 21%

The above rates already include a reduction in the level of pension that can be provided to the Chief Executive with future Company contributions to his contractual US retirement scheme to be limited to circa 5% from 2020 where previously they have been up to circa 8% of salary in addition to his separate entitlement to a 20% of salary cash allowance.

For new Joiners:

- 8% contribution to a pension scheme or a cash alternative

The reduction set out above for Executive Directors will achieve alignment with the average rate of pension currently provided to UK employees. It is reflective of the typical individual pension funding rate prevailing at the time of the Executive Directors' appointments i.e. the 21% is set at the current average funding cost and at a rate that reflected standard practice at Elementis in the UK at the time of their appointments. To provide further context, both the median and upper quartile employee included in the CEO to all employee pay ratio on page 94 has a pension contribution (as a percentage of salary) in excess of the 21% of salary detailed above. As a Company that has grown through a combination of organic growth and acquisition there are several pension schemes that operate in the UK. The schemes include both defined benefit and defined contribution arrangements. New joiners to Elementis in the UK are now eligible to join an open defined contribution plan (where the typical Company contribution is 8% of salary) but employees that joined in prior years continue to benefit from future accrual of benefits in their original pension plans. On this basis, the approach detailed above provides consistency between the Executive Directors and the wider workforce allowing for the timing of their joining service with any new joiner being set at the same pension rate as other new joiners.

Context of Directors' pay within the Company

Whilst the Group has less than 250 employees in the UK and is therefore not required to report under the gender pay gap regulations, a comprehensive global review of gender pay was completed towards the end of 2018. This looked at all roles globally to determine the equity of pay based upon actual local pay rates and the level of the role. Due to the significant nature of this work, it will be undertaken on a biennial basis. Actions were taken in 2019 on a small number of in role gaps that were identified. The Board and the Committee will continue to monitor the situation going forward.

The Group is also not required to provide disclosure of the CEO to all employee pay ratio given the Group has less than 250 employees in the UK. However, given the external focus on pay ratios the Committee has included full pay ratio disclosure on page 94. The Committee noted that the ratio was towards the lower range of those previously disclosed by FTSE 350 companies.

Concluding remarks

The Committee believes that the Policy and our approach to implementation in both 2019 and 2020 are in the best interests of the Company and we hope that you will support the actions the Committee has taken by voting in favour at the 2020 AGM. If you have any concerns, please feel free to contact me via the Group Company Secretary at company.secretariat@elementis.com.

Annual Report on Remuneration (Report)

This Report details how the Company's policies and practices on Directors' remuneration were applied in respect of the financial year ended 31 December 2019 and how they will be applied in the 2020 financial year.

A copy of the current remuneration policy is available on the Company's website: www.elementis.com/governance/remuneration-committee

Our measures

Annual Bonus

Adjusted Group profit before tax:
50% weighting

Adjusted average trade working capital to sales ratio (AWC):
20% weighting

Non-financial (objectives aligned with Safety, Strategic implementation and People:
30% weighting

LTIP

Earnings per share (EPS):
50% weighting

Relative Total Shareholder Return (TSR):
50% weighting

ROCE underpin

How our measures link to strategy

	Performance metrics	Strategic priorities: Innovation	Growth	Efficiency
Bonus	**Financial: (70%)**			
	Adjusted Group profit before tax	●	●	●
	Average trade working capital to sales ratio		●	●
	Non-financial: (30%)			
	Safety, compliance and risk management	●	●	●
	Strategic implementation	●	●	●
	People	●	●	●
LTIP	EPS (50%)	●	●	●
	Relative TSR versus FTSE All Share (50%)	●	●	●
	Return on operating capital employed (underpin)	●	●	●

Implementation of Remuneration Policy for 2019

The section below summarises how the Policy was implemented in the financial year ending 31 December 2019. Further details are provided on pages 85 to 91.

Key Policy features	Performance assessment	How we implemented in 2019?

Salary

- Increases normally guided by the general increase for the local workforce and/or broader workforce as a whole

Performance assessment: Not applicable

	Paul Waterman	Ralph Hewins
2019 salary	£704,909*	£354,439

* Equivalent to $899,746

In line with the average increases awarded to the US and UK salaried workforce, the salaries of the CEO and CFO's salary were both increased by c.3%. These changes were effective from 1 January 2019.

Pension/benefits/all employee share schemes

- Pension: CEO participates in US specific arrangements and receives a salary supplement of 20% of salary and CFO receives salary supplement of 25% of salary
- Benefits: Directors receive market competitive benefits and may participate in all-employee share schemes

Performance assessment: Not applicable

	Paul Waterman	Ralph Hewins
Pension	£152,000*	£88,610

* Equivalent to $194,000

- Implementation in line with the Policy
- In 2019, the CEO opted not to participate in any voluntary US supplementary retirement arrangements

Annual bonus

- Performance related scheme which delivers value for achievement against annual targets
- Committee may adjust outturn where formulaic assessment is inconsistent with Company's overall performance
- 50% of bonus earned deferred into shares for two years
- Recovery and withholding provisions apply

	Paul Waterman	Ralph Hewins
Opportunity	150% of salary	125% of salary
PBT	$93.5m vs target of $146.1m	
Payout	**0% of maximum**	
AWC	22.5% vs target of 19.5%	
Payout	**0% of maximum**	
Non-financial	See page 87 to 88	
Payout	**87% of maximum reduced to 58%**	**83% of maximum reduced to 56%**
Total	**17.3% of maximum**	**16.7% of maximum**

Further information can be found on pages 85 to 88.

In light of the financial performance, the Committee used its discretion to reduce the outcome of the individual portion by 33%. 100% of the bonus payment will be deferred as shares for 2019.

	Paul Waterman	Ralph Hewins
2019 bonus	£186,942*	£75,466
% deferred in shares until Q1 2022	100%	100%

* Equivalent to $238,613

Long term incentive plan

- Performance measures based on financial and/or relative TSR metrics and measured over 3 years
- Committee may adjust outturn where formulaic assessment is inconsistent with Company's overall performance
- Holding period applies for two years following vesting
- Recovery and withholding provisions apply

	Paul Waterman	Ralph Hewins
2017 LTIP vesting	£0	£0

2017 Award	Average EPS growth	TSR vs FTSE All Share
Weighting	50%	50%
Threshold target	3% p.a.	Median
Maximum target	10% p.a.	Upper quartile
Actual	-7.67% p.a.	23rd percentile
Vesting	0%/50%	0%/50%

Further information can be found on pages 90 to 91.

Share ownership guidelines

- Build up and maintain a shareholding equal to 200% of salary

	Paul Waterman	Ralph Hewins
Guideline	200% of salary	200% of salary
Level	On track 98.9% of salary	On track 56.6% of salary

Both the CEO and CFO increased their holdings during the year. Further information can be found on page 91.

Implementation of Remuneration Policy For 2020

The section below summarises how the Committee intends to implement the Policy for the forthcoming financial year ending 31 December 2020.

Key Policy features	2020 implementation

Salary

- Level based on the scope and responsibilities of the role
- Increases normally guided by the general increase for the local workforce and/or broader workforce as a whole

2020 implementation:

- The Committee reviewed salaries and decided to award Paul Waterman and Ralph Hewins each a salary increase as shown in the table below, which is consistent with the average increase last year for the respective US and UK salaried workforce.

	Paul Waterman	Ralph Hewins
Salary as at 1 January 19	$899,746	£354,439
Salary as at 1 January 20	$917,740	£362,237
2020 Increase	(+2%)	(+2.2%)

Pension/ benefits/ all employee share schemes

- Pension: CEO participates in US specific arrangements and receives a salary supplement of 20% of salary and the CFO receives a salary supplement of 25% of salary
- As detailed on page 81 it has been agreed that pension provision for the incumbent Directors will be aligned with typical UK pension provision by the end of 2022
- Any new Director appointment will have pension set at 8% of salary
- Benefits: Directors receive market competitive benefits and may participate in all-employee share schemes

2020 implementation:

- Implementation in line with the Policy albeit a change to the proposed application of policy in relation to pension from 2020

Annual bonus

- Policy maximum of 150% of salary for CEO and 125% of salary for CFO
- Performance related scheme which delivers value for achievement against annual targets
- Committee may adjust outturn where formulaic assessment is inconsistent with Company's overall performance
- 50% of bonus earned deferred into shares for two years
- Recovery and withholding provisions apply

Link to KPIs
- Adjusted Group PBT
- AWC
- Individual objectives linked to strategic priorities

2020 implementation:

	Paul Waterman	Ralph Hewins
Opportunity	150% of salary	125% of salary

Performance metrics:
- Adjusted Group PBT: 50%
- Average trade working capital to sales ratio: 20%
- Non-financial strategic priorities: 30%
- The Committee considers that the bonus targets are commercially sensitive and therefore plans to disclose them only on a retrospective basis in next year's Directors' remuneration report.
- The range of targets around budgeted performance levels to apply to the 2020 annual bonus remain the same as in 2019 for both the Adjusted Group PBT and AWC. However, in light of the current economic outlook, the absolute level of Adjusted Group PBT performance required has been recalibrated versus the 2019 targets to reflect current internal planning and market expectations. The targets are considered similarly challenging to those set in 2019 allowing for current market conditions. Full retrospective disclosure of the actual targets will be included in next year's Directors' Remuneration report.

Long term incentive plan

- Policy maximum is 250% of salary
- Awards vest to the extent performance conditions are achieved
- Performance measures based on financial and/or relative TSR metrics and measured over three years with a ROCE underpin
- Committee may adjust outturn where formulaic assessment is inconsistent with Company's overall performance
- Holding period applies for two years following vesting
- Recovery and withholding provisions apply
- ROCE underpin introduced for the 2019 awards continues to apply

Link to KPIs
- EPS
- Relative TSR
- ROCE underpin

2020 implementation:

	Paul Waterman	Ralph Hewins
LTIP Award	200% of salary	175% of salary

Performance metrics:

	Weighting	Threshold target	Threshold vesting	Maximum target
EPS growth	50%	3%	0%	12%
Relative TSR vs FTSE all-share index	50%	Median	3.85%	Upper quartile

- The range of EPS targets is considered to be appropriately demanding noting (i) that vesting takes place from 0% (as opposed to the market norm of 25%), and (ii) in line with institutional investor expectations such that the range straddles consensus growth expectations

Key Policy features	2020 implementation

Chair and NED fees

- 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

- 2020 fees were increased in line with the average for the UK salaried workforce:

	2020	2019	2020 Increase
Basic fees			
Chairman	**£195,055**	£190,856	(+2.2%)
Non-Executive Director	**£51,268**	£50,164	(+2.2%)
Additional fees			
Senior Independent Director	**£8,908**	£8,716	(+2.2%)
Chair of Audit or Remuneration Committee	**£8,908**	£8,716	(+2.2%)
Workforce engagement NED	**£4,454**	£4,358	(+2.2%)

CEO and CFO Rewards Scenario Analysis

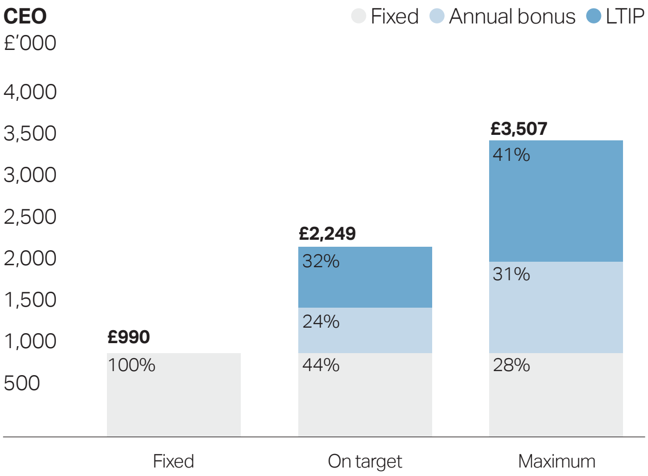
The bar charts below illustrate the potential pay opportunities for Executive Directors under 3 different scenarios for 2020.

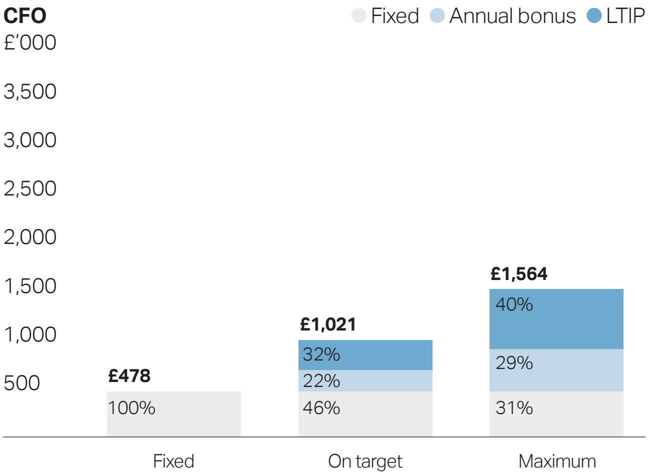
The CEO's remuneration has been converted into pounds sterling using the average 2019 exchange rate of $1.2764:£1.00.

Fixed: comprises fixed pay being the value of salary, benefits and pension (taken to be 25% of salary).

On target: the amount receivable assumes performance in which 50% of annual bonus is payable and 50% of LTIP awards vest.

Maximum: the maximum amount receivable should all stretch targets be met and vesting under both the annual bonus scheme and LTIP is 100%. When valuing the LTIP awards under the 'On target' and 'Maximum' scenarios, these are based on face value as a percentage of salary. The LTIPs also relate to awards to be made in 2020 rather than any awards vesting in 2020.





Remuneration payable to Directors for 2019 (audited)

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 2019 is set out in the table below.

		Fixed				Performance related			
£'000	Year	Salary/fees	Benefits[2]	Pension	Sub-total	Bonus	LTIP	Sub-total	Total
Executive Directors									
Paul Waterman, CEO[1, 2]	**2019**	**705**	**70**	**152**	**927**	**187**	**–**	**187**	**1,114**
	2018	651	43	183	877	352	–	352	1,229
Ralph Hewins, CFO[2]	**2019**	**354**	**25**	**89**	**468**	**75**	**–**	**75**	**543**
	2018	344	25	86	455	159	–	159	614
Non-Executive Directors									
Andrew Duff, Chairman	**2019**	**191**	**–**	**–**	**191**	**–**	**–**	**–**	**191**
	2018	185	–	–	185	–	–	–	185
Sandra Boss[3]	**2019**	**51**	**–**	**–**	**51**	**–**	**–**	**–**	**51**
	2018	49	–	–	49	–	–	–	49
Dorothee Deuring	**2019**	**50**	**–**	**–**	**50**	**–**	**–**	**–**	**50**
	2018	49	–	–	49	–	–	–	49
Steve Good	**2019**	**59**	**–**	**–**	**59**	**–**	**–**	**–**	**59**
	2018	57	–	–	57	–	–	–	57
Anne Hyland	**2019**	**59**	**–**	**–**	**59**	**–**	**–**	**–**	**59**
	2018	57	–	–	57	–	–	–	57
Nick Salmon	**2019**	**59**	**–**	**–**	**59**	**–**	**–**	**–**	**59**
	2018	57	–	–	57	–	–	–	57
Total	**2019**	**1,528**	**95**	**241**	**1,864**	**262**	**–**	**262**	**2,126**
Total	2018	1,449	68	269	1,786	511	–	511	2,297

1 Paul Waterman is based in the US and paid in US dollars. He received an annual salary of $899k (2018: $874k). His pension comprises 20% of his salary and employer contributions to defined contribution retirement schemes. Foreign exchange rate applied is the 2019 average rate of $1.2764:£1.00 (2018: $1.3413:£1.00).
2 Taxable benefits for Paul Waterman consist of a car allowance, private health care (£12,128), dental, life assurance, accidental death and disablement cover and long term disability insurance (£20,816), tax advice (£23,504) and club membership. The increase in benefits shown over 2019 is largely due to a $30,000 payment made in connection with receipt of tax advice to enable him to make appropriate tax filings in both the UK and US as a result of company business travel requirements during 2018/19 which exceeded the normal business expectations agreed on appointment and gave rise to the need for dual filings. Taxable benefits for Ralph Hewins consist of a car allowance (£18,000), private health care and life assurance.
3 Sandra Boss was appointed Designated Non-Executive Director for workforce engagement in October 2019
4 John O'Higgins was appointed on 4 February 2020

Determination of annual bonus outcome for performance in 2019 (audited)

This section shows the performance targets set in respect of the 2019 annual bonus scheme, the level of performance achieved and the amount of bonus payable to Directors. The bonus targets were tested against the full year results and the full year bonus payment will be paid in Q1. For 2019, 100% of the amount vesting will be paid in the form of a share award deferred for two years.

Based on a testing of the performance conditions originally set, the bonus outcomes were as follows:

		FY 2019 bonus plan targets					Percentage of salary vesting	
Full year bonus	Relative weighting of performance conditions	Threshold	Plan	Stretch	Actual result	Percent of maximum	Paul Waterman CEO	Ralph Hewins CFO
Maximum as % salary							150%	125%
PBT ($m)	50%	127.8	146.1	160.7	93.5	0%	0%	0%
AWC (%)	20%	21.5	19.5	17.5	22.5	0%	0%	0%
Non-financial	30%				n/a	n/a	39.0%	31.25%
Total full year	100%						39.0%	31.25%
Post Discretion							26%	20.8%

In light of the financial performance, the Committee used its discretion to reduce the outcome of the individual portion by 33%, resulting in the reduction in the annual bonus awards set as a percentage of salary from 39% to 26% for the CEO and from 31.25% to 20.8% for the CFO with the entire bonus deferred into the Company's shares for two years.

Set out below are the challenging 2019 individual strategic objectives and actual performance against them prior to the use of discretion by the Committee to reduce the bonus outcomes. The objectives established and the assessment of performance is shown in the table below. The objectives were categorised into three groups – (1) Safety, Compliance & Risk Management, (2) Strategic Implementation and (3) People with each group having an equal weighting.

2019 bonus assessment for CEO

Measure	Objectives	Performance indicators	Achievements	Summary scoring
Safety, compliance and risk management **ASSESSMENT** All targets exceeded and further investment made in Safety culture, awareness and equipment	• Through embedding our Values in the way we work, create a culture of Safety, Compliance and Risk Management	• Reportable Injuries: TRIR – target <0.7, threshold <0.85 and stretch <0.55 • Environmental Tier 2/3 incidents: target Tier 2 incidents = 1, threshold = 1 Tier 3 and stretch = 0 • LTA> 3 days: target =2, threshold = 3, stretch = 1	• TRIR = 0.48 • Environment Tier2/3 incidents = 0 • LTA > 3 days = 1	10/10
Strategic Implementation Actions to deliver "Pursue Best Growth Opportunities" Strategic Priority **ASSESSMENT** All targets achieved and overall transformation programme delivered	• Coatings Transformation	• Simplification of the portfolio through targeted reduction of 250-300 SKU's • Improve margins and efficiency through SG&A reduction (run rate target to be agreed Q2)	• 332 reduction in active SKU's in 2019 • $4m targeted reduction in SG&A achieved with further margin improvement through pricing, product optimisation and channel strategy	8/10
Actions to deliver "Pursue Best Growth Opportunities" Strategic Priority **ASSESSMENT** Targets achieved	• Talc Integration	• Successful integration of Business • At least $2m full year run rate cost synergy actions executed	• Business fully integrated as per plan. • $2m full year run-rate cost synergies delivered with good progress made on revenue synergies	
Actions to deliver "Pursue Supply Chain Transformation" Strategic Priority **ASSESSMENT** Targets partially achieved	• Plan and execute 2019 component of Coatings Manufacturing footprint optimisation	• Cassius project benefits delivered in full • India Project delivered to plan • Pursue Coatings Manufacturing footprint rationalisation in Asia and the Americas to deliver utilisation, fixed cost and working capital benefits	• Cassius project completed in 2019 with an annual run rate benefit of $3m achieved Majority of planned 2019 benefit achieved • Taloja site acquired, plan in place and construction started. Savings on track for full delivery • Project re-evaluated into i). Global review of manufacturing footprint and ii). Chromium manufacturing and efficiency • Combined benefit in line with operational efficiency targets for 2022	
Innovate for High Margins & Distinctiveness **ASSESSMENT** Targets partially achieved	• Reset R&D agenda and resourcing	• Establish right sized R&D Organisation for both effectiveness and efficiency • Clarity of product pipeline and subsequent growth potential over short and medium term horizon	• R&D organisation re-aligned to growth strategies, in place Q4 ensuring global reach and local presence • Innovation pipeline re-focused on distinctiveness, materiality and speed with clear KPI's set	

Directors' Remuneration Report continued

Measure	Objectives	Performance indicators	Achievements	Summary scoring
People Actions to deliver "Culture of High Performance" Strategic Priority **ASSESSMENT** Targets partially achieved	• Continued development of the capability and diversity of the Executive leadership team and level 3 (senior) leadership	• Building Asian Leadership Capability through the successful appointment and integration of new Senior Leaders in Commercial China and SE Asia, Finance and Supply Chain. • Succession plans established for ELT and critical level 3 roles to increase our most senior female population to 25% (17% at end 2018) by 2021	• Critical new hires in place in China and India plus significant capability building in Sales territory teams, HR and Finance teams. Commercial Director India/SE Asia hiring in progress • ELT and Level 3 succession review completed with focus on development of talent. Two female Plant Managers appointed Extended leadership group 23% female at end of December 2019. Senior Leadership at 20% Female	8/10

Key to summary scoring
- Achieved in full or predominantly achieved
- Partially achieved
- Not achieved

2019 bonus assessment for CFO

Measure	Objectives	Performance indicators	Achievements	Summary scoring
Safety, compliance and risk management **ASSESSMENT** All targets exceeded and further investment made in Safety culture, awareness and equipment	• Through embedding our Values in the way we work, create a culture of Safety, Compliance and Risk Management	• Reportable Injuries: TRIR – target <0.7, threshold <0.85 and stretch <0.55 • Environmental Tier 2/3 incidents: target Tier 2 incidents = 1, threshold = 1 Tier 3 and stretch = 0 • LTA> 3 days: target =2, threshold = 3, stretch = 1	• TRIR = 0.48 • Environment Tier2/3 incidents = 0 • LTA > 3 days = 1	10/10
Strategic Implementation Actions to deliver "Pursue Best Growth Opportunities" Strategic Priority **ASSESSMENT** Targets achieved	• Talc Integration	• Successful integration of Business • At least $2m full year run rate cost synergy actions executed	• Business fully integrated as per plan • $2m full year run-rate cost synergies delivered with good progress made on revenue synergies	8/10
Actions to deliver "Pursue Supply Chain Transformation" Strategic Priority **ASSESSMENT** Targets partially achieved	• Plan and execute 2019 component of Manufacturing footprint optimisation	• Cassius project benefits delivered in full • India Project delivered to plan • Pursue Coatings Manufacturing footprint rationalisation in Asia and the Americas to deliver utilisation, fixed cost and working capital benefits	• Cassius project completed in 2019 with an annual run rate benefit of $3m achieved. Majority of planned 2019 benefit achieved • Taloja site acquired, plan in place and construction started. Savings on track for full delivery • Project re-evaluated into i) Global review of manufacturing footprint and ii) Chromium manufacturing and efficiency Combined benefit in line with operational efficiency targets for 2022	
Actions to deliver "Culture of High Performance" Strategic Priority **ASSESSMENT** Targets partially achieved	• Digital implementation	• Successful launch of Elementis.com, CRM and e-commerce, plus 2019 components of BI/MI project • Improve flash reporting to align with business segments	• Elementis.com launched in May, CRM via Salesforce.com launched and key in driving NBO's. E-commerce and BI/MI delayed until 2020 • Flash reporting aligned to new business segments	

Measure	Objectives	Performance indicators	Achievements	Summary scoring
Actions to deliver "Culture of High Performance" Strategic Priority **ASSESSMENT** Targets achieved	• Sustainable working capital reduction • Strategic balance sheet management	• Improve efficiency of working capital deployment • $12m reduction in 2019 • Clear and appropriate actions taken to manage risk – interest rate and fx	• $11m delivered in 2019 with excellent progress in demand planning and inventory management • Euribor hedging in place over €120m of our debt such that approx 50% of debt is now fully interest rate hedged through to Q4 2023. Managed debt split USD/EUR to mirror EBITDA split and reduce fx risk. Extended $375m RCF by 12 months to reduce risk of all debt maturing in one tranche	
People Actions to deliver "Culture of High Performance" Strategic Priority **ASSESSMENT** Targets partially achieved	• Continue to build the capability of the Finance/ IT organisation	• Effective transition to new Finance / IT organisation, new structure embedded with particular focus on Asia controls / risk management capability • Build cohesive team with added capability in Performance Management and Digital technology	• New Finance/IT organisation in place as of Q4. Good progress on Asia controls and risk management capability • Performance Management team continuing to develop and enhance capability. Good progress made in building Digital technology understanding	7/10

Directors' share based awards

Determination of 2017 LTIP awards (audited)

Under the 2017 Award, achieving the threshold EPS growth target (3% p.a.) would result in 0% of the EPS portion vesting and achieving the threshold TSR target (median rank) would result in 3.85% of the TSR portion vesting. The threshold EPS and TSR targets were not met and these awards will lapse.

Annual LTIP awards granted in the year (audited)

LTIP awards made in 2019 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 2021 as shown in the table below.

Award holder	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
Paul Waterman	Nil cost (restricted stock unit)	01.04.2019	849,282	1,381	0% of the award subject to the EPS condition **and** 3.85% of the award subject to the TSR condition	31.12.2021	Average annual EPS growth of 3% to 12% **and** TSR performance of median to upper quartile
Ralph Hewins	Nil cost option	01.04.2019	381,469	620			

1 The share price used to determine the number of awards granted was 162.6 pence, being the average mid-market closing share price on the dealing day preceding the date of grant.
2 Details of deferred bonus and savings based share schemes are shown in the table overleaf.

Sourcing shares for our share plans

Employee share plans comply with the Investment Association's guidelines on dilution which provide that overall issuance of shares under all plans should not exceed an amount equivalent to 10% of the Company's issued share capital over any ten year period, with a further limitation of 5% 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 3.68% and for discretionary plans is 3.11% of issued share capital.

Directors' scheme interests (audited)

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

	Interest type	Grant date	Option price (p)	01.01.19 (A)	Scheme interests: Granted during 2019	Scheme interests: Exercised during 2019	Scheme interests: Lapsed during 2019	31.12.19	Vested but unexercised share options
Executive Directors									
Paul Waterman	LTIP (A)	04.04.2016	–	533,043	–	–	533,043	–	–
	DSBP (B)	07.03.2017	–	48,028	–	48,028	–	–	–
	LTIP (A)	03.04.2017	–	512,509	–	–	–	512,509	–
	DSBP (B)	05.04.2018	–	159,523	–	–	–	159,523	–
	LTIP (A)	30.04.2018	–	483,127	–	–	–	483,127	–
	DSBP (B)	06.03.2019	–	–	110,378	–	–	110,378	–
	LTIP (A)	01.04.2019	–	–	849,282	–	–	849,282	–
Total scheme interests				1,736,230	959,660	48,028	533,043	2,114,819	Nil
Ralph Hewins	RA (C)	19.09.2016	–	263,008	–	–	263,008	–	–
	DSBP (B)	07.03.2017	–	7,140	–	–	–	7,140	7,140
	RA (D)	07.03.2017	–	17,458	–	–	–	17,458	17,458
	RA (C)	07.03.2017	–	92,262	–	–	–	92,262	92,262
	LTIP (A)	03.04.2017	–	221,128	–	–	–	221,128	–
	DSBP (B)	05.04.2018	–	73,123	–	–	–	73,123	–
	LTIP (A)	30.04.2018	–	229,983	–	–	–	229,983	–
	SAYE (E)	27.11.2018	163.91	10,981	–	–	–	10,981	–
	DSBP (B)	06.03.2019	–	–	48,865	–	–	48,865	–
	LTIP (A)	01.04.2019	–	–	381,469	–	–	381,469	–
Total scheme interests				915,083	430,334	0	263,008	1,082,409	116,860

Notes

(A) LTIP awards are subject to performance conditions. The same relative TSR performance conditions apply in respect of the awards made in 2016, 2017, 2018 and 2019 and the same EPS growth targets apply to all awards (annual growth of 3% to 10%) other than the 2019 award (annual growth of 3% to 12%). These awards ordinarily vest on the third anniversary of the grant date. Full detail of the vesting conditions are set out on page 90.

(B) Conditional share award under the Deferred Share Bonus Plan (DSBP). Structured as restricted stock units for Paul Waterman and nil cost options for Ralph Hewins. For DSBP awards granted in March 2019, the share price at date of grant was £1.632. The face value of awards at grant were £180,137 and £79,749 for Paul Waterman and Ralph Hewins respectively.

(C) Replacement Awards structured as nil cost options made under standalone arrangements that borrow terms from the LTIP as amended. The 2016 awards lapsed on 4 April 2019. In line with the remuneration forfeited on leaving his former employer, the 2017 Award did not have performance conditions, but shares were required to be held for two years.

(D) Replacement Awards structured as nil cost options made under standalone arrangements that borrow terms from the DSBP as amended.

(E) Options held under the UK SAYE scheme. This is a savings based share option scheme that is not subject to performance conditions. Further details on this scheme is shown in Note 26 to the 'consolidated financial statements' on page 153.

Directors' share interests (audited)

The interests of the Directors (including any connected persons) during the year (and from the year end to 4 March 2020) in the issued shares of the Company were:

	01.01.19	Acquired during 2019	Disposed during 2019	31.12.19	Shareholding level met as at 31.12.19
Executive Directors					
Paul Waterman[1]	394,830	41,042	0	435,872	No[1]
Ralph Hewins	4,660	10,000	0	14,660	No[1]
Non-Executive Directors					
Andrew Duff	69,500	0	0	69,500	n/a
Sandra Boss	15,625	0	0	15,625	n/a
Dorothee Deuring	16,250	0	0	16,250	n/a
Steve Good	12,500	0	0	12,500	n/a
Anne Hyland	22,153	0	0	22,153	n/a
Nick Salmon	17,500	0	0	17,500	n/a
John O'Higgins[2]	–	0	0	0	n/a

1 As per the Policy, Executive Directors are expected to build up a shareholding that is equal in value to 200% of their basic annual salaries. Share awards vesting over time will contribute to meeting the shareholder requirement.

2 John O'Higgins joined the Board on 4 February 2020

The market price of ordinary shares at 31 December 2019 was 179 pence (2018: 182.1 pence) and the range during 2019 was 129.8 pence to 179.7 pence (2018: 166.1 pence to 288.8 pence).

As at 31 December 2019, the Trustee of the Company's Employee Share Ownership Trust (ESOT) held 780,759 shares (2018:828,787). As Executive Directors, Paul Waterman and Ralph Hewins, as potential beneficiaries under the ESOT, are deemed to have an interest in any shares that become held in the ESOT.

As at 4 March 2020, 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 2019 and 4 March 2020 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 and salary supplements paid in cash.

Paul Waterman received a salary supplement of 20% of his basic salary and participated in US contractual retirement schemes. Further detail can be found in the Policy. The amount shown in the table below represents employer matching contributions and both this and the salary supplement are included in the Directors' emoluments table shown on page 86.

Ralph Hewins received a salary supplement of 25% of his basic salary in lieu of any other retirement benefit. The amount received is shown in the table below and in the Directors' emoluments table.

Directors' retirement benefits (audited)

	Defined contribution plans		Salary supplement	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Paul Waterman	**11**	58	**141**	125
Ralph Hewins	**n/a**	n/a	**89**	86

Payments to past Directors/payments for loss of office (audited)

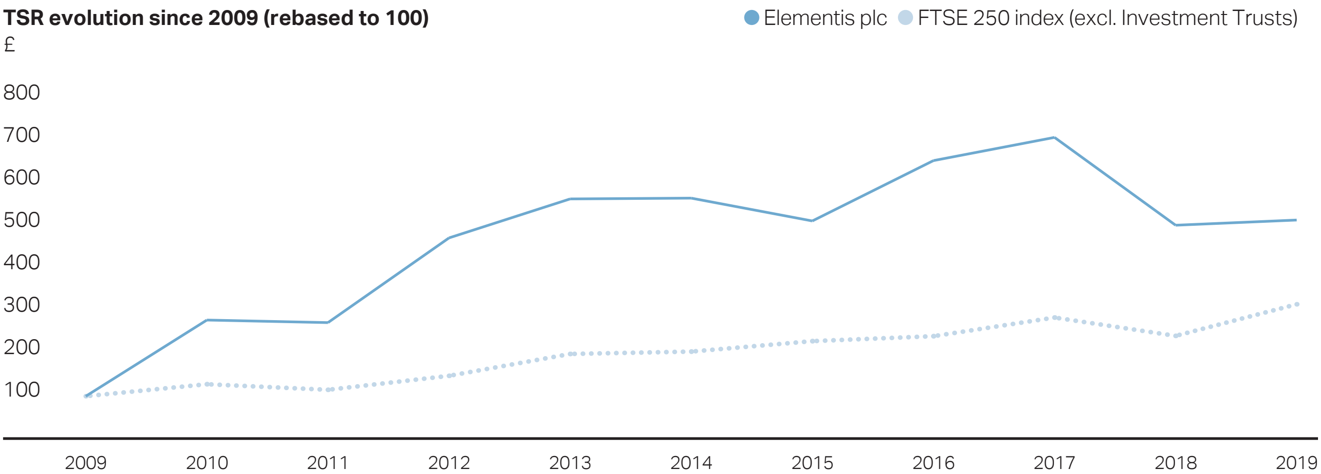
There were no payments in the financial year.

Total shareholder return performance and change in CEO's pay

The graph below illustrates the Company's total shareholder return for the ten years ended 31 December 2019, relative to the FTSE 250 Index, along with a table illustrating the change in CEO pay since 2009. 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 31 December 2019 of £100 invested in Elementis on 31 December 2009 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.

TSR evolution since 2009 (rebased to 100)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**
CEO pay (total remuneration – £'000s)	1,031	2,964	3,560	2,252	1,573	763	1,553[1]	2,539	1,229	**1,114**
Annual bonus payout (% of maximum)	100%	100%	81%	56%	50%	0%	27.5%	93.0%	35.0%	**17.3%**
LTIP vesting (% of maximum)	0%	100%	100%	100%	65%	0%	91.2%[2]	91.4%[3]	0%	**0%**

1 Includes remuneration for Paul Waterman and David Dutro for the period in which each was CEO during 2016.
2 Relates to Paul Waterman's buy-out awards which vested in March 2017.
3 Relates to Paul Waterman's buy-out awards vesting in March 2018.

CEO to all-employee pay ratio

Whilst Elementis is not required to publish a CEO to all-employee pay ratio given it has less than 250 UK employees, voluntary disclosure of the pay ratio is included below. In line with the relevant legislation, the analysis has been completed using Option A (i.e. actual total remuneration earned in 2019 has been used as the basis for comparison). Whilst this is only based upon 68 UK employees there is a good mix of manufacturing based employees c. 80% and corporate Head Office employees. Option A was used as it was deemed the most accurate and prevalent amongst recent FTSE 250 disclosures.

The ratio is comparable with that measured internally for 2018 and is consistent with the pay, reward and progression policies for the company's UK employees taken as a whole.

CEO pay ratio	**2019**
Method	**A**
CEO Single figure	**£1,114,000**
Upper quartile	**15**
Median	**21**
Lower quartile	**25**

The salary and total pay for the individuals identified at the Lower quartile, Median and Upper quartile positions in 2019 are set out below:

2019	Salary	Total Pay
Upper quartile individual	£55,127	£76,260
Median individual	£38,292	£52,292
Lower quartile individual	£39,195	£43,745

In relation to the level of pension provision provided to employees, both the median and upper quartile individuals in the table above received pension provision (expressed as a percentage of salary) above the rate of pension set under the proposed Executive Director glide path with effect from December 2022 as detailed on page 81.

Relative importance of spend on pay

The table below shows the total remuneration paid across the Group together with the total dividends paid in respect of 2019 and the preceding financial year.

£m	**2019**	2018	Change
Remuneration paid to all employees 1 (see note 8 to the Consolidated financial statements)	**107.8**	100.4	7.4%
Total dividends paid in the year	**37.6**	30.5	23.3%

1 The amounts for 2019 and 2018 have been converted from dollars into pounds sterling using the average USD/GBP exchange rates for those years.
2 Total remuneration has increased due to the inclusion of the Talc employees balanced by a reduction in headcount through organisational changes and changes in FX rate.

Percentage change in CEO's pay

The table below shows the change from 2018 to 2019 of the CEO's pay with regard to the three elements set out below and the corresponding change of these elements across all employees within the Group.

	% Change from 2018 to 2019[1]		
	Salaries	Benefits	Bonus[2]
CEO pay (total remuneration)	8.2%	62.1%	-46.9%
All employees	15.5%	10.7%	-26.1%

1 All percentages are based on converting relevant local currencies into pounds sterling using the average rates for the respective year.
2 Change in bonus relates to payments in respect of the relevant financial years.
3 The year on year change in (i) the CEO's benefits are driven by costs incurred as result of tax advice to the CEO due to being required to file taxes in dual locations as a result of travel required by the Company and (ii) changes in employee salary, benefits and bonus are driven by changes to the employee population arising as a result of the Mondo acquisition and movements in exchange rates.

Statement of shareholder voting

The resolution to approve the 2017 Directors' remuneration policy was passed on a poll at the Company's 2018 AGM held on 26 April 2018 and the 2018 Directors' Remuneration Report was passed on a poll at the Company's 2019 AGM held on 30 April 2019. Set out in the table below are the votes cast by proxy in respect of these resolutions.

	Votes for	% For	Votes against	% Against	Votes with-held
2018 Directors' remuneration report (2019 AGM)	427,515,220	89.68	49,201,155	10.32	9,712,530
2017 Directors' remuneration policy (2018 AGM)	378,249,966	99.35	2,477,105	0.65	892,722

Votes withheld are not included in the final figures as they are not recognised as a vote in law.

Other information about the Committee's membership and operation

Committee composition

The Chairman and members of the Committee are shown on pages 55 to 57, together with their biographical information. Four meetings were held during 2019 and the attendance of Committee members are shown on page 79.

The Chairman, CEO and other Non-Executive Directors who are not members of the Committee have a standing invite to attend and the CFO and CHRO also attend meetings by invitation, as appropriate. The Executive Directors 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 at www.elementis.com.

Activities during the year

The Committee ensure that the Policy promotes sustained performance of the Company and is aligned with shareholder interests with incentive pay based on growing profits and delivering above average total shareholder return. In line with the business operations as a global specialty chemicals company, our Policy is designed with a bias towards long term performance. In line with this strategy, the performance metrics are selected to focus on profitable growth and delivering above average total shareholder returns.

The Committee consider the Directors' remuneration in the context of remuneration practices across the group, considering pay ratios (including the CEO pay ratio and gender pay gap), internal relativities, and external benchmarking. The Committee is of the opinion that the Policy is currently operating as intended, and provides a strong link between company performance and outturns.

In the forthcoming review of the Policy, the Committee will consider the clarity, simplicity, risk alignment, predictability of outcomes, proportionality and alignment with culture. These are also considered when implementing the Policy. For example, salary increases are considered in the context of the increases provided to the wider employee population, the measures used in the incentive schemes are directly linked to the KPIs used within business and both the annual bonus and LTIP have clearly defined performance targets.

Shareholders will be consulted during the Policy review in 2021 in advance of it being presented for approval at the 2022 AGM.

Committee meeting dates	Agenda items
February 2019	• 2016 LTIP performance outcomes • 2019 LTIP targets / performance conditions and delegating authority to grant the 2019 awards • 2018 Bonus plan payments, deferred share awards and 2019 bonus plan targets • Consideration of 2019 annual bonus targets • ELT salary review and bonus payments • Approval of final draft of Directors' remuneration report • Terms of Reference
July 2019	• Corporate governance update • Bonus plan – confirmation of Group 2019 bonus targets • LTIP dividend equivalents • Board expenses policy
December 2019	• Corporate governance update • Application of Policy in 2020 in light of strategy update (November Capital Markets Day presentation) • 2020 salary reviews for Paul Waterman and Ralph Hewins • Review of performance to date for 2019 annual bonus • Annual bonus design for 2020 • Chairman's fee review

Outside of the above meeting dates the Committee considered and confirmed operational matters in appropriate forums (e.g. the Executive Directors 2019 annual bonus targets, granting of the 2019 LTIP awards).

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 2019, Committee members were updated on the latest developments on executive remuneration and all members received briefings from the Group 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
Korn Ferry were appointed external advisers to the Committee with effect from April 2017. The Committee is satisfied that there was no over reliance on Korn Ferry and that advice received was independent and objective. Korn Ferry are a member of the Remuneration Consultants Group and voluntarily operate under the Code of Conduct. Fees paid to Korn Ferry for remuneration advisory services in 2019 were £57,976 (excluding VAT) and were charged on a time and materials basis.

In addition to the remuneration advisory services provided by Korn Ferry, other teams also provided assistance with the recruitment of Steve Ridge and John O'Higgins and advice on the new sales incentive plan. There are no other connections with the Company that may impact the independence of the remuneration advice received given the nature of the other services provided and the internal protocols at Korn Ferry.

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 2019 and Retirement benefits; and tables headed Annual LTIP awards granted in the year, Directors' scheme interests, Directors' share interests and Directors' retirement benefits.

Steve Good
Chairman, Remuneration Committee
4 March 2020

Directors' report

DIRECTORS' REPORT

Additional disclosures

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2019.

Information required to be disclosed in the Directors' report may be found below and in the following sections of the Annual Report and Accounts, in accordance with the Companies Act 2006 and the Listing Rule 9.8.4R of the Financial Conduct Authority.

Business model	Pages 20 to 21
Innovation, Growth & Efficiency strategy	Pages 14 to 19
Dividend	Page 41
Results	Pages 38 to 43
Financial assets and liabilities	Page 134
Financial instruments	Page 134
Principal risks	Pages 50 to 52
R&D activities	Pages 14 to 15
People	Pages 33 to 35
Greenhouse gas emissions	Page 30
Going concern	Page 53
Viability statement	Page 53
Long term incentive plans	Pages 153 to 155

DIRECTORS

Directors

The current Directors and their biographical details are detailed on pages 55 to 57. Nick Salmon will be stepping down from his role as Senior Independent Director at the AGM on 29 April 2020. John O'Higgins was appointed Non-Executive Director on 4 February 2020 and will be become Senior Independent Director after the AGM. Further information regarding the SID recruitment process can be found on page 73.

Appointment and replacement of directors

The Articles give the Directors power to appoint and replace Directors. Under the terms of reference of the Nomination Committee, appointments are recommended by the Nomination Committee for approval by the Board. In line with the UK Corporate Governance Code, the Articles also require Directors to retire and submit themselves for election at the first annual general meeting ("AGM") following appointment and to retire at each subsequent AGM and to submit themselves for re-election at the following AGM. The service contracts of the Executive Directors and letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office.

Directors' interests

Details of the Directors' interests in shares can be found in the Directors' remuneration report on pages 90 and 91.

Directors' Powers

The Directors' powers are conferred on them by UK legislation and by the Company's Articles of Association (Articles). The Articles may only be amended by special resolution of the Company at general meeting of its shareholders.

Directors' conflicts of interest

Ralph Hewins is in receipt of a conflict authorisation from the Company in respect of him acting as a trustee of the Elementis Group Pension Scheme.

The conflict authorisation enables Ralph Hewins 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 Board considers that it is appropriate for the trustees of the UK pension scheme to benefit from the financial expertise of the CFO and that his contribution at trustees' meetings demonstrates the Board's commitment to supporting the UK pension scheme. The Board's conflict authorisation is subject to annual review and, under the terms of the conflict resolution, reciprocal provisions have been put in place with a view to safeguarding information that is confidential to the Group as well as to the trustees. Were a conflict of interest to arise, Ralph Hewins is required to excuse himself from reading the relevant papers and absent himself from participating in relevant discussions. Procedures are in place to ensure compliance with the Companies Act 2006. These procedures have been complied with during the year. Details of any new conflicts or potential conflict matters are submitted to the Board for consideration and where appropriate are approved. Authorised conflicts and potential conflict matters are reviewed on an annual basis.

Directors' indemnities

In addition to the indemnity granted by the Company to Directors in respect of their liabilities incurred as a result of their office, a Directors' and Officers' liability insurance policy is maintained throughout the year. Neither the indemnity nor the insurance provides cover in the event that a Director has proven to have acted dishonestly or fraudulently. Similar arrangements also exist for Directors appointed to Group subsidiary entities.

SHARES

Share capital

As at 31 December 2019, the Company's issued share capital was 580,518,327 ordinary shares of £0.05 pence in issue, which carries voting rights of one vote per share. All of the Company's issued shares are fully paid up and rank equally in all respects. The rights attached to the shares, in addition to those conferred on their holders by law, are set out in the Company's Articles.

From time to time the ESOT 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 2019, the ESOT held 780,759 shares in the Company (2018: 828,787). A dividend waiver is in place in respect of all shares that may become held by the Trust.

Further details of the authorised and issued share capital during the financial year are provided in note 9 to the accounts on page 169.

Purchase of shares

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.

Save as you earn schemes

The UK savings-related share option scheme was launched in August 2016 and matured on 1 October 2019. The US savings-related share option scheme was launched in September 2017 and matured on 7 September 2019.

All permanent employees who had completed at least six months' continuous service were invited to participate and make monthly savings contributions over a period of either two years for US participants and three or five years for UK participants. At the end of the savings term ("maturity date"), participants are given the choice of taking their money back, or to purchase shares at a 20% discount of the market price set at the date of invitation and have six months in which to exercise their options.

Substantial shareholders

As at 31 December 2019 and 4 March 2020, the following interests in voting rights over the issued share capital of the Company had been notified.

	Ordinary shares	Percentage of issued share capital
APG Asset Management N.V.	58,010,079	9.99
Ameriprise Financial, Inc. and its group	57,916,440	9.98
FMR LLC	51,605,069	8.89
Aberdeen Asset Managers Limited	23,056,448	4.97
Schroders plc	22,517,387	4.91
AXA Investment Managers S.A.	23,515,878	4.05
BlackRock, Inc.	Below 5%	Below 5%

EMPLOYEES

Employment policies and equal opportunities

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, including recruitment and selection, training and development, promotion and retirement.

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 reasonably accommodate them, where practicable, and to provide training, career development and promotion, as appropriate.

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.

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 on pages 31 to 35.

Employee communications and involvement

The Company is committed to employee involvement throughout the business. Further information regarding employee engagement can be found on page 34 and 63.

ADDITIONAL INFORMATION

Going concern and viability statement

The Directors consider that the Group and the Company have adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. The Code requires the Directors to assess and report on the prospects of the Group over a longer period. This longer term viability statement is set out on page 53.

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 \$200m and €172m long term loans and \$375m revolving credit facility and, in the event of a change of control, any lender among the facility syndicate, of which there are 12 with commitments ranging from \$25m to \$93m, may withdraw from the facility and that lender's participation in any loans drawn down are required to be repaid.

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.

Auditors

Deloitte LLP have indicated their willingness to remain in office as our auditors and following recommendation by the Audit Committee, a resolution regarding their re-appointment will be included within the Notice of Meeting for the 2020 AGM.

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all steps they are ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Annual General Meeting

The 2020 AGM will be held at 9.00am on Wednesday 29 April 2020 at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London, EC2A 2EG. Details of the resolutions to be proposed at the AGM are set out in the Notice of AGM which has been sent to shareholders and is available on the Elementis corporate website: www.elementis.com

Political donations

The Group made no political donations during the year (2018: nil).

Branches

As a global Group, Elementis' interests and activities are held or operated through subsidiaries, branches, joint arrangements or associates which are established in, and subject to the laws and regulations of, many different jurisdictions.

Other information

Information about financial risk management and exposure to financial market risks are set out in Note 23 to the financial statements on pages 139 to 142.

Events after the balance sheet date

There were no significant events after the balance sheet date.

On behalf of the Board.

Laura Higgins
Group Company Secretary
4 March 2020

Directors' responsibilities

Statement of Directors' responsibilities in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

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 Company and of the profit or loss of the Company for that period.

In preparing the parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, 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 strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 4 March 2020 and is signed on its behalf by.

Paul Waterman
CEO

Ralph Hewins
CFO

Independent auditor's report to the members of Elementis plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Elementis plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 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 (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework; 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.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated balance sheet;
- the consolidated statement of changes in equity;
- the consolidated cash flow statement;
- the consolidated Financial Statement related notes 1 to 34;
- the parent company balance sheet;
- the parent company statement of changes in equity; and
- the parent company statutory accounts related notes 1 to 12.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2 Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Impairment of goodwill and intangible assets in relation to the Talc CGU; • Revenue recognition; and • Environmental provision.
Materiality	The materiality that we used for the group financial statements was \$3.7 million (2018: \$5.3 million) which equates to 5% of profit before tax adjusted for the sale of operations, restructuring and business transformation costs, the release of contingent consideration and other adjusting items.
Scoping	We have performed full scope audits of six components which contribute 89% of the Group's revenue and 77% of the Group's profit before tax.
Significant changes in our approach	We have included a key audit matter in relation to goodwill impairment of the Talc CGU, given that the headroom for this segment is low compared to the total carrying value. We no longer consider the acquisition accounting for Mondo Minerals Holdings B.V. to be a key audit matter as the acquisition accounting was completed in 2018.

4. Conclusions relating to going concern, principal risks and viability statement

4.1 Going concern

We have reviewed the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2 Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 48 to 53 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 53 that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 53 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Impairment of goodwill and intangible assets in relation to the Talc CGU	
Key audit matter description	The group holds \$200.5 million of goodwill and \$88 million of intangible assets arising from the acquisition of Mondo Holdings B.V. in 2018. In accordance with IAS 36, management is required to perform an annual assessment of impairment of the Group's cash generating units (CGUs), as described in note 1, which was performed as at 31 October 2019. This requires judgement in relation to the key assumptions, including the future cash flows of each CGU, which are used to determine the value in use. We identified the Talc CGU as being most sensitive to variations in future forecast cash flows, given the decreased performance in the year, and we have further identified the sales volume assumptions in the short-term cash flows as a key audit matter. Management has highlighted impairment of goodwill as a key source of estimation uncertainty in note 1 and provided disclosure on the sensitivity of this CGU to reasonably possible changes in key assumptions in note 10. These significant judgement areas are also referred to within the Audit Committee report on page 76.
How the scope of our audit responded to the key audit matter	Our procedures included: • Understanding and challenging the key assumptions underpinning management's forecast sales volume increases, and evaluating the significance of both corroboratory and contradictory information by reference to recent actual performance and available third party evidence; • Performing independent sensitivity analysis on the impairment model; • Assessing the growth rate against independent assumptions presented by industry analysts; and • Reviewing the appropriateness and completeness of the related disclosures.
Key observations	Management's assumptions regarding the value in use are reasonable but contain a degree of optimism. We concur with management's conclusion that no impairment is required, however there are reasonably possible scenarios which could result in an impairment. We consider the disclosure in the judgements and estimates section of note 1 provided concerning the impairment of assets in the Talc CGU together with the reasonable possible change sensitivity provided in note 10 to be reasonable.

5.2. Revenue recognition	
Key audit matter description	During the year ended 31 December 2019 the group earned revenue of $873.6 million related to the sale of specialty chemicals (31 December 2018: $822.2 million). At the year end, there are varying adjustments required for goods which have been despatched but which have not met the definition for transferring control of the goods to the customer in line with IFRS 15. Management has determined the point at which control passes based on different shipping terms and the key judgement in the calculation relates to the assumptions around the delivery times to this point. The Group trades globally and a change in the number of days assumed for these shipments can have a material impact on the cut-off adjustment. Given the level of management's judgement involved, we identified this key audit matter as a potential fraud risk. The accounting policy is described in note 1 where this is also included as a critical accounting judgement. These significant judgement areas are also referred to within the Audit Committee report on page 76.
How the scope of our audit responded to the key audit matter	Our procedures included: • Reviewing and assessing commercial arrangements covering shipments, to determine the point at which the performance obligation is met for different shipment arrangements and agreements with customers; • Selecting a sample of international shipments made pre-year end for time periods varying by destination port and therefore transit time for shipments and agreed these to customer order, shipment and invoice details, cash receipts and goods receipt notes; • Performing substantive procedures to test the assumptions management used in their cut-off calculation for reasonableness and consistency; and, • Substantively tested a sample of post year end credit notes by tracing to supporting information to determine if revenue was inappropriately recognised in the year.
Key observations	From the work performed, we have noted no material misstatements and have concluded that management has completed appropriate cut-off adjustments at the year end to take into account those sales where control has not transferred.

5.3 Environmental provision	
Key audit matter description	In line with other companies within chemical industry, Elementis holds provisions for the monitoring and remediation of a number of operating and legacy sites, including those sold off or no longer in use. In accordance with the Elementis' environmental provision policy, a provision is recognised for the restoration of contaminated land. As at 31 December 2019, Elementis has recognised a provision $44.1 million (31 December 2018: $43.3 million) against the liabilities, of which the majority are held against two sites being the UK Chromium site at Eaglescliffe and the US Chromium site at Corpus Christi. There is uncertainty in this provision relating to the estimated future cash expenditure to remediate the two sites and discount rate applied in the calculation given the long time horizon of 25 years over which costs for these two sites are anticipated, small changes in annual cash outflows can have a significant cumulative impact on the total provision required. The cash flow is estimated and calculated by management and external environmental consultants. These cash flows are then discounted at the management determined discount rate. Due to the judgemental and material nature of estimation of such forecast spending, we have considered the valuation of the provision on these two sites to be a key audit matter. The Group's accounting policy is included within note 1 to the consolidated financial statements where this is also included as a critical accounting judgement. There is additional disclosure included within note 15. The Audit Committee discussion is included on page 76.

How the scope of our audit responded to the key audit matter	Our procedures included: • Holding discussion with management and the Group's external environmental consultants on the identified environmental issues to confirm our understanding of the current situation and the process by which management and the external consultants prepared the cash flow forecasts; • Assessing the appropriateness of forecast of individual cost categories on each significant site selected for completeness testing through discussions with site managers at relevant locations; • Working with our internal valuation experts to challenge the appropriateness of the discount rates applied by comparison to our own internal benchmark data; • Challenging the key assumptions and inputs to the forecast cash flows and agreeing the inputs to supporting documentation; • Working with our internal environmental consultants to challenge the completeness of the cost categories included within the forecast cash flows and assessing the key assumptions and inputs to the forecast cash flows; • Reviewing the previous estimates made of expected cash outflows to actual cash outflows to determine the reasonableness of the project spend; and • Performing searches of external databases to determine completeness of the identified environmental issues and sites.
Key observations	As a result of our work, we have concluded that the provisions held by Elementis in relation to environmental remediation and monitoring appear reasonable.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	$3.7 million (2018: $5.3 million)	$1.5 million (2018: $2.1 million)
Basis for determining materiality	Materiality was set on the basis of 5% of profit before tax, adjusted for the sale of operations, restructuring and business transformation costs, release of contingent consideration and other adjusting items. The movement in materiality year on year is due to the decreased profit of the group in the current year.	A factor of 3% of net assets was used capped to an appropriate component materiality 40% (2018: 40%) of Group materiality.
Rationale for the benchmark applied	We have used adjusted profit before tax as we consider this to be a key performance measure for the Group. This metric is important to users of the financial statements (investors and analysts being the key users for a listed entity) because it portrays the performance of the business and hence its ability to pay a return on investment to the investors and also has substantial prominence in the Annual Report. Our rationale for excluding certain items is that these are one off costs and are routinely added back by analysts in analysing company performance.	We have used net assets in determining materiality as we believe this is an appropriate basis for materiality as it reflects the nature of the parent company as a holding company and its contribution to the Group performance.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered our assessment of the control environment, the volume and nature of misstatements identified in previous years and the developments in the business during the year.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $185,000 (2018: $205,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

There are six components for the 2019 year end, of which, three are significant to the Group:

- the Specialty products operations in the US;
- the Specialty products operations in the UK;
- the Specialty products operations in Taiwan, including the Chinese operations;
- the Chromium operations in the US;
- the Chromium operations in the UK; and
- the Talc operation in Netherlands and Finland.

These six locations were subject to full scope audits, which were performed by local component auditors under the direction and supervision of the Group audit team, except the Speciality UK and Chromium UK operations where the Group audit team performed the audit without the involvement of a component team.

Our audit work on the six components was executed at levels of performance materiality applicable to each individual entity which were lower than Group materiality and ranged from $1.6 million to $1.3 million (2018: $2.6 million to $1.5 million).

The in-scope locations represent the principal business units within the Group's operating divisions and account for 89% (2018: 86%) of the Group's revenue and 77% (2018: 88%) of the Group's profit before tax.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances. The parent company is located in the UK and is audited directly by the Group audit team.

7.2. Working with other auditors

As part of the audit process, the senior members, including the Group Audit Partner, of the audit team visited three of the four locations subject to full scope audit procedures by component audit teams (2018: all) set out above. During our visits, we attended key meetings with component management and auditors, and reviewed detailed component audit work papers.

In addition to the planned programme of visits, planning meetings were held with key component audit teams. The purpose of these planning meetings was to ensure a good level of understanding of the Group's businesses, its core strategy and a discussion of the significant risks.

We also send detailed instructions to our component auditors, include them our team briefing, discuss their risk assessment, and review documentation of the findings from their work. We also provided direction on enquiries made by the component auditors through online and telephone conversations. All the findings noted were discussed with the component auditor in detail and further procedures to be performed were issued where relevant.

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider 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 position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  – identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  – detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  – the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- discussing among the engagement team including component audit teams and involving relevant internal specialists, including tax, pensions, and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: posting of inappropriate journal entries and manually manipulating revenue to meet targets, and bias in the environmental estimates. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included environmental regulations.

11.2. Audit response to risks identified

As a result of performing the above, we identified revenue recognition and environmental provision as key audit matters related to the potential risk of fraud or non-compliance with laws and regulations. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14. Other matters

14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board on 27 April 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering the years ending 31 December 2016 to 31 December 2019.

14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

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

Christopher Powell, FCA, (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
4 March 2020

Consolidated income statement

For the year ended 31 December 2019

	Note	2019 $m	2018 $m
Revenue	2	**873.6**	822.2
Cost of sales		**(552.2)**	(516.6)
Gross profit		**321.4**	305.6
Distribution costs		**(127.3)**	(111.6)
Administrative expenses		**(93.2)**	(109.1)
Operating profit	2	**100.9**	84.9
Loss on disposal	33	**(9.0)**	–
Other expenses[1]	25	**(1.5)**	(1.6)
Finance income	3	**0.4**	0.3
Finance costs	4	**(29.8)**	(18.2)
Profit before income tax		**61.0**	65.4
Tax	6	**(14.6)**	(15.6)
Profit from continuing operations		**46.4**	49.8
Loss from discontinued operations	33	**–**	(8.4)
Profit for the year		**46.4**	41.4
Attributable to:			
Equity holders of the parent		**46.4**	41.4
Earnings per share			
From continuing operations			
Basic (cents)	9	**8.0**	9.5
Diluted (cents)	9	**7.9**	9.5
From continuing and discontinued operations			
Basic (cents)	9	**8.0**	7.9
Diluted (cents)	9	**7.9**	7.9

1 Other expenses comprise administration expenses for the Group's pension schemes.

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	2019 $m	2018 $m
Profit for the year	**46.4**	41.4
Other comprehensive income:		
Items that will not be reclassified subsequently to profit and loss:		
Remeasurements of retirement benefit obligations	**(11.1)**	5.3
Deferred tax associated with retirement benefit obligations	**1.3**	0.7
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	**(23.9)**	0.5
Effective portion of change in fair value of net investment hedge	**27.5**	(20.5)
Recycling of deferred foreign exchange losses on disposal	**0.4**	4.2
Effective portion of changes in fair value of cash flow hedges	**(2.8)**	1.4
Fair value of cash flow hedges transferred to income statement	**–**	(0.1)
Exchange differences on translation of share options reserves	**2.7**	(0.4)
Other comprehensive income	**(5.9)**	(8.9)
Total comprehensive income for the year	**40.5**	32.5
Attributable to:		
Equity holders of the parent	**40.5**	32.5
Total comprehensive income for the year	**40.5**	32.5

Consolidated balance sheet

As at 31 December 2019

	Note	2019 31 December $m	Restated[1] 2018 31 December $m	Restated[2] 2017 31 December $m
Non-current assets				
Goodwill and other intangible assets	10	**958.1**	976.6	717.2
Property, plant and equipment	11	**513.6**	478.2	219.5
ACT recoverable	16	**4.8**	9.8	16.2
Deferred tax assets	16	**28.2**	24.4	0.2
Net retirement benefit surplus	25	**7.4**	22.1	21.9
Total non-current assets		**1,512.1**	1,511.1	975.0
Current assets				
Inventories	12	**168.7**	188.7	143.6
Trade and other receivables	13	**117.9**	133.8	119.3
Derivatives	21	**0.1**	2.0	0.9
Current tax assets		**2.5**	3.0	4.3
Cash and cash equivalents	20	**103.9**	96.1	55.0
Total current assets		**393.1**	423.6	323.1
Assets classified as held for sale		**–**	–	58.2
Total assets		**1,905.2**	1,934.7	1,356.3
Current liabilities				
Bank overdrafts and loans	19	**(2.2)**	(2.8)	(2.7)
Trade and other payables	14	**(134.5)**	(140.6)	(117.7)
Financial liabilities	21	**(2.1)**	(0.1)	–
Current tax liabilities		**(23.2)**	(17.1)	(14.1)
Lease liabilities	24	**(7.1)**	–	–
Provisions	15	**(6.4)**	(7.3)	(10.8)
Total current liabilities		**(175.5)**	(167.9)	(145.3)
Non-current liabilities				
Loans and borrowings	21	**(550.8)**	(585.8)	(338.1)
Retirement benefit obligations	25	**(24.5)**	(32.0)	(32.4)
Deferred tax liabilities	16	**(150.2)**	(151.7)	(93.4)
Lease liabilities	24	**(39.8)**	–	–
Provisions	15	**(45.2)**	(41.5)	(21.9)
Financial liabilities	21	**(13.0)**	(40.2)	–
Total non-current liabilities		**(823.5)**	(851.2)	(485.8)
Liabilities classified as held for sale		**–**	–	(22.9)
Total liabilities		**(999.0)**	(1,019.1)	(654.0)
Net assets		**906.2**	915.6	702.3
Equity				
Share capital	17	**52.1**	52.1	44.4
Share premium		**237.7**	237.6	21.9
Other reserves	18	**91.1**	85.5	99.0
Retained earnings		**525.3**	540.4	537.0
Total equity attributable to equity holders of the parent		**906.2**	915.6	702.3
Total equity		**906.2**	915.6	702.3

1 31 December 2018 balance sheet has been restated to show the UK pension surplus of $22.1m within non-current assets and to offset unamortised syndicate fees of $5.6m against the borrowings to which they relate within non-current liabilities. See Note 34.
2 31 December 2017 balance sheet has been restated to show the UK pension surplus of $21.9m within non-current assets and to offset unamortised syndicate fees of $5.3m against the borrowings to which they relate within non-current liabilities. See Note 34.

The financial statements on pages 107 to 161 were approved by the Board on 4 March 2020 and signed on its behalf by:

Paul Waterman
CEO

Ralph Hewins
CFO

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Share capital $m	Share premium $m	Translation reserve $m	Hedging reserve $m	Other reserves $m	Retained earnings $m	Total equity $m
Balance at 1 January 2018	44.4	21.9	(57.2)	(6.9)	163.1	537.0	702.3
Impact following adoption of IFRS 15	–	–	–	–	–	(0.9)	(0.9)
Revised at 1 January 2018	44.4	21.9	(57.2)	(6.9)	163.1	536.1	701.4
Comprehensive income							
Profit for the year	–	–	–	–	–	41.4	41.4
Other comprehensive income:							
Exchange differences	–	–	(20.0)	–	(0.4)	–	(20.4)
Recycling of deferred foreign exchange losses on disposal	–	–	4.2	–	–	–	4.2
Fair value of cash flow hedges transferred to the income statement	–	–	–	(0.1)	–	–	(0.1)
Effective portion of changes in fair value of cash flow hedges	–	–	–	1.4	–	–	1.4
Remeasurements of retirement benefit obligations	–	–	–	–	–	5.3	5.3
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	0.7	0.7
Transfer	–	–	–	–	(1.5)	1.5	–
Total other comprehensive income	–	–	(15.8)	1.3	(1.9)	7.5	(8.9)
Total comprehensive income	–	–	(15.8)	1.3	(1.9)	48.9	32.5
Transactions with owners:							
Purchase of own shares	–	–	–	–	–	(0.3)	(0.3)
Issue of shares by the Company[1]	7.7	215.7	–	–	–	–	223.4
Share based payments	–	–	–	–	2.9	–	2.9
Deferred tax on share based payments recognised within equity	–	–	–	–	–	(2.4)	(2.4)
Dividends paid	–	–	–	–	–	(41.9)	(41.9)
Total transactions with owners	7.7	215.7	–	–	2.9	(44.6)	181.7
Balance at 31 December 2018	52.1	237.6	(73.0)	(5.6)	164.1	540.4	915.6
Balance at 1 January 2019	52.1	237.6	(73.0)	(5.6)	164.1	540.4	915.6
Impact following adoption of IFRS 16	–	–	–	–	–	(4.0)	(4.0)
Revised at 1 January 2019	52.1	237.6	(73.0)	(5.6)	164.1	536.4	911.6
Comprehensive income							
Profit for the year	–	–	–	–	–	46.4	46.4
Other comprehensive income:							
Exchange differences	–	–	3.6	–	2.7	–	6.3
Recycling of deferred foreign exchange losses on disposal	–	–	0.4	–	–	–	0.4
Fair value of cash flow hedges transferred to the income statement	–	–	–	–	–	–	–
Effective portion of changes in fair value of cash flow hedges	–	–	–	(2.8)	–	–	(2.8)
Remeasurements of retirement benefit obligations	–	–	–	–	–	(11.1)	(11.1)
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	1.3	1.3
Transfer	–	–	–	–	(1.3)	1.3	–
Total other comprehensive income	–	–	4.0	(2.8)	1.4	(8.5)	(5.9)
Total comprehensive income	–	–	4.0	(2.8)	1.4	37.9	40.5
Transactions with owners:							
Issue of shares by the Company	–	0.1	–	–	–	–	0.1
Share based payments	–	–	–	–	3.0	–	3.0
Deferred tax on share based payments recognised within equity	–	–	–	–	–	0.3	0.3
Dividends paid	–	–	–	–	–	(49.3)	(49.3)
Total transactions with owners	–	0.1	–	–	3.0	(49.0)	(45.9)
Balance at 31 December 2019	52.1	237.7	(69.0)	(8.4)	168.5	525.3	906.2

1 The Rights Issue raised gross proceeds of $232.7m. The total amount capitalised to share capital and share premium was $222.2m ($232.7m less issuance costs of $10.5m).

Consolidated cash flow statement

For the year ended 31 December 2019

	Note	2019 $m	2018 $m
Operating activities:			
Profit for the year		**46.4**	41.4
Adjustments for:			
Other expenses		**1.5**	1.6
Finance income	3	**(0.4)**	(0.2)
Finance costs	4	**29.8**	18.2
Tax charge	6	**14.6**	13.6
Depreciation and amortisation	7	**70.1**	45.9
(Decrease)/increase in provisions	15	**(27.8)**	9.2
Pension payments net of current service cost	25	**(1.2)**	1.9
Share based payments	26	**3.0**	2.8
Loss/(profit) on disposal of business	33	**9.0**	(12.1)
Operating cash flow before movement in working capital		**145.0**	122.3
Decrease/(increase) in inventories		**18.6**	(24.6)
Decrease/(increase) in trade and other receivables		**15.5**	(2.8)
(Decrease)/increase in trade and other payables		**(8.5)**	10.6
Cash generated by operations		**170.6**	105.5
Income taxes paid		**(2.2)**	(6.9)
Interest paid	4	**(25.0)**	(14.3)
Net cash flow from operating activities		**143.4**	84.3
Investing activities:			
Interest received	3	**0.4**	–
Disposal of property, plant and equipment		**0.8**	0.6
Purchase of property, plant and equipment		**(47.7)**	(50.0)
Purchase of business net of cash acquired	32	–	(484.7)
Disposal of business	33	**(2.1)**	58.0
Acquisition of intangible assets		**(0.4)**	(1.4)
Net cash flow from investing activities		**(49.0)**	(477.5)
Financing activities:			
Issue of shares by the Company and the ESOT net of issue costs		**0.1**	223.3
Dividends paid	29	**(49.3)**	(41.9)
Purchase of shares by the ESOT		–	(0.3)
Proceeds on issue of new debt		–	554.7
Net movement on existing debt		**(30.4)**	(296.7)
Payment of lease liabilities		**(6.0)**	–
Net cash used in financing activities		**(85.6)**	439.1
Net increase in cash and cash equivalents		**8.8**	45.9
Cash and cash equivalents at 1 January		**96.1**	55.0
Foreign exchange on cash and cash equivalents		**(1.0)**	(4.8)
Cash and cash equivalents at 31 December	20	**103.9**	96.1

Notes to the consolidated financial statements

For the year ended 31 December 2019

1. Accounting policies

Elementis plc is a public company limited by shares incorporated and domiciled in England and is the parent company of the Group. The address of its registered office is Caroline House, 55-57 High Holborn, London WC1V 6DX. 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 FRS 101. These are presented on pages 162 to 170.

Basis of preparation

The financial statements have been prepared on the historical cost basis except that derivative financial instruments 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 Group's accounting policies have been updated following the adoption of a number of new standards and amendments to standards that have been issued and are now effective for the Group.

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 97.

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 presentational currency. This aligns the Group's external reporting with the profile of the Group, as well as with internal management reporting. The functional currency of the parent is pounds sterling.

Critical accounting judgements and key sources of estimation uncertainty

When applying the Group's accounting policies, management must make a number of key judgements on the application of applicable accounting standards and estimates and assumptions concerning the carrying amounts of assets and liabilities that are not readily apparent from other sources. These estimates and judgements are based on factors considered to be relevant, including historical experience, which may differ significantly from the actual outcome. The key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the amounts recognised in the financial statements within the next year are discussed below. The development of the estimates and disclosures related to each of these matters has been discussed by the Audit Committee.

Critical accounting judgements

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Where relevant and practicable, sensitivity analyses are disclosed in the relevant notes to demonstrate the impact of changes in estimates or assumptions used.

a. Revenue recognition

Judgement is exercised over how to determine the timing of revenue recognition for orders where the agreed terms are delivery to the destination point. The Group has compiled shipping estimates based on the destination country which are used to inform the timing of revenue recognition. In compiling these estimates management have used past experience and carrier standard shipping estimates to inform their decision making.

b. Determining the lease term of contracts with extension options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate a lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g. construction of significant leasehold improvements or significant customisation to the leased asset).

There are two leases of land and buildings for which the Group has determined that the extension options contained within the lease contracts are reasonably certain to be exercised. As such the periods covered by the extension options have been included in the lease term and the calculation of the related lease liabilities.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material misstatement to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

1. Accounting policies continued

a. Environmental provisions

Provisions for environmental restoration are recognised where: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be estimated reliably.

Environmental provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Due to the long time horizons over which costs are anticipated, small changes in recurring annual cash outflows can have a significant cumulative impact on the total provision required. Further details of these provisions and a sensitivity assessment are given in Note 15.

b. Valuation of a defined benefit pension obligation

The key estimates made in relation to defined benefit pensions relate to the discount rate used to determine the present value of future benefits and the rate of inflation applied to plan assets. Further details on pensions and a sensitivity analysis are given in Note 25.

c. Impairment testing of goodwill

Each year the Group carries out impairment tests of goodwill which require estimates to be made of the value in use of its cash generating units. These value in use calculations are dependent on estimates of future cash flows, long-term growth rates and appropriate discount rates to be applied to future cash flows. Further details on these estimates and sensitivities of the carrying value of goodwill to these estimates are provided in Note 10.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition costs are accounted for as an expense in the period incurred.

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 losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

A full list of the Group's subsidiaries is shown in Note 6 of the parent company financial statements.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of IFRS 16 Leases.

Initial adoption of IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective approach on transition with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application as permitted under the transitional provisions.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right of use assets were measured at either:

- their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted at the Group's incremental borrowing rate as at 1 January 2019. The Group has applied this methodology to some of its property leases.
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. This has been applied to the majority of the Group's leases comprising leases of property, motor vehicles, fixtures and fittings and items of plant and equipment.

The impact of the adoption of IFRS 16 on the consolidated financial statements is shown in Note 24.

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 US dollar and euro borrowings. From 1 January 2005, the Group has elected to apply net investment hedge accounting for these transactions where possible. Where hedging is applied, the effective portion of the gain or loss on an instrument used to hedge a net investment is recognised in equity. Any ineffective portion of the hedge is recognised in the income statement.

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.

Depreciation is charged on a straight-line basis over the estimated useful economic lives of the assets as follows:

Buildings	10 – 50 years
Plant and machinery	2 – 20 years
Fixtures, fittings and equipment	2 – 20 years
Right of use assets	Shorter of the useful economic life of the asset and the lease term

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

Goodwill arises on the acquisition of subsidiaries, and it represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

b. Research and development

Expenditure on pure research is recognised in the income statement as an expense as incurred. Under IAS 38, 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 will give rise to future economic benefits and where the cost of the capitalised asset can be measured reliably. Expenditure capitalised is stated as the cost of materials, direct labour and an appropriate proportion of overheads less accumulated amortisation. The length of development lifecycles, broad nature of much of the research undertaken and uncertainty until a late stage as to ultimate commercial viability of a potential product can mean that the measurement criteria of IAS 38 regarding the probability of future economic benefits and the reliability of allocating costs may not be met, in which case expenditure is expensed as incurred.

c. Customer relationships and other intangible assets

Customer relationships and 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 through the administrative expenses line item, unless such lives are indefinite. Goodwill is systematically tested for impairment each year. Other intangible assets, comprising customer lists, customer relationships, manufacturing processes and procedures, trademarks, non-compete clauses and patents are amortised over their estimated useful lives which range from 5 to 24 years.

1. Accounting policies continued

Impairment of non-current non-financial assets

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.

Each year the Group carries out impairment tests of its goodwill and other indefinite life intangible assets which requires an estimate to be made of the value in use of its cash generating units (CGUs). These value in use calculations are dependent on estimates of future cash flows and long term growth rates of the CGUs. Further details of these estimates are given in Note 10.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A CGU 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(s). For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Impairment of financial assets – expected credit losses

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on payment profiles and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward looking information in relation to macroeconomic factors that could affect the ability of customers to settle receivables.

The Group usually considers a financial asset in default when contractual payments are 120 days past due. In certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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 due for payment within one year and are thus classified as current. They are non -interest bearing and are stated at their nominal amount which is the original invoiced amount, less allowance for expected future credit losses. Estimates of future expected credit losses are informed by historical experience and management's expectations of future economic factors, further information on expected credit loss impairment is given in the impairment of financial assets accounting policy. Individual trade receivables are written off when management deem them to be no longer 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 sale within one year is highly probable. 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.

Leases

Accounting policy applied from 1 January 2019

A lease liability is recognised when the Group obtains control of the right-of-use asset that is the subject of the lease. The lease liability is subsequently measured using the effective interest method, with interest charged to finance costs. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

At inception, the Group evaluates whether it is reasonably certain that any option to extend a lease term will be exercised or likewise whether any option to terminate the lease will be exercised. The Group continues to evaluate the likelihood of exercising such options throughout the initial lease term. When the Group is committed to extending or terminating the lease, having considered the alternative options available and, where appropriate, lessor consent to the extension or termination has been obtained, the Group will consider the option to be reasonably certain to be exercised. When an option is reasonably certain to be exercised, the right-of-use asset and lease liabilities recognised are adjusted to reflect the extended or curtailed lease term.

Leases, which at inception have a term of less than 12 months or relate to low-value assets, are not recognised on balance sheet. Payments made under such leases are recognised as an expense in the income statement on a straight-line basis over the period of the lease.

Accounting policy applied up until 31 December 2018

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.

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.

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, particularly when considering the size and timing of remediation spending, and more difficult to estimate when they relate to sites no longer directly controlled by the Group.

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 IAS 19 Employee Benefits standard, the net interest on the defined benefit liability 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.

1. Accounting policies continued

The Group recognises actuarial gains and losses in the period in which they occur through the statement of comprehensive income. The Group also operates a small number of defined contribution schemes and the contributions payable during the year are recognised as incurred. Due to the size of the Group's 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.

Share capital

Incremental costs directly attributable to the 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. Shares repurchased 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, such as forward currency contracts, interest rate swaps and commodity swap contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. 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 assess 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 and are shown within derivatives if they are in an asset position or within financial liabilities if they are in a liability position. 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.

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.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit and loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset the gains or losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset.

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 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).

c. Hedges of a net investment in a foreign operation

The Group designates the foreign exchange gain or loss on a proportion of the Group's Euro and US dollar denominated borrowings as a hedge of the Group's net investment in foreign operations. As such the foreign exchange gain or loss on those borrowings is recognised in other comprehensive income and accumulated in equity until such time as the operations are disposed of at which point the corresponding amounts are recycled to profit or loss.

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 is recognised upon transfer of promised goods to customers (the performance obligation) in an amount that reflects the consideration the Company expects to receive in exchange for those goods. This may occur, depending on the individual customer relationship, when the product has been transferred to a freight carrier, when the customer has received the product or, for consignment stock held at customers' premises, when usage reports for the relevant period have been compiled.

All revenue is from contracts with customers and pertains to the sale of specialty chemicals products, selling prices are agreed in advance and hence are directly observable.

The Group's payment terms offered to customers are within a certain number of days of receipt of invoice and standard contracts do not include a significant financing component. The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Provisions for returns, trade discounts and rebates are recognised as a reduction in revenue at the later of when revenue is recognised for the transfer of the related goods and the entity pays or promises to pay the consideration. The promise to pay rebates is contractually agreed in advance and thus the point of transferring the goods to the customer is deemed to be the later of the two circumstances. Rebates and discounts are estimated using historical data and experiences with the customers. Returns from customers are negligible.

Operating profit
Operating profit includes net profits realised on the sale of tangible fixed assets, current and long term assets and liabilities but excludes gains and losses on the disposal of businesses.

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 instruments 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, lease liabilities, unwinding of the discount on provisions, dividends on preference shares classified as debt, foreign currency gains/losses and changes in the value of financial instruments at fair value taken to the income statement. All borrowing costs are recognised in the income statement using the effective interest method.

Taxation
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.

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 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. 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.

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.

1. Accounting policies continued

Alternative performance measures

In the analysis of the Group's operating results, earnings per share and cash flows, information is presented to provide readers with additional performance indicators that are prepared on a non-statutory basis. This presentation is regularly reviewed by management to identify items that are unusual and other items relevant to an understanding of the Group's performance and long term trends with reference to their materiality and nature. This additional information is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other organisations. The non-statutory disclosures should not be viewed in isolation or as an alternative to the equivalent statutory measure. Information for separate presentation is considered as follows:

- Material costs or reversals arising from a significant restructuring of the Group's operations are presented separately
- Disposal of entities or investments in associates or joint ventures or impairment of related assets are presented separately
- Other matters arising due to the Group's acquisition, such as adjustments to contingent consideration, payment of retention bonuses, acquisition costs and fair value adjustments for acquired assets made in accordance with IFRS 13 are separately disclosed in aggregate
- If a change in an accounting estimate for provisions, including environmental provisions, results in a material gain or loss, that is presented separately
- Other items the Directors may deem to be unusual as a result of their size and/or nature.

Adoption of new and revised standards

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods that begin on or after 1 January 2019. With the exception of IFRS 16 Leases, their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements to IFRSs 2015–2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised international accounting standards (IAS/IFRSs) and interpretations (IFRICs) that have been issued but are not effective for periods starting on 1 January 2019 but will be effective for later periods:

International Accounting Standards (IAS/IFRSs) and Interpretations (IFRICs) not yet endorsed by the EU:	Effective date
IFRS 17 Insurance Contracts	1 January 2021
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (issued on 26 September 2019)	1 January 2020
Amendments to IFRS 3 Business Combinations (issued on 22 October 2018)	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material (issued October 2018)	1 January 2020

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. Following a review in December 2017 of the application of IFRS 8 (Operating Segments) the Group has decided that, from 1 January 2018, the segments within continuing operations that should be disclosed are as follows with the addition of the Talc segment as the result of the acquisition of Mondo Minerals BV in October 2018:

- Personal Care
- Coatings
- Talc
- Chromium
- Energy

The five reportable segments, Personal Care, Coatings, Talc, Chromium and Energy each have distinct product groupings and 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. The principal activities of the reportable segments are as follows:

Personal Care
Production of rheological modifiers and compounded products, including active ingredients for AP deodorants, for supply to personal care manufacturers.

Coatings
Production of rheological modifiers and additives for decorative and industrial coatings.

Talc
Production and supply of talc for use in plastics, coatings, technical ceramics and the paper sectors.

Chromium
Production of chromium chemicals.

Energy
Production of rheological modifiers and additives for oil and gas drilling and stimulation activities.

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 overleaf as central costs.

Segmental analysis for the year ended 31 December 2019

	2019							
	Personal Care $m	Coatings $m	Talc $m	Chromium $m	Energy $m	Segment totals $m	Central costs $m	Total operations $m
Revenue	195.0	320.1	150.7	171.0	46.6	883.4	–	883.4
Internal revenue	–	–	–	(9.8)	–	(9.8)	–	(9.8)
Revenue from external customers	195.0	320.1	150.7	161.2	46.6	873.6	–	873.6
Adjusted operating profit	42.7	48.3	25.7	18.2	3.8	138.7	(15.7)	123.0
Adjusting items	(13.6)	(4.6)	(5.8)	(5.6)	–	(29.6)	7.5	(22.1)
Profit/(loss) before interest	29.1	43.7	19.9	12.6	3.8	109.1	(8.2)	100.9
Loss on disposal	(9.0)	–	–	–	–	(9.0)	–	(9.0)
Other expenses	–	–	–	–	–	–	(1.5)	(1.5)
Finance income	–	–	–	–	–	–	0.4	0.4
Finance expense	–	–	–	–	–	–	(29.8)	(29.8)
Taxation – after adjusting items	–	–	–	–	–	–	(20.7)	(20.7)
Taxation – on adjusting items	–	–	–	–	–	–	6.1	6.1
Profit for the year	20.1	43.7	19.9	12.6	3.8	100.1	(53.7)	46.4

	2019					
	Personal Care, Coatings and Energy[1] $m	Talc $m	Chromium $m	Segment totals $m	Central $m	Total operations $m
Fixed assets	708.8	330.3	82.6	1,121.7	350.0	1,471.7
Inventories	88.9	19.0	60.8	168.7	–	168.7
Trade and other receivables	70.1	21.5	19.3	110.9	7.0	117.9
ACT recoverable	–	–	–	–	4.8	4.8
Derivatives	–	–	–	–	0.1	0.1
Tax assets	–	–	–	–	30.7	30.7
Net retirement benefit surplus	–	–	–	–	7.4	7.4
Cash and cash equivalents	–	–	–	–	103.9	103.9
Segment assets	867.8	370.8	162.7	1,401.3	503.9	1,905.2
Trade and other payables	(72.3)	(20.0)	(27.0)	(119.3)	(15.2)	(134.5)
Operating provisions	(2.3)	(4.4)	(20.9)	(27.6)	(24.0)	(51.6)
Lease liabilities	(31.1)	(13.4)	(1.1)	(45.6)	(1.3)	(46.9)
Bank overdrafts and loans	–	–	–	–	(553.0)	(553.0)
Current tax liabilities	–	–	–	–	(23.2)	(23.2)
Retirement benefit obligations	–	–	–	–	(24.5)	(24.5)
Deferred tax liabilities	–	–	–	–	(150.2)	(150.2)
Financial liabilities	–	–	–	–	(15.1)	(15.1)
Segment liabilities	(105.7)	(37.8)	(49.0)	(192.5)	(806.5)	(999.0)
Net assets	762.1	333.0	113.7	1,208.8	(302.6)	906.2
Capital additions	21.1	14.4	11.6	47.1	4.1	51.2
Depreciation and amortisation	(33.6)	(24.6)	(9.8)	(68.0)	(2.1)	(70.1)

1 Due to the shared nature of the production facilities for the Personal Care, Coatings and Energy segments a split of assets and liabilities by segment is not available and the cost to determine such a split would be prohibitive therefore assets and liabilities are shown in aggregate for these segments.

Analysis by geography

2019	North America $m	United Kingdom $m	Rest of Europe $m	Rest of the World $m	Total $m
Revenue from external customers	285.2	29.4	250.7	308.3	873.6
Fixed assets	810.1	240.4	357.8	63.4	1,471.7
Capital additions	25.5	1.3	16.7	7.7	51.2
Depreciation and amortisation	(33.4)	(1.6)	(31.6)	(3.5)	(70.1)

Revenue is based on the location of the customer. The Group's largest customer accounts for 3.1% of revenue ($27.2m).

Notes to the consolidated financial statements continued
For the year ended 31 December 2019

2. Operating segments continued

Segmental analysis for the year ended 31 December 2018

	2018									
	Personal Care $m	Coatings $m	Talc $m	Chromium $m	Energy $m	Segment totals $m	Central costs $m	Total of continuing operations $m	Discontinued operations $m	Total operations $m
Revenue	210.3	362.2	21.5	184.3	54.9	833.2	–	833.2	4.8	838.0
Internal revenue	–	–	–	(11.0)	–	(11.0)	–	(11.0)	–	(11.0)
Revenue from external customers	210.3	362.2	21.5	173.3	54.9	822.2	–	822.2	4.8	827.0
Adjusted operating profit	52.2	52.5	3.9	33.0	7.1	148.7	(16.1)	132.6	(0.6)	132.0
Adjusting items	(11.8)	5.1	(4.1)	(17.2)	–	(28.0)	(19.7)	(47.7)	(9.8)	(57.5)
Profit/(loss) before interest	40.4	57.6	(0.2)	15.8	7.1	120.7	(35.8)	84.9	(10.4)	74.5
Other expenses	–	–	–	–	–	–	(1.6)	(1.6)	–	(1.6)
Finance income	–	–	–	–	–	–	0.3	0.3	–	0.3
Finance expense	–	–	–	–	–	–	(18.2)	(18.2)	–	(18.2)
Taxation – after adjusting items	–	–	–	–	–	–	(24.4)	(24.4)	0.3	(24.1)
Taxation – on adjusting items	–	–	–	–	–	–	8.8	8.8	1.7	10.5
Profit for the year	40.4	57.6	(0.2)	15.8	7.1	120.7	(70.9)	49.8	(8.4)	41.4

	2018					
	Personal Care, Coatings and Energy[1] $m	Talc $m	Chromium $m	Segment totals $m	Central[2] $m	Total operations $m
Fixed assets	710.6	331.3	79.5	1,121.4	333.4	1,454.8
Inventories	106.1	24.2	58.4	188.7	–	188.7
Trade and other receivables	78.4	19.3	30.7	128.4	5.4	133.8
ACT recoverable	–	–	–	–	9.8	9.8
Derivatives	–	–	–	–	2.0	2.0
Tax assets	–	–	–	–	27.4	27.4
Net retirement benefit surplus	–	–	–	–	22.1	22.1
Cash and cash equivalents	–	–	–	–	96.1	96.1
Segment assets	895.1	374.8	168.6	1,438.5	496.2	1,934.7
Trade and other payables	(77.0)	(18.6)	(30.4)	(126.0)	(14.6)	(140.6)
Operating provisions	(1.5)	(4.9)	(21.6)	(28.0)	(20.8)	(48.8)
Bank overdrafts and loans	–	–	–	–	(588.6)	(588.6)
Current tax liabilities	–	–	–	–	(17.1)	(17.1)
Retirement benefit obligations	–	–	–	–	(32.0)	(32.0)
Deferred tax liabilities	–	–	–	–	(151.7)	(151.7)
Financial liabilities	–	–	–	–	(40.3)	(40.3)
Segment liabilities	(78.5)	(23.5)	(52.0)	(154.0)	(865.1)	(1,019.1)
Net assets	816.6	351.3	116.6	1,284.5	(368.9)	915.6
Capital additions	29.8	6.8	12.9	49.5	1.8	51.3
Depreciation and amortisation	(30.5)	(4.9)	(8.4)	(43.8)	(1.4)	(45.2)

1 Due to the shared nature of the production facilities for the Personal Care, Coatings and Energy segments a split of assets and liabilities by segment is not available and the cost to determine such a split would be prohibitive therefore assets and liabilities are shown in aggregate for these segments.
2 Restated to show the UK pension surplus of $22.1m within non-current assets and to offset unamortised syndicate fees of $5.6m against the borrowings to which they relate within non-current liabilities.

Analysis by geography

2018	North America $m	United Kingdom $m	Rest of Europe $m	Rest of the World $m	Discontinued operations $m	Total $m
Revenue from external customers	290.3	32.1	201.1	298.7	4.8	827.0
Fixed assets	790.8	230.1	373.1	60.8	–	1,454.8
Capital additions	32.6	2.0	3.4	8.1	0.8	46.9
Depreciation and amortisation	(28.7)	(1.5)	(11.0)	(4.0)	(0.7)	(45.9)

Revenue is based on the location of the customer.

3. Finance income

	2019 $m	2018 $m
Interest on bank deposits	**0.4**	0.3

4. Finance costs

	2019 $m	2018 $m
Interest on bank loans	**23.7**	16.8
Pension and other post retirement liabilities	**0.5**	0.4
Unwind of discount on provisions	**2.4**	1.0
Fair value movement on derivatives	**1.4**	–
Interest on lease liabilities	**1.8**	–
	29.8	18.2

5. Adjusting items

	2019 $m	**Adjusting items on discontinued operations $m**	**2019 Total $m**	2018 $m	Adjusting items on discontinued operations $m	2018 Total $m
Restructuring	**5.1**	**–**	**5.1**	0.2	–	0.2
Business transformation	**2.5**	**–**	**2.5**	5.6	–	5.6
Environmental provisions						
Increase in provisions due to additional remediation work identified	**–**	**–**	**–**	16.5	–	16.5
Increase in provisions due to change in discount rate	**4.9**	**–**	**4.9**	–	–	–
Costs related to acquisition activities	**–**	**–**	**–**	16.5	–	16.5
Uplift due to fair value of Talc inventory	**–**	**–**	**–**	2.9	–	2.9
Sale of Jersey City site	**–**	**–**	**–**	(12.7)	–	(12.7)
Sale of Surfactants business	**–**	**–**	**–**	0.5	–	0.5
Amortisation of intangibles arising on acquisition	**18.6**	**–**	**18.6**	15.0	–	15.0
GMP Pension	**–**	**–**	**–**	3.2	–	3.2
Surfactants commercial settlement	**–**	**–**	**–**	–	9.8	9.8
Release of contingent consideration	**(9.0)**	**–**	**(9.0)**	–	–	–
	22.1	**–**	**22.1**	47.7	9.8	57.5
Sale of Dental plant	**9.0**	**–**	**9.0**	–	–	–
Mark to market of derivative financial instruments	**1.4**	**–**	**1.4**	–	–	–
Tax credit in relation to adjusting items	**(6.1)**	**–**	**(6.1)**	(11.5)	(1.7)	(13.2)
Tax arising on the restructuring of our German operations	**–**	**–**	**–**	2.7	–	2.7
	26.4	**–**	**26.4**	38.9	8.1	47.0

5. Adjusting items continued

A number of items have been recorded under 'adjusting items' in 2019 by virtue of their size and/or one time nature, in line with our accounting policy in Note 1, in order to provide additional useful analysis of the Group's results. The net impact of these items on the Group profit before tax for the year is a debit of $32.5m (2018: $57.5m). The items fall into a number of categories, as summarised below:

Restructuring – In 2019, restructuring costs relate predominantly to the organisational efficiency programme which has eliminated duplicate roles, reduced management layers and increased spans of control in order to realise cost savings and efficiencies across the Group. As in 2018 restructuring also includes the IFRS 2 cost of buyouts associated with the CEO and CFO's appointments in 2016.

Business transformation – In 2019 we initiated a programme to review and optimise our supply chain and manufacturing footprint across our Coatings, Personal Care, Energy and Chromium businesses. Costs incurred in 2019 related to exiting supply contracts and consulting fees incurred to design our target operating model. In 2018 a programme to transform the Coatings segment had been implemented focusing on re-engineering our approach to markets (direct vs distributor), our underlying asset base and our product offerings in order to leverage our international networks and key account management.

Increase in environmental provisions due to additional remediation work identified – assessments at the end of 2018 had resulted in an increased provision required at a number of our legacy sites. As these costs relate to non-operational facilities they are classed as adjusting items.

Increase in environmental provisions due to change in discount rate – The Group's environmental provision is calculated on a discounted cash flow basis, reflecting the time period over which spending is estimated to take place. A change in discount rates has increased the liability by $4.9m in the year. As these costs relate to non-operational facilities they are classed as adjusting items.

Costs relating to acquisition activities – these were one-off costs predominantly associated with the acquisition of Talc in 2018 – primarily the write off of the set-up costs of the previous financing facility (now replaced by a new arrangement), bank and lawyers fees and retention bonuses for Talc employees.

Uplift due to fair value of Talc inventory – in accordance with IFRS 3, inventory held within Talc was revalued to fair value on acquisition, representing an uplift of $2.9m over the book value. As all Talc stock to which this uplift relates was sold by 31 December 2018, the additional expense recognised in cost of sales due to this fair value uplift was classed as an adjusting item in 2018.

Sale of Jersey City site – In 2018 Elementis disposed of a legacy site in Jersey City. The proceeds on disposal less costs to dispose have been treated as an adjusting item due to their size and one-off nature.

Sale of Surfactants business/disposal costs – The loss on sale of the assets and business has been treated as an adjusting item in 2018.

Amortisation of intangibles arising on acquisition – these costs are excluded from operating profit to provide readers of the accounts with additional useful analysis of the performance of the business. In 2019 and 2018 this line item includes amortisation on intangibles acquired as part of the Mondo acquisition completed in October 2018.

GMP Pension – on 26 October 2018, the High Court ruled on the Lloyds Bank Guaranteed Minimum Pension inequalities case. In response to this our actuaries have included a past service cost of $3.2m for the estimated costs arising from the judgement.

Surfactants commercial settlement – these are costs incurred in settlement of a commercial dispute relating to the Surfactants business disposed of in 2018.

Release of contingent consideration – An assessment of the potential payments to be made under the earnout mechanism in relation to the Talc acquisition have led to the release of $9.0m.

Sale of Dental plant – The loss on the exit of a non-core plant (part of the Dental business) has been treated as an adjusting item in 2019.

Mark to market of derivatives – The movements in the mark to market valuation of financial instruments which are not in hedging relationships do not form part of the underlying performance of the business and thus are treated as adjusting items.

Tax on adjusting items – this is the net impact of tax relating to the adjusting items listed above.

Tax arising on the restructuring of our German operations – during 2018 an internal restructuring exercise was undertaken in order to optimise the operational efficiency of the Group. This restructuring resulted in a one-off tax charge.

To support comparability with the financial statements as presented in 2018, the reconciliation to the adjusted consolidated income statement is shown below.

	2019 Profit and loss on continuing operations $m	2019 Adjusting items on continuing operations $m	2019 Profit and loss after adjusting items on continuing operations $m	2019 Profit and loss after adjusting items on total operations $m
Revenue	**873.6**	**–**	**873.6**	**873.6**
Cost of sales	**(552.2)**	**–**	**(552.2)**	**(552.2)**
Gross profit	**321.4**	**–**	**321.4**	**321.4**
Distribution costs	**(127.3)**	**–**	**(127.3)**	**(127.3)**
Administrative expenses	**(93.2)**	**22.1**	**(71.1)**	**(71.1)**
Operating profit	**100.9**	**22.1**	**123.0**	**123.0**
Loss on disposal	**(9.0)**	**9.0**	**–**	**–**
Other expenses	**(1.5)**	**–**	**(1.5)**	**(1.5)**
Finance income	**0.4**	**–**	**0.4**	**0.4**
Finance costs	**(29.8)**	**1.4**	**(28.4)**	**(28.4)**
Profit before income tax	**61.0**	**32.5**	**93.5**	**93.5**
Tax	**(14.6)**	**(6.1)**	**(20.7)**	**(20.7)**
Profit for the year	**46.4**	**26.4**	**72.8**	**72.8**
Attributable to:				
Equity holders of the parent	**46.4**	**26.4**	**72.8**	**72.8**
Earnings per share				
Basic (cents)	**8.0**	**4.6**	**12.6**	**12.6**
Diluted (cents)	**7.9**	**4.5**	**12.4**	**12.4**

	2018 Profit and loss on continuing operations $m	2018 Adjusting items on continuing operations $m	2018 Profit and loss after adjusting items on continuing operations $m	2018 Profit and loss on discontinued operations $m	2018 Adjusting items on discontinued operations $m	2018 Profit and loss after adjusting items on discontinued operations $m	2018 Profit and loss after adjusting items on total operations $m
Revenue	822.2	–	822.2	4.8	–	4.8	827.0
Cost of sales	(516.6)	–	(516.6)	(4.3)	–	(4.3)	(520.9)
Gross profit	305.6	–	305.6	0.5	–	0.5	306.1
Distribution costs	(111.6)	–	(111.6)	(0.8)	–	(0.8)	(112.4)
Administrative expenses	(109.1)	47.7	(61.4)	(10.1)	9.8	(0.3)	(61.7)
Operating profit	84.9	47.7	132.6	(10.4)	9.8	(0.6)	132.0
Other expenses	(1.6)	–	(1.6)	–	–	–	(1.6)
Finance income	0.3	–	0.3	–	–	–	0.3
Finance costs	(18.2)	–	(18.2)	–	–	–	(18.2)
Profit before income tax	65.4	47.7	113.1	(10.4)	9.8	(0.6)	112.5
Tax	(15.6)	(8.8)	(24.4)	2.0	(1.7)	0.3	(24.1)
Profit for the year	49.8	38.9	88.7	(8.4)	8.1	(0.3)	88.4
Attributable to:							
Equity holders of the parent	49.8	38.9	88.7	(8.4)	8.1	(0.3)	88.4
Earnings per share							
Basic (cents)	9.5	7.5	17.0	(1.6)	1.6	–	17.0
Diluted (cents)	9.5	7.4	16.9	(1.6)	1.6	–	16.9

Notes to the consolidated financial statements continued
For the year ended 31 December 2019

5. Adjusting items continued

To support comparability with the financial statements as presented in 2019, a reconciliation from reported profit/(loss) before interest to adjusted profit before income tax by segment is shown below for each year.

2019	Personal Care $m	Coatings $m	Talc $m	Chromium $m	Energy $m	Segment totals $m	Central costs $m	Total of continuing operations $m	Discontinued operations $m	Total $m
Reported operating profit/(loss)	29.1	43.7	19.9	12.6	3.8	109.1	(8.2)	100.9	–	100.9
Adjusting Items										
Restructuring	0.7	2.6	0.2	0.1	–	3.6	1.5	5.1	–	5.1
Business transformation	1.6	0.5	–	0.4	–	2.5	–	2.5	–	2.5
Increase in environmental provisions due to change in discount rate	–	–	–	4.9	–	4.9	–	4.9	–	4.9
Amortisation of intangibles arising on acquisition	11.3	1.5	5.6	0.2	–	18.6	–	18.6	–	18.6
Release of contingent consideration	–	–	–	–	–	–	(9.0)	(9.0)	–	(9.0)
Adjusted operating profit/(loss)	42.7	48.3	25.7	18.2	3.8	138.7	(15.7)	123.0	–	123.0
Other expenses	–	–	–	–	–	–	(1.5)	(1.5)	–	(1.5)
Finance income	–	–	–	–	–	–	0.4	0.4	–	0.4
Finance costs	–	–	–	–	–	–	(28.4)	(28.4)	–	(28.4)
Adjusted profit before income tax	42.7	48.3	25.7	18.2	3.8	138.7	(45.2)	93.5	–	93.5

2018	Personal Care $m	Coatings $m	Talc $m	Chromium $m	Energy $m	Segment totals $m	Central costs $m	Total of continuing operations $m	Discontinued operations $m	Total $m
Reported operating profit/(loss)	40.4	57.6	(0.2)	15.8	7.1	120.7	(35.8)	84.9	(10.4)	74.5
Adjusting Items										
Restructuring							0.2	0.2	–	0.2
Business transformation	–	5.6	–	–	–	5.6	–	5.6	–	5.6
Increase in environmental provisions due to additional remediation work identified	–	–	–	17.0	–	17.0	(0.5)	16.5	–	16.5
Costs related to acquisition activities	0.2	–	–	–	–	0.2	16.3	16.5	–	16.5
Uplift due to fair value of Talc inventory	–	–	2.9	–	–	2.9	–	2.9	–	2.9
Sale of Jersey City site	–	(12.7)	–	–	–	(12.7)	–	(12.7)	–	(12.7)
Sale of Surfactants business	–	–	–	–	–	–	0.5	0.5	–	0.5
Amortisation of intangibles arising on acquisition	11.6	2.0	1.2	0.2	–	15.0	–	15.0	–	15.0
GMP pension	–	–	–	–	–	–	3.2	3.2	–	3.2
Surfactants commercial settlement	–	–	–	–	–	–	–	–	9.8	9.8
Adjusted operating profit/(loss)	52.2	52.5	3.9	33.0	7.1	148.7	(16.1)	132.6	(0.6)	132.0
Other expenses	–	–	–	–	–	–	(1.6)	(1.6)	–	(1.6)
Finance income	–	–	–	–	–	–	0.3	0.3	–	0.3
Finance costs	–	–	–	–	–	–	(18.2)	(18.2)	–	(18.2)
Adjusted profit before income tax	52.2	52.5	3.9	33.0	7.1	148.7	(35.6)	113.1	(0.6)	112.5

6. Income tax expense

	2019 $m	2018 $m
Current tax on continuing operations:		
UK corporation tax	**5.7**	8.1
Overseas corporation tax on continuing operations	**6.6**	11.7
Adjustments in respect of prior years:		
United Kingdom	**–**	(0.9)
Overseas	**1.1**	(0.2)
Total current tax	**13.4**	18.7
Deferred tax:		
United Kingdom	**(0.1)**	(1.4)
Overseas	**1.4**	3.8
Adjustment in respect of prior years:		
United Kingdom	**–**	(0.4)
Overseas	**(0.1)**	(5.1)
Total deferred tax	**1.2**	(3.1)
Income tax expense for the year	**14.6**	15.6
Comprising:		
Income tax expense for the year	**14.6**	15.6
Adjusting items*		
Overseas taxation on adjusting items	**5.1**	6.6
UK taxation on adjusting items	**1.0**	2.2
Taxation on adjusting items	**6.1**	8.8
Income tax expense for the year after adjusting items	**20.7**	24.4

* See Note 5 for details of adjusting items.

The tax charge on profits represents an effective rate of 23.9% (2018: 23.9%) and an effective tax rate after adjusting items of 22.1% (2018: 21.6%). The Group is international, has operations in several jurisdictions and benefits from cross border financing arrangements. Accordingly, tax charges of the Group in future periods will be affected by the profitability of operations in different jurisdictions, changes to tax rates and regulations in the jurisdictions within which the Group has operations, as well as the ongoing impact of the Group's funding arrangements. The medium term expectation for the Group's adjusted effective tax rate is around 22-23%.

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

	2019 $m	2019 %	2018 $m	2018 %
Profit before tax on continuing operations	**61.0**		65.4	
Tax on ordinary activities at 19.00% (2018: 19.00%)*	**11.6**	**19.0**	12.4	19.0
Difference in overseas effective tax rates	**1.7**	**2.8**	1.5	2.3
Income not taxable and impact of tax efficient financing	**(15.2)**	**(24.9)**	(6.8)	(10.4)
Expenses not deductible for tax purposes	**13.6**	**22.3**	16.6	25.4
Adjustments in respect of prior years	**1.0**	**1.6**	(6.6)	(10.1)
Tax rate changes	**0.9**	**1.5**	(1.3)	(2.0)
Movement in unrecognised deferred tax	**1.0**	**1.6**	(0.2)	(0.3)
Tax charge and effective tax rate for the year	**14.6**	**23.9**	15.6	23.9

The tax credit related to discontinued operations is $nil (2018: credit of $2.0m).

7. Profit for the year

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

	2019 $m	2018 $m
Employee costs (see Note 8)	**137.6**	134.6
Net foreign exchange gains	**(0.2)**	(0.3)
Research and development costs	**7.8**	9.3
Depreciation of property, plant and equipment	**50.9**	30.2
Amortisation of intangible assets	**19.2**	15.7
Total depreciation and amortisation expense	**70.1**	45.9
Loss on disposal	**9.0**	–
Release of contingent consideration	**(9.0)**	–
Profit on disposal of property, plant and equipment	**0.4**	0.6
Write off of inventory	**2.0**	1.2
Cost of inventories recognised as expense	**379.4**	384.5
Fees payable to the Company's auditor and its associates:		
Audit of company	**0.4**	0.4
Audit of subsidiaries	**1.0**	1.0
Audit related services – interim review	**0.1**	0.1
Services related to corporate finance transactions	**–**	0.3

8. Employees

	2019 $m	2018 $m
Employee costs:		
Wages and salaries	**121.9**	117.4
Social security costs	**9.7**	9.5
Pension costs	**6.0**	7.7
	137.6	134.6

	Number	Number
Average number of FTE employees*:		
Specialty Products	**1,040**	1,155
Talc	**234**	41
Chromium	**258**	258
Central	**18**	18
Total from continuing operations	**1,550**	1,472
Discontinued operations**	**–**	33
Total including discontinued operations	**1,550**	1,505

* Full time equivalent including contractors.
** The discontinued operations have been included on a 12 month average basis.

The aggregate amount of Directors' remuneration (salary, bonus and benefits) is shown in the Remuneration Report on page 86;

- The aggregate amount of gains made by Directors on exercise of share options was $0.1m (2018: $0.9m).
- The remuneration of the highest paid Director was $1.4m (2018: $1.6m).
- Payments have been made to a defined contribution pension scheme on behalf of 1 Director (2018: 1 Director). For the highest paid Director, pension contributions of $0.2m (2018: $0.2m) were made.

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:

	Continuing operations 2019 $m	Discontinued operations 2019 $m	Total operations 2019 $m	Continuing operations 2018 $m	Discontinued operations 2018 $m	Total operations 2018 $m
Earnings:						
Earnings for the purpose of basic earnings per share	**46.4**	**–**	**46.4**	49.8	(8.4)	41.4
Adjusting items net of tax	**26.4**	**–**	**26.4**	38.9	8.1	47.0
Adjusted earnings	**72.8**	**–**	**72.8**	88.7	(0.3)	88.4

	2019 m	2018 m
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	**579.6**	520.9
Effect of dilutive share options	**8.9**	5.4
Weighted average number of shares for the purposes of diluted earnings per share	**588.5**	526.3

	Continuing operations 2019 cents	Discontinued operations 2019 cents	Total operations 2019 cents	Continuing operations 2018 cents	Discontinued operations 2018 cents	Total operations 2018 cents
Earnings per share:						
Basic	**8.0**	**–**	**8.0**	9.5	(1.6)	7.9
Diluted	**7.9**	**–**	**7.9**	9.5	(1.6)	7.9
Basic after adjusting items	**12.6**	**–**	**12.6**	17.0	–	17.0
Diluted after adjusting items	**12.4**	**–**	**12.4**	16.9	–	16.9

10. Goodwill and other intangible assets

	Goodwill $m	Brand $m	Customer lists $m	Other intangible assets $m	Total $m
Cost:					
At 1 January 2018	526.9	26.9	139.7	57.9	751.4
Exchange differences	(10.1)	(0.5)	(1.2)	(3.1)	(14.9)
Additions	–	–	–	1.2	1.2
Intangible assets arising on the acquisition of Mondo	200.5	–	40.9	47.3	288.7
At 31 December 2018	717.3	26.4	179.4	103.3	1,026.4
Exchange differences	8.4	0.3	(1.2)	(1.0)	6.5
Additions	–	–	–	2.8	2.8
Disposals	–	(0.8)	(12.4)	(1.9)	(15.1)
At 31 December 2019	**725.7**	**25.9**	**165.8**	**103.2**	**1,020.6**
Amortisation:					
At 1 January 2018	–	0.8	6.2	27.2	34.2
Charge for the year	–	1.1	8.5	6.0	15.6
At 31 December 2018	–	1.9	14.7	33.2	49.8
Charge for the year	–	1.1	10.7	7.4	19.2
Disposals	–	(0.7)	(4.6)	(1.2)	(6.5)
At 31 December 2019	**–**	**2.3**	**20.8**	**39.4**	**62.5**
Carrying amount:					
At 31 December 2019	**725.7**	**23.6**	**145.0**	**63.8**	**958.1**
At 31 December 2018	717.3	24.5	164.7	70.1	976.6
At 1 January 2018	526.9	26.1	133.5	30.7	717.2

The net book value of customer lists includes $108.0m (2018: $124.3m) in relation to the acquisition of SummitReheis which have remaining lives of between 4 and 21 years (2018: between 5 and 22 years) and $37.0m (2018: $40.4m) in relation to the acquisition of Mondo which has a remaining life of 14 years (2018: 15 years).

10. Goodwill and other intangible assets continued

Impairment testing and indefinite life assets

Goodwill is allocated to the Group's cash-generating units ("CGUs") as follows:

	2019 $m	2018 $m
Personal Care	**293.2**	291.2
Coatings	**202.6**	197.9
Talc	**201.5**	200.5
Chromium	**–**	–
Energy	**28.4**	27.7
At 31 December	**725.7**	717.3

The Group tests annually for impairment, or more frequently, if there are events or circumstances that indicate that the carrying amount may not be recoverable. No impairment charge was recorded in the year (2018: $nil).

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are expected changes to sales volumes, selling prices and direct costs during the forecast period, growth rates used to extrapolate beyond the forecast period and the discount rates applied to the resulting cash flows. Changes in sales volumes, selling prices and direct costs are based on past practices and expectations of future changes in the market. The Group prepares cash flow forecasts derived from the most recent plans approved by management for the next three years with cash flows for periods beyond three years extrapolated based on estimated growth rates of between 2.0% and 5.0% (2018: 3.0% to 7.0%). The rates do not exceed the average long term growth rate for the relevant markets. 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 a variety of growth rates and alternative forecast scenarios that reflect the potential variability of risk within the CGUs. During the testing a range of discount rates from 9.5% to 10.5% (2018: 9.1% to 13.5%) was used.

When the impairment testing was carried out in October 2019 the least headroom (as a percentage of CGU assets, when value in use was compared to total CGU assets including goodwill) was in the Talc CGU. The Talc CGU had headroom of $142.4m. The headroom is based on a medium term growth rate of 5.0% and a long term growth rate of 3.0%. For the CGU's value in use to equal the total assets of the CGU sales would have to decrease by an average of 9% over the 3 year forecast period, the medium term growth rate would need to be reduced to 3.8% and the long term growth rate to 1.5%.

The brand intangibles represent the value ascribed to the trading name and reputation of the Deuchem, Fancor, Watercryl, Hi-Mar and SummitReheis acquisitions. The Group, with the exception of SummitReheis, considers these to have significant and ongoing value to the business that will be maintained and it is therefore considered appropriate to assign these assets an indefinite useful life. The brand relating to SummitReheis is being amortised over a period of three years. The carrying amount of brand intangibles with an indefinite useful life as at 31 December 2019 is $23.4m (2018: $23.1m). Brand intangibles are tested annually for impairment using similar assumptions to the goodwill testing. The remaining intangible assets comprise the value ascribed to customer lists, patents and non-compete clauses, which are being amortised over periods of five to twenty-four years.

11. Property, plant and equipment

	Land and buildings $m	Plant and machinery $m	Fixtures fittings and equipment $m	Under construction $m	Right-of-use assets: Land and buildings $m	Right-of-use assets: Plant and machinery $m	Right-of-use assets: Fixtures fittings and equipment $m	Total $m
Cost:								
At 1 January 2018	127.2	410.0	42.4	21.8	–	–	–	601.4
Additions	–	8.3	–	40.9	–	–	–	49.2
Exchange differences	(3.1)	(14.9)	(0.6)	(0.3)	–	–	–	(18.9)
Disposals	(19.6)	(85.1)	(1.1)	(0.3)	–	–	–	(106.1)
Acquisitions through business combinations	15.8	231.6	0.4	2.4	–	–	–	250.2
Reclassifications	5.2	30.9	3.3	(39.4)	–	–	–	–
At 31 December 2018	**125.5**	**580.8**	**44.4**	**25.1**	**–**	**–**	**–**	**775.8**
Impact following adoption of IFRS 16	–	–	–	–	52.2	5.7	2.1	60.0
At 31 December 2018	**125.5**	**580.8**	**44.4**	**25.1**	**52.2**	**5.7**	**2.1**	**835.8**
Additions	**–**	**14.3**	**0.1**	**33.4**	**0.1**	**0.1**	**0.4**	**48.4**
Exchange differences	**(0.1)**	**(4.2)**	**(0.1)**	**(0.1)**	**(0.2)**	**(0.1)**	**–**	**(4.8)**
Disposals	**(2.9)**	**(11.1)**	**(1.2)**	**(0.1)**	**(0.7)**	**(0.1)**	**–**	**(16.1)**
Reclassifications	**2.8**	**34.7**	**2.5**	**(40.0)**	**–**	**–**	**–**	**–**
At 31 December 2019	**125.3**	**614.5**	**45.7**	**18.3**	**51.4**	**5.6**	**2.5**	**863.3**
Accumulated depreciation:								
At 1 January 2018	73.0	279.0	29.9	–	–	–	–	381.9
Charge for the year	2.9	25.1	1.6	–	–	–	–	29.6
Exchange differences	(1.7)	(7.7)	(0.4)	–	–	–	–	(9.8)
Disposals	(18.7)	(84.9)	(0.5)	–	–	–	–	(104.1)
Reclassifications	–	(0.4)	0.4	–	–	–	–	–
At 31 December 2018	**55.5**	**211.1**	**31.0**	**–**	**–**	**–**	**–**	**297.6**
Impact following adoption of IFRS 16	–	–	–	–	11.8	–	–	11.8
At 31 December 2018	**55.5**	**211.1**	**31.0**	**–**	**11.8**	**–**	**–**	**309.4**
Charge for the year	**2.8**	**39.0**	**2.4**	**–**	**4.5**	**1.1**	**1.1**	**50.9**
Exchange differences	**–**	**(0.2)**	**(0.1)**	**–**	**–**	**–**	**–**	**(0.3)**
Disposals	**(0.4)**	**(9.0)**	**(0.7)**	**–**	**(0.2)**	**–**	**–**	**(10.3)**
Reclassifications	**–**	**(0.5)**	**0.5**	**–**	**–**	**–**	**–**	**–**
At 31 December 2019	**57.9**	**240.4**	**33.1**	**–**	**16.1**	**1.1**	**1.1**	**349.7**
Net book value:								
At 31 December 2019	**67.4**	**374.1**	**12.6**	**18.3**	**35.3**	**4.5**	**1.4**	**513.6**
At 31 December 2018	70.0	369.7	13.4	25.1	–	–	–	478.2
At 1 January 2018	54.2	131.0	12.5	21.8	–	–	–	219.5

Group capital expenditure contracted but not provided for in these financial statements amounted to $nil (2018: $nil).

12. Inventories

	2019 $m	2018 $m
Raw materials and consumables	**56.7**	70.6
Work in progress	**15.7**	15.3
Finished goods and goods purchased for resale	**96.3**	102.8
	168.7	188.7

Inventories are disclosed net of provisions for obsolescence of $6.5m (2018: $7.8m).

Notes to the consolidated financial statements continued
For the year ended 31 December 2019

13. Trade and other receivables

	2019 $m	2018 $m
Trade receivables	**96.6**	112.4
Other receivables	**13.8**	13.9
Prepayments	**7.5**	7.5
	117.9	133.8

14. Trade and other payables

	2019 $m	2018 $m
Trade payables	**79.8**	61.6
Other payables	**15.2**	20.9
Accruals	**39.5**	58.1
	134.5	140.6

The group has not used any supplier financing arrangements in the period.

15. Provisions

	Environmental $m	Self insurance $m	Restructuring $m	Other $m	Total $m
At 1 January 2019	43.3	1.5	0.8	3.2	48.8
Charged/(credited) to the income statement:					
Increase in provisions due to change in discount rate	4.9	–	–	–	4.9
Set up/(release) of provisions	–	0.9	4.0	(1.2)	3.7
Unwinding of discount	2.2	–	–	0.2	2.4
Utilised during the year	(6.7)	(0.4)	(1.2)	(0.5)	(8.8)
Currency translation differences	0.4	0.2	–	–	0.6
At 31 December 2019	**44.1**	**2.2**	**3.6**	**1.7**	**51.6**
Due within 1 year	3.3	0.4	2.2	0.5	6.4
Due after 1 year	40.8	1.8	1.4	1.2	45.2

Environmental provisions relate to manufacturing and distribution sites including certain sites no longer owned by the Group. These provisions have been derived using a discounted cash flow methodology and reflect the extent to which it is probable that expenditure will be incurred over the next 25 years. Included within environmental provisions are amounts in respect of all anticipated costs related to the closure and remediation of the Chromium UK site at Eaglescliffe.

Environmental provisions have been increased by $4.9m due to fluctuations in the discount rates used to discount the provisions. This expense is included within adjusting items (see Note 5).

If the cost estimates on which the provisions at 31 December 2019 are based were to change by 10%, the provision recognised would need to change by approximately $4.4m. Whilst a range of outcomes is possible, the Directors believe that the reasonably possible range for the environmental provision is from $38.1m to $46.0m.

Self-insurance provisions 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.

Restructuring provisions relate to costs of adjusting head count, training, relocation and other costs of restructuring where a need to do so has been identified by management.

Other provisions represent payments made for right of first refusal on a quarry, payments for which are linked to the discharge of residue into another quarry owned by the same counterparty. These provisions are expected to be utilised within five years.

16. Deferred tax and ACT recoverable

	Retirement benefit plans $m	Accelerated tax depreciation $m	Amortisation of US goodwill $m	Other intangible assets $m	Temporary differences $m	Unrelieved tax losses $m	Total $m
At 1 January 2018	0.9	(19.5)	(59.5)	(36.7)	14.0	7.6	(93.2)
Arising on acquisition	–	–	–	(43.2)	0.4	6.3	(36.5)
Credit/(charge) to the income statement	0.2	(12.1)	0.9	17.1	4.6	(7.5)	3.2
Charge to other comprehensive income	(0.2)	–	–	–	–	–	(0.2)
Charge to retained earnings	–	–	–	–	(2.2)	–	(2.2)
Currency translation differences	(0.1)	–	–	1.3	0.4	–	1.6
At 1 January 2019	**0.8**	**(31.6)**	**(58.6)**	**(61.5)**	**17.2**	**6.4**	**(127.3)**
Arising on disposal	–	–	–	**2.8**	–	–	**2.8**
Credit/(charge) to the income statement	**0.2**	**(0.4)**	**0.1**	**(0.8)**	**0.7**	**(1.0)**	**(1.2)**
Charge to other comprehensive income	**1.5**	–	–	–	**(0.2)**	–	**1.3**
Charge to retained earnings	–	–	–	–	**0.3**	–	**0.3**
Currency translation differences	**(0.2)**	–	–	**(0.2)**	**2.5**	–	**2.1**
At 31 December 2019	**2.3**	**(32.0)**	**(58.5)**	**(59.7)**	**20.5**	**5.4**	**(122.0)**
Deferred tax assets	2.3	–	–	–	20.5	5.4	28.2
Deferred tax liabilities	–	(32.0)	(58.5)	(59.7)	–	–	(150.2)

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.

Deferred tax liabilities are reduced for any deferred tax assets which exist within a jurisdiction where consolidated tax returns are filed and where tax assets and liabilities may be netted.

An asset of $42.0m was recognised in 2014 relating to UK advance corporation tax ('ACT') credits which had previously been unrecognised because of uncertainty over future UK taxable profits. Movements in the ACT recoverable balance are shown below:

	2019 $m	2018 $m
At 1 January	**9.8**	16.2
Utilisation	**(5.2)**	(8.1)
Currency translation differences	**0.2**	1.7
At 31 December	**4.8**	9.8

There are no material losses where deferred tax assets have not been recognised.

At the balance sheet date the aggregate amount of the temporary differences in relation to the investment in subsidiaries for which deferred tax liabilities have not been recognised was $26.0m (2018: $20.7m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and the Group considers that it is probable that such differences will not reverse in the foreseeable future.

Notes to the consolidated financial statements continued
For the year ended 31 December 2019

17. Share capital

	2019 $m	2018 $m
At 1 January	**52.1**	44.4
Issue of shares	**–**	7.7
At 31 December	**52.1**	52.1

In October 2018 the Group undertook a Rights Issue on the basis of one share for every four fully paid ordinary shares held. A total of 116,058,808 ordinary shares were issued at £1.52 per share. Gross proceeds of $232.7m were received resulting in an increase in share premium of $214.5m after expenses.

Further details of share capital are set out in Note 9 to the Parent Company Financial Statements.

18. Other reserves

	Capital redemption reserve $m	Translation reserve $m	Hedging reserve $m	Share options reserve $m	Total $m
Balance at 1 January 2018	158.8	(57.2)	(6.9)	4.3	99.0
Share based payments	–	–	–	2.9	2.9
Exchange differences	–	(15.8)	–	(0.4)	(16.2)
Increase in fair value of derivatives	–	–	1.3	–	1.3
Transfer	–	–	–	(1.5)	(1.5)
At 1 January 2019	**158.8**	**(73.0)**	**(5.6)**	**5.3**	**85.5**
Share based payments	**–**	**–**	**–**	**3.0**	**3.0**
Exchange differences	**–**	**4.0**	**–**	**2.7**	**6.7**
Decrease in fair value of derivatives	**–**	**–**	**(2.8)**	**–**	**(2.8)**
Transfer	**–**	**–**	**–**	**(1.3)**	**(1.3)**
Balance at 31 December 2019	**158.8**	**(69.0)**	**(8.4)**	**9.7**	**91.1**

The Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The capital redemption reserve represents the nominal value of the shares redeemed.

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.

The share options reserve comprises amounts accumulated in equity in respect of share options and awards granted to employees.

19. Borrowings

	2019 $m	2018 $m
Bank loans	**558.1**	594.2
Unamortised syndicate fees	**(5.1)**	(5.6)
Carrying value of borrowings at 31 December	**553.0**	588.6

The borrowings are repayable as follows:

Within one year	**2.2**	2.8
Within two to four years	**393.1**	–
In the fifth year	**162.8**	591.4
	558.1	594.2

The weighted average interest rates paid were as follows:

	2019 %	2018 %
Bank loans	**3.4**	3.7

Group borrowings were denominated as follows:

	US Dollar	Taiwan Dollar	Euro	Total
Bank loans				
31 December 2019	245.2	2.0	310.9	558.1
31 December 2018	**275.0**	**2.6**	**316.6**	**594.2**

Of the US dollar borrowings, $nil was unsecured (2018: $nil), bearing interest at the relevant interbank rates plus a margin. The Taiwan dollar and remaining US dollar borrowings consisted of those secured by time deposits and those secured by charges over various land and buildings in Taiwan.

20. Cash and cash equivalents

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

	2019 $m	2018 $m
Cash at bank and on hand	**103.9**	96.1

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21. Financial instruments

At 31 December 2019:

	Held at fair value		Held at amortised cost			
	Through profit and loss $m	Derivatives used for hedging $m	Loans and receivables $m	Liabilities $m	Total book value $m	Total fair value $m
Current:						
Trade and other receivables (see note 13)	–	–	110.4	–	110.4	110.4
Derivative financial instruments (see note 22)	–	0.1	–	–	0.1	0.1
Cash and cash equivalents (see note 20)	–	–	103.9	–	103.9	103.9
Financial assets	–	0.1	214.3	–	214.4	214.4
Current:						
Bank overdrafts and loans (see note 19)	–	–	–	(2.2)	(2.2)	(2.2)
Trade and other payables (see note 14)	–	–	–	(134.5)	(134.5)	(134.5)
Derivative financial instruments (see note 22)*	(1.4)	(0.7)	–	–	(2.1)	(2.1)
Lease liabilities (see note 24)	–	–	–	(7.1)	(7.1)	(7.1)
Non-current:						
Loans and borrowings** (see note 19)	–	–	–	(550.8)	(550.8)	(555.9)
Other financial liabilities***	–	–	–	–	–	–
Lease liabilities (see note 24)	–	–	–	(39.8)	(39.8)	(39.8)
Contingent consideration*** (see notes 5 and 32)	–	–	–	(13.0)	(13.0)	(13.0)
Financial liabilities	(1.4)	(0.7)	–	(747.4)	(749.5)	(754.6)
Total	(1.4)	(0.6)	214.3	(747.4)	(535.1)	(540.2)

At 31 December 2018:

	Held at fair value		Held at amortised cost			
	Through profit and loss $m	Derivatives used for hedging $m	Loans and receivables $m	Liabilities $m	Total book value $m	Total fair value $m
Current:						
Trade and other receivables (see note 13)	–	–	126.3	–	126.3	126.3
Derivative financial instruments (see note 22)	–	2.0	–	–	2.0	2.0
Cash and cash equivalents (see note 20)	–	–	96.1	–	96.1	96.1
Financial assets	–	2.0	222.4	–	224.4	224.4
Current:						
Bank overdrafts and loans	–	–	–	(2.8)	(2.8)	(2.8)
Trade and other payables (see note 14)	–	–	–	(140.6)	(140.6)	(140.6)
Contingent consideration (see note 32)	(0.1)	–	–	–	(0.1)	(0.1)
Non-current:						
Loans and borrowings** (see note 19)	–	–	–	(585.8)	(585.8)	(591.4)
Other financial liabilities***	–	–	–	(18.9)	(18.9)	(18.9)
Contingent consideration*** (see note 5 and note 32)	(21.3)	–	–	–	(21.3)	(21.3)
Financial liabilities	(21.4)	–	–	(748.1)	(769.5)	(775.1)
Total	(21.4)	2.0	222.4	(748.1)	(545.1)	(550.7)

* Derivatives in a liability position at 31 December 2019 are shown within current financial liabilities in the Consolidated balance sheet.
** Loans and borrowings are shown net of facility fees of $5.1m (2018: $5.6m).
*** Other financial liabilities of $nil (2018: $18.9m) relate to an amount payable to the vendor of Mondo on the resolution of a tax case. This balance is combined with the contingent consideration payable of $13.0m (2018: $21.4m) and shown in the non-current financial liabilities line in the Consolidated balance sheet (2018 split between current and non current financial liabilities).

Fair values measurement and hierarchy

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. This category includes contingent consideration.

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

The Group assesses that the fair values of cash and cash equivalents, trade and other receivables, trade and other payables, and the current portion of floating rate bank and other borrowings, approximate to book values due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within their book value for credit risk. The fair values of lease liabilities approximate to their book values due to the measurement of lease liabilities at the Group's incremental borrowing rate, which has not changed significantly since the inception of the lease liabilities presented. Leases are also negotiated at market rates with independent, unrelated third parties and are subject to periodic rental reviews.

Derivatives (level 2)

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 rate (based on government bonds).

Non-derivative non-current 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.

Contingent consideration payable (level 3)

Fair value has been estimated by calculating the present value of the future expected cash flows. Expected cash inflows are estimated based on the terms of the sale and purchase contract, the entity's knowledge of the business and how the current economic environment is likely to impact it.

As disclosed in Note 32, as a result of the acquisition of Mondo, a liability of $22.3m for contingent consideration payable was recognised as at the date of acquisition. There were no significant inter-relationships between unobservable inputs that materially affect fair values.

Changes in fair value of financial liabilities classified as level 3 in the hierarchy are as follows:

	2019 $m	2018 $m
Contingent consideration at fair value through profit or loss:		
At 1 January	**21.4**	–
Foreign exchange losses/(gains)	**0.6**	(0.9)
Additions	**–**	22.3
Profit and loss movement	**(9.0)**	–
At 31 December	**13.0**	21.4

21. Financial instruments continued

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:

	2019 %	2018 %
Borrowings	**2.3–4.4**	1.5–5.2

The following table shows amounts recognised in profit or loss in relation to financial assets and liabilities within the scope of IFRS 9:

	2019 $m	2018 $m
Recognised in profit or loss		
Interest income on bank deposits held at amortised cost	**0.4**	0.3
Fair value of cash flow hedges transferred from equity to the income statement	**–**	0.1
Financial income	**0.4**	0.4
Interest on bank loans	**(23.7)**	(16.8)
Fair value movement on derivatives not in hedging relationships	**(1.4)**	–
Interest on lease liabilities	**(1.8)**	–
Financial costs	**(26.9)**	(16.8)
Net financial costs	**(26.5)**	(16.4)

The following table shows amounts recognised directly in equity in relation to financial assets and liabilities within the scope of IFRS 9:

	2019 $m	2018 $m
Recognised directly in equity		
Effective portion of changes in fair value of cash flow hedge	**(2.8)**	1.4
Fair value of cash flow hedges transferred to income statement	**–**	(0.1)
Effective portion of change in fair value of net investment hedge	**27.5**	(20.5)
Foreign currency translation differences for foreign operations	**(23.9)**	0.5
Recognised in:		
Hedging reserve	**(2.8)**	1.3
Translation reserve	**3.6**	(20.0)

22. Derivative financial instruments and hedging activities

	Contract or underlying principal amount		**Fair Value**	
At 31 December 2019:	**Assets**	**Liabilities**	**Assets $m**	**Liabilities $m**
Current:				
Interest rate swaps – cash flow hedges	–	€30m / $100m	–	(0.6)
Commodity swaps – cash flow hedges	0.2m MBTU	2,040 MT	0.1	(0.1)
Cross currency swaps	–	$110m / €100m	–	(1.4)
Total			0.1	(2.1)

	Contract or underlying principal amount		Fair Value	
At 31 December 2018:	Assets	Liabilities	Assets $m	Liabilities $m
Current:				
Interest rate swaps – cash flow hedges	$100m	–	2.0	–
Total			2.0	–

Hedging activities

The Group is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivative instruments are foreign currency risk, commodity price risk and interest rate risk.

The Group's risk management strategy is explained in Note 23.

Derivatives designated as hedging instruments

Cash flow hedges

Commodity price risk

The Group enters into commodity swap contracts to reduce the volatility attributable to price fluctuations of aluminium and gas. To the extent they continue to meet the criteria for hedge accounting, the commodity forward contracts are accounted for as cash flow hedges.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the commodity swap contracts match the terms of the expected highly probable forecast transactions (i.e. notional amount and expected payment date). As all critical terms matched during the year, hedge ineffectiveness was immaterial. The hedge ratio is 1:1.

Interest rate risk

The Group enters into interest rate swaps to swap a portion of the interest arising from the Group's syndicated rolling credit facility from floating to fixed. Interest payments are highly probable, the hedged risk is the change in the market interest rate. The hedged items are the interest rate cash flows on $100.0m of USD denominated debt and $33.7m of EUR denominated debt, the Group's total debt is shown in Note 19 to the financial statements.

The principal terms (notional, reset date, tenor) of the hedged items and the hedged instruments have been matched along with the contractual interest cash flows, therefore creating an exact offset for these transaction resulting in a net fixed interest payable. As the interest rate swaps and the hedged items are matched (equal and opposite terms of interest rate, date and maturity) this results in a designated hedge ratio of 1:1 or 100%.

Hedge ineffectiveness can arise from:

- Changes in timing of the hedged item
- A reduction in the amount of the hedged item considered to be highly probable
- A change in the credit risk of Elementis or the counterparty to the derivative contract
- Foreign currency basis spreads

The effect of cash flow hedges in the consolidated income statement and the consolidated statement of other comprehensive income is, as follows:

	Total hedging (loss)/gain recognised in OCI $m	Amount reclassified from OCI to profit or loss $m	Line item in the statement of profit or loss $m
Year ended 31 December 2019			
Interest rate swaps – cash flow hedges	(2.4)	(0.3)	Admin expenses
Commodity forward contracts – cash flow hedges	(0.4)	0.3	Admin expenses
Year ended 31 December 2018			
Interest rate swaps – cash flow hedges	1.4	(0.1)	Admin expenses

Amounts reclassified from other comprehensive income to profit or loss are due to the hedged item affecting profit or loss in the period. There were no instances of non-occurance of hedged cashflows in either the current or comparative period.

22. Derivative financial instruments and hedging activities continued

Hedge of net investments in foreign operations

The Group seeks to denominate the currency of its borrowings in Euros and US dollars in order to match the currency of its cash flows, earnings and assets which are principally denominated in those currencies.

The Euro and US dollar borrowings in Elementis Holdings Limited, are designated as net investment hedges, as the company's functional currency is GBP. The Group does not undertake derivative transactions to hedge the foreign currency translation exposures.

The Group analyses the Euro and US dollar net assets by subsidiary and the foreign currency borrowings in the name of Elementis Holdings Limited are allocated against certain tranches of net assets for a specific subsidiary. Therefore, the critical terms of the Euro and US dollar borrowings and their corresponding hedged items are the same.

The Group performs a qualitative assessment of effectiveness and it is expected that the value of the Euro and US dollar borrowings in GBP and the value of the corresponding hedged items in GBP will systematically move in the opposite direction in response to movements in the underlying exchange rates.

The main source of ineffectiveness in these hedging relationships is the impact of a decline in the carrying value of the hedged item compared to the Euro and US dollar borrowings with the result that the value of the hedged item is less than the value of hedging instrument.

Foreign currency revaluation on the Euro and US dollar borrowings in the name of Elementis Holdings Limited are recorded in other comprehensive income and deferred in the foreign currency translation reserve on the balance sheet as long as the hedge is effective. Any ineffectiveness is recognised in the Income Statement for that year.

The impact of the hedged items on the statement of comprehensive income is as follows:

	2019 Foreign currency translation reserve $m	2018 Foreign currency translation reserve $m
Year ended 31 December		
Net investment in foreign subsidiaries	**27.5**	(20.5)

Impact of hedging on equity

Set out below is the reconciliation of each component of equity and the analysis of other comprehensive income:

	Cash flow hedge reserve $m	Foreign currency translation reserve $m
As at 1 January 2018	(6.9)	(57.2)
Effective portion of changes in fair value arising from:		
Derivative cash flow hedging instruments	1.4	–
Amount reclassified to profit or loss	(0.1)	4.2
Foreign currency revaluation of the net foreign operations	–	0.5
Foreign currency revaluation of borrowings	–	(20.5)
Tax effect	–	–
As at 1 January 2019	(5.6)	(73.0)
Effective portion of changes in fair value arising from:		
Derivative cash flow hedging instruments	(2.8)	–
Amount reclassified to profit or loss	–	0.4
Foreign currency revaluation of the net foreign operations	–	(23.9)
Foreign currency revaluation of borrowings	–	27.5
Tax effect	–	–
As at 31 December 2019	(8.4)	(69.0)

23. Financial risk management

Risk management objectives

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 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 of Directors. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group applies the IFRS 9 simplified approach in establishing an allowance for expected credit losses (ECLs). Therefore, the Group does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. A provision matrix is used to calculate lifetime ECLs which takes into account the Group's historical credit loss experience adjusted for historical conditions that are not relevant to future cashflows and forward looking factors specific to the debtor and economic environment.

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.

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	
	2019 $m	2018 $m
Trade receivables	**96.6**	112.4
Cash and cash equivalents	**103.9**	96.1
	200.5	208.5

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

	Carrying amount	
	2019 $m	2018 $m
North America	**32.6**	35.0
Europe	**30.5**	36.6
Rest of the World	**33.5**	40.8
	96.6	112.4

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23. Financial risk management continued

Expected credit losses

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Gross 2019 $m	Expected credit loss rate	Expected credit loss 2019 $m	Gross 2018 $m	Expected credit loss rate	Expected credit loss 2018 $m
Not past due	**87.0**	**1.3%**	**(1.1)**	98.4	1.6%	(1.6)
Past due 0-30 days	**8.5**	**3.5%**	**(0.3)**	12.4	0.8%	(0.1)
Past due 31-120 days	**2.1**	**4.8%**	**(0.1)**	2.7	3.7%	(0.1)
Past due > 121 days	**1.4**	**64.3%**	**(0.9)**	0.9	22.2%	(0.2)
Total	**99.0**		**(2.4)**	114.4		(2.0)

The movement in the allowance for expected credit losses during the year was as follows:

	2019 $m	2018 $m
Balance at 1 January	**2.0**	0.9
Charge to income statement – administrative expenses	**0.4**	0.1
Increase in provision on acquisition of Mondo	**–**	1.0
Balance at 31 December	**2.4**	2.0

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% of the maximum forecast net borrowings for the next 12 month period. At the year end the Group had $267.0m (2018: $206.5m) of undrawn committed facilities, of which $245.3m (2018: $180.0m) expires after more than 1 year.

Exposure to liquidity risk

The maturity analyses for financial liabilities showing the anticipated remaining contractual undiscounted cash flows, including future interest payments, at current year exchange rates and assuming floating interest rates remain at the latest fixing rates are:

	31 December 2019				
	Within 1 year $m	1 to 2 years $m	2 to 5 years $m	After 5 years $m	Total $m
Bank overdrafts	**2.2**	**–**	**–**	**–**	**2.2**
Secured bank loan	**–**	**–**	**393.1**	**162.8**	**555.9**
Trade and other payables	**134.5**	**–**	**–**	**–**	**134.5**
Lease liabilities	**7.4**	**6.0**	**14.8**	**31.4**	**59.6**
Total non-derivative financial liabilities	**144.1**	**6.0**	**407.9**	**194.2**	**752.2**
Interest rate swaps*	**0.6**	**–**	**–**	**–**	**0.6**
Commodity swap contracts	**0.1**	**–**	**–**	**–**	**0.1**
Cross currency swaps	**1.4**	**–**	**–**	**–**	**1.4**
Total derivative financial liabilities	**2.1**	**–**	**–**	**–**	**2.1**

* Assumes no change in interest rates from those prevailing at the balance sheet date.

	31 December 2018				
	Within 1 year $m	1 to 2 years $m	2 to 5 years $m	After 5 years $m	Total $m
Bank overdrafts	2.8	–	–	–	2.8
Unsecured bank loan	–	–	–	–	–
Secured bank loan	–	–	591.4	–	591.4
Trade and other payables	140.6	–	–	–	140.6
Total non-derivative financial liabilities	143.4	–	591.4	–	734.8
Total derivative financial liabilities*	–	–	–	–	–

* Assumes no change in interest rates from those prevailing at the balance sheet date.

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.

Market risk – 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% 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, 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 pounds sterling. This provides an economic hedge in instances where hedging derivatives are not 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 net investment in overseas subsidiaries creates exposure to foreign exchange fluctuations. The risk is hedged by US dollar and euro denominated drawdowns under the syndicated facility designated as the hedged item in net investment hedge relationships. This mitigates the currency risk arising from the retranslation of a subsidiary's net assets into pounds sterling, the functional currency of the ultimate parent Elementis plc.

Market risk – interest rate
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. These interest swaps are designated within cashflow hedging relationships with the interest payments on the borrowings they are hedging. The risk being hedged is the exposure of the Group to market rate volatility on a portion of the core Group debt. The Group policy does not require that a specific proportion of the Group's borrowings are at fixed rates of interest.

Interest rate sensitivity analysis
A change of 100 basis points (1%) in interest rates 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.

	2019		2018	
	100bps increase $m	**100bps decrease $m**	100bps increase $m	100bps decrease $m
Variable rate instruments	**(3.8)**	**1.9**	(3.5)	2.8

23. Financial risk management continued

Market risk – commodity price risk

The group is exposed to movements in the prices of commodities it purchases such as aluminium. The volatility in the price of aluminium has led to the decision to enter into commodity swap contracts. The swap contracts do not result in physical delivery of aluminium, but are designated as cash flow hedges to offset the effect of price changes in aluminium.

Commodity price sensitivity analysis

The following table details the Group's sensitivity to a 10% increase in aluminium prices, which is management's assessment of the reasonably possible change, on average, over any given year. As all of the Group's aluminium purchases are hedged and all aluminium swap derivatives achieve hedge accounting, there is no impact on profit or loss.

The table does not show the sensitivity to the Group's total commodity exposure or the impact of changes in volumes that may arise from increase or decrease in the respective commodity prices. The sensitivity analysis determines the potential effect on profit or loss and equity arising from the Group's aluminium swap contract positions as a result of the reasonably possible increases or decreases of the respective aluminium price.

	2019 Effect on profit before tax $m	**2019 Impact on total equity $m**	2018 Effect on profit before tax $m	2018 Impact on total equity $m
10% increase in aluminium prices	**–**	**–**	–	–

Other market price risk

Equity price risk arises from 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 advisers in this regard. In respect of the UK scheme, the investment strategy is set by the trustees and the Board is kept informed.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence, sustain future development of the business and maximise shareholder value. The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent comprising capital, reserves and retained earnings. Financing for the recent acquisition of Mondo was part funded through a Rights Issue and part through drawdowns on the Group's syndicated borrowing facility.

The Group utilises a mix of debt funding sources including term loans and revolving credit facilities (RCF) from the Group's syndicated borrowing facility with differing maturities to ensure continuity and provide flexibility. The group is subject to two financial covenants which apply to the Group's syndicated borrowing facility, as such the group is required to maintain a ratio of net debt to EBITDA of less than 3.25x and minimum net interest cover of 3.0x (in relation to earnings before net interest expense and tax). The Net debt to EBITDA ratio stood at 2.7x times at 31 December 2019 (2018: 2.5x) and the Directors anticipate the strong cash generation of the Enlarged Group to drive a material deleveraging profile going forwards, with leverage reducing to a net debt to EBITDA ratio of around 1.5x in the medium term. Net interest cover at 31 December 2019 was 5.5x (2018: 10.0x).

The Board monitors the return on operating capital employed (ROCE) both including and excluding goodwill, as defined on page 22. The Group's target is to achieve a ROCE (including goodwill) in excess of our weighted average cost of capital.

The dividend policy is set out in the Chairman's statement on pages 6 and 7.

24. Leases

Transition to IFRS 16 Leases

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate – the Group applied this approach to its largest property leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other leases.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the exemptions to short-term leases (lease contracts with less than one year to maturity on adoption) and leases of low-value assets
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate as 1 January 2019. The weighted average rate applied is 4%.

Lease liabilities recognised as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	2019 $m
Operating lease commitments disclosed as at 31 December 2018	**48.3**
Discounted using the incremental borrowing rate at 1 January 2019	**41.8**
Less: short-term leases recognised on a straight-line basis as expense	**(0.2)**
Less: low-value leases recognised on a straight-line basis as expense	**(0.2)**
Add: adjustments as a result of a different treatment of extension and termination options	**11.9**
Lease liability recognised as at 1 January 2019	**53.3**

The following tables show the impact of these changes on each line item affected.

Condensed consolidated income statement	Pre IFRS 16 2019 $m	Operating lease expense $m	Depreciation on right of use assets $m	Interest on lease liabilities $m	As reported 2019 $m
Revenue	**873.6**	**–**	**–**	**–**	**873.6**
Cost of sales	**(552.2)**	**–**	**–**	**–**	**(552.2)**
Gross profit	**321.4**	**–**	**–**	**–**	**321.4**
Net operating costs	**(221.6)**	**7.8**	**(6.7)**	**–**	**(220.5)**
Operating profit	**99.8**	**7.8**	**(6.7)**	**–**	**100.9**
Loss on disposal	**(9.0)**	**–**	**–**	**–**	**(9.0)**
Net finance costs and other expenses	**(29.1)**	**–**	**–**	**(1.8)**	**(30.9)**
Profit before income tax	**61.7**	**7.8**	**(6.7)**	**(1.8)**	**61.0**
Tax	**(14.6)**	**–**	**–**	**–**	**(14.6)**
Profit for the period	**47.1**	**7.8**	**(6.7)**	**(1.8)**	**46.4**

Notes to the consolidated financial statements continued
For the year ended 31 December 2019

24. Leases continued

Condensed consolidated balance sheet	Pre IFRS 16 31 December 2019 $m	Adjustment to brought forward balances as at 1 January 2019 $m	Movement as a result of additions and disposals from 1 January 2019 to 31 December 2019 $m	Depreciation, interest and cashflows for the 12 months to 31 December 2019 $m	Foreign exchange for the 12 months to December 2019 $m	As reported 31 December 2019 $m
Non-current assets						
Goodwill and other intangible assets	958.1	–	–	–	–	958.1
Property, plant and equipment	472.4	48.2	0.1	(6.7)	(0.4)	513.6
ACT recoverable	4.8	–	–	–	–	4.8
Deferred tax assets	28.2	–	–	–	–	28.2
Net retirement benefit surplus	7.4					7.4
Total non-current assets	1,470.9	48.2	0.1	(6.7)	(0.4)	1,512.1
Total current assets	393.1	–	–	–	–	393.1
Total assets	1,864.0	48.2	0.1	(6.7)	(0.4)	1,905.2
Current liabilities						
Bank overdrafts and loans	(2.2)	–	–	–	–	(2.2)
Trade and other payables	(134.5)	–	–	–	–	(134.5)
Financial liabilities	(2.1)	–	–	–	–	(2.1)
Current tax liabilities	(23.2)	–	–	–	–	(23.2)
Lease liabilities	–	(7.4)	(0.1)	0.4	–	(7.1)
Provisions	(6.4)	–	–	–	–	(6.4)
Total current liabilities	(168.4)	(7.4)	(0.1)	0.4	–	(175.5)
Non-current liabilities						
Loans and borrowings	(550.8)	–	–	–	–	(550.8)
Employee retirement benefits	(24.5)	–	–	–	–	(24.5)
Deferred tax liabilities	(151.3)	1.1	–	–	–	(150.2)
Lease liabilities	–	(45.9)	–	5.6	0.5	(39.8)
Provisions	(45.2)	–	–	–	–	(45.2)
Financial liabilities	(13.0)	–	–	–	–	(13.0)
Total non-current liabilities	(784.8)	(44.8)	–	5.6	0.5	(823.5)
Total liabilities	(953.2)	(52.2)	(0.1)	6.0	0.5	(999.0)
Net assets	910.8	(4.0)	–	(0.7)	0.1	906.2
Equity						
Share capital	52.1	–	–	–	–	52.1
Share premium	237.7	–	–	–	–	237.7
Other reserves	91.0	–	–	–	0.1	91.1
Retained earnings	530.0	(4.0)	–	(0.7)	–	525.3
Equity attributable to equity holders of the parent	910.8	(4.0)	–	(0.7)	0.1	906.2
Total equity and reserves	910.8	(4.0)	–	(0.7)	0.1	906.2

Condensed consolidated statement of cash flows	Pre IFRS 16 2019 $m	Effect of IFRS 16 $m	As reported 2019 $m
Operating activities:			
Profit for the period	38.6	7.8	46.4
Adjustments	98.6	–	98.6
Operating cash flows before movements in working capital	137.2	7.8	145.0
Decrease in inventories	18.6	–	18.6
Decrease in trade and other receivables	15.5	–	15.5
Decrease in trade and other payables	(8.5)	–	(8.5)
Cash generated by operations	162.8	7.8	170.6
Income taxes paid	(2.2)	–	(2.2)
Interest paid	(23.2)	(1.8)	(25.0)
Net cash flow from operating activities	137.4	6.0	143.4
Investing activities:			
Net cash flow from investing activities	(49.0)	–	(49.0)
Financing activities:			
Issue of shares	0.1	–	0.1
Dividends paid	(49.3)	–	(49.3)
Net movement on existing debt	(30.4)	–	(30.4)
Payment of lease liabilities	–	(6.0)	(6.0)
Net cash used in financing activities	(79.6)	(6.0)	(85.6)
Net decrease in cash and cash equivalents	8.8	–	8.8
Cash and cash equivalents at beginning of period	96.1	–	96.1
Foreign exchange on cash and cash equivalents	(1.0)	–	(1.0)
Cash and cash equivalents at end of period	103.9	–	103.9

Group as Lessee

The Group has lease contracts for various items of property, plant, machinery, vehicles and other equipment used in its operations.

The Group also has certain leases with lease terms of 12 months or less and leases of low-value assets to which the Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions.

The following are the amounts recognised in profit or loss:

	2019 $m	2018 $m
Depreciation expense on right-of-use assets	6.7	–
Interest expense on lease liabilities	1.8	–
Expense related to short-term leases and low-value assets	0.3	–
Expense relating to variable lease payments not included in lease liabilities	1.2	–
Minimum lease payments under operating leases recognised as an expense in the year	–	8.1

24. **Leases** continued

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2019 $m	2018 $m
As at 1 January 2019	**53.3**	–
Additions	**0.6**	–
Disposals	**(0.5)**	–
Interest expense	**1.8**	–
Payments	**(7.8)**	–
Foreign exchange movements	**(0.5)**	–
As at 31 December 2019	**46.9**	–

The maturity analysis of lease liabilities is as follows:

	2019 $m	2018 $m
Within one year	**7.1**	–
In the second to fifth years inclusive	**18.4**	–
After five years	**21.4**	–
	46.9	–

Lease liabilities were first recognised at the date of initial application of IFRS 16 of 1 January 2019. Prior to 1 January 2019 IAS 17 has been applied to operating leases with expenses recognised in the Income Statement on a straight line basis over the life of the lease.

Operating leases under IAS 17

At 31 December 2018, the Group had undiscounted outstanding commitments under non-cancellable operating leases, which fell due as follows:

	2018 $m
Within one year	10.6
In the second to fifth years inclusive	19.7
After five years	18.0
	48.3

25. 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. At 31 December 2019 the main schemes in the UK and US were 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.

The UK defined benefit scheme had a surplus under IAS 19 of $7.4m (2018: $22.1m). In accordance with the requirements of IFRIC 14 management have concluded that the right to reduce the minimum funding contributions when the deficit falls below $10.4m in conjunction with the unconditional right to a refund of any surplus under any winding up of the plan provides sufficient evidence that an asset ceiling does not exist and as such the full surplus has been recognised.

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 overleaf relate to two unfunded pension schemes, a long term service award scheme in Germany and a special benefits programme for a small number of former employees of the Eaglescliffe plant. The Group also acquired two further unfunded pension schemes and two long term service award schemes all in Germany as part of the SummitReheis acquisition in 2017. These are included within this category.

The Group also operates a small number of defined contribution schemes and the contributions payable during the year are recognised as incurred. The pension charge for the defined contribution pension schemes for continuing operations for the year is $4.1m (2018: $3.0m).

Net defined benefit liability

The net liability was as follows:

	UK pension scheme $m	**US pension schemes $m**	**US PRMB scheme $m**	**Other $m**	**Total $m**
2019					
Total market value of assets	**724.2**	**122.5**	**–**	**–**	**846.7**
Present value of scheme liabilities	**(716.8)**	**(132.4)**	**(6.0)**	**(8.6)**	**(863.8)**
Net asset/(liability) recognised in the balance sheet	**7.4**	**(9.9)**	**(6.0)**	**(8.6)**	**(17.1)**

	UK pension scheme $m	US pension schemes $m	US PRMB scheme $m	Other $m	Total $m
2018					
Total market value of assets	671.3	108.3	–	–	779.6
Present value of scheme liabilities	(649.2)	(124.0)	(5.6)	(10.7)	(789.5)
Net asset/(liability) recognised in the balance sheet	22.1	(15.7)	(5.6)	(10.7)	(9.9)

Employer contributions in 2019 were $nil (2018: $0.5m) to the UK scheme and $2.1m (2018: $1.9m) to US schemes. Top up contributions to the UK scheme in 2020 will be nil based on the 2017 triennial valuation. Under this agreement top up contributions are no longer required until at least 2021. Expected contributions to the US schemes in the next year are $1.5m.

Notes to the consolidated financial statements continued
For the year ended 31 December 2019

25. Retirement benefit obligations continued

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 $m	US pension schemes $m	US PRMB scheme $m	Other $m	Total $m
2019					
Balance at 1 January	**22.1**	**(15.7)**	**(5.6)**	**(10.7)**	**(9.9)**
Included in profit or loss					
Current service cost	**(0.6)**	**(0.6)**	**(0.1)**	**(0.3)**	**(1.6)**
Running costs	**(1.1)**	**(0.4)**	**–**	**–**	**(1.5)**
Net interest income/(expense)	**0.6**	**(0.6)**	**(0.2)**	**(0.3)**	**(0.5)**
Business disposal	**–**	**–**	**–**	**4.0**	**4.0**
	(1.1)	**(1.6)**	**(0.3)**	**3.4**	**0.4**
Included in other comprehensive income					
Re-measurements:					
Return on plan assets excluding interest income	**43.8**	**16.9**	**–**	**–**	**60.7**
Actuarial gains arising from demographic assumptions	**–**	**1.0**	**–**	**–**	**1.0**
Actuarial losses arising from financial assumptions	**(56.2)**	**(12.2)**	**(0.4)**	**(2.2)**	**(71.0)**
Actuarial (losses)/gains arising from experience adjustment	**(1.5)**	**0.2**	**(0.4)**	**–**	**(1.7)**
Exchange differences	**0.3**	**–**	**–**	**0.3**	**0.6**
	(13.6)	**5.9**	**(0.8)**	**(1.9)**	**(10.4)**
Contributions:					
Employers	**–**	**1.5**	**0.7**	**0.6**	**2.8**
Surplus / (deficit) in schemes at 31 December	**7.4**	**(9.9)**	**(6.0)**	**(8.6)**	**(17.1)**

	UK pension scheme $m	US pension schemes $m	US PRMB scheme $m	Other $m	Total $m
2018					
Balance at 1 January	21.9	(14.9)	(6.2)	(11.3)	(10.5)
Included in profit or loss					
Current service cost	(0.8)	(0.7)	(0.1)	(0.1)	(1.7)
Past service cost	(3.4)	–	–	–	(3.4)
Running costs	(1.2)	(0.4)	–	–	(1.6)
Net interest expense	0.5	(0.5)	(0.2)	(0.2)	(0.4)
	(4.9)	(1.6)	(0.3)	(0.3)	(7.1)
Included in other comprehensive income					
Re-measurements:					
Return on plan assets excluding interest income	(39.8)	(8.9)	–	–	(48.7)
Actuarial gains arising from demographic assumptions	22.0	0.3	–	–	22.3
Actuarial gains arising from financial assumptions	39.1	8.1	0.3	–	47.5
Actuarial losses arising from experience adjustment	(15.4)	–	–	–	(15.4)
Exchange differences	(1.3)	–	–	0.5	(0.8)
	4.6	(0.5)	0.3	0.5	4.9
Contributions:					
Employers	0.5	1.3	0.6	0.4	2.8
Surplus / (deficit) in schemes at 31 December	22.1	(15.7)	(5.6)	(10.7)	(9.9)

Plan assets

Plan assets comprise:

	UK pension scheme $m	US pension schemes $m	US PRMB scheme $m	Total $m
2019				
Equities	**248.1**	**52.8**	**–**	**300.9**
Bonds*	**397.8**	**57.3**	**–**	**455.1**
Cash/liquidity funds	**78.3**	**12.4**	**–**	**90.7**
	724.2	**122.5**	**–**	**846.7**

	UK pension scheme $m	US pension schemes $m	US PRMB scheme $m	Total $m
2018				
Equities	227.6	41.2	–	268.8
Bonds*	367.4	54.4	–	421.8
Cash/liquidity funds	76.3	12.7	–	89.0
	671.3	108.3	–	779.6

* Including LDI repurchase agreement liabilities.

To reduce volatility risk a liability driven investment (LDI) strategy forms part of the Trustees' management of the UK defined benefit scheme's assets, including government bonds, corporate bonds and derivatives. The bond assets category in the table above includes gross assets of $774.9m (2018: $502.7m) and associated repurchase agreement liabilities of $377.1m (2018: $135.3m). Repurchase agreements are entered into with counterparties to better offset the scheme's exposure to interest and inflation rates, whilst remaining invested in assets of a similar risk profile. Interest rate and inflation rate derivatives are also employed to complement the use of fixed and indexed linked bonds in matching the profile of the scheme's liabilities.

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 31% in a liability matching fund consisting of gilts (fixed interest and index linked), bonds, cash and swaps, 20% in a buy and maintain fund and 49% 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 approximately 43% 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. Changes in the fair value of plan assets for the major schemes are as follows:

25. Retirement benefit obligations continued

	UK pension scheme $m	US pension schemes $m	US PRMB scheme $m	Total $m
2019				
Opening fair value of plan assets	**671.3**	**108.3**	**–**	**779.6**
Expected return	**18.3**	**4.2**	**–**	**22.5**
Running costs	**(1.1)**	**(0.4)**	**–**	**(1.5)**
Actuarial gains	**43.8**	**16.9**	**–**	**60.7**
Contributions by employer	**–**	**1.5**	**–**	**1.5**
Contributions by employees	**0.1**	**–**	**–**	**0.1**
Benefits paid	**(36.0)**	**(8.0)**	**–**	**(44.0)**
Exchange differences	**27.8**	**–**	**–**	**27.8**
Closing fair value of plan assets	**724.2**	**122.5**	**–**	**846.7**

	UK pension scheme $m	US pension schemes $m	US PRMB scheme $m	Total $m
2018				
Opening fair value of plan assets	778.7	120.3	–	899.0
Expected return	18.0	4.0	–	22.0
Running costs	(1.2)	(0.4)	–	(1.6)
Actuarial gain	(39.8)	(8.9)	–	(48.7)
Contributions by employer	0.5	1.4	–	1.9
Contributions by employees	0.1	–	–	0.1
Benefits paid	(42.7)	(8.1)	–	(50.8)
Exchange differences	(42.3)	–	–	(42.3)
Closing fair value of plan assets	671.3	108.3	–	779.6

Defined benefit obligation

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

	UK pension scheme $m	US pension schemes $m	US PRMB scheme $m	Total $m
2019				
Opening defined benefit obligation	**(649.2)**	**(124.0)**	**(5.6)**	**(778.8)**
Service cost	**(0.6)**	**(0.6)**	**(0.1)**	**(1.3)**
Interest cost	**(17.7)**	**(4.8)**	**(0.2)**	**(22.7)**
Contributions by employees	**(0.1)**	**–**	**–**	**(0.1)**
Actuarial gains/(losses)				
– demographic assumptions	**–**	**1.0**	**–**	**1.0**
– financial assumptions	**(56.2)**	**(12.2)**	**(0.4)**	**(68.8)**
– experience adjustments	**(1.5)**	**0.2**	**(0.4)**	**(1.7)**
Benefits paid	**36.0**	**8.0**	**0.7**	**44.7**
Exchange differences	**(27.5)**	**–**	**–**	**(27.5)**
Closing defined benefit obligation	**(716.8)**	**(132.4)**	**(6.0)**	**(855.2)**

	UK pension scheme $m	US pension schemes $m	US PRMB scheme $m	Total $m
2018				
Opening defined benefit obligation	(756.8)	(135.2)	(6.2)	(898.2)
Service cost	(0.8)	(0.7)	(0.1)	(1.6)
Past service cost	(3.4)	–	–	(3.4)
Interest cost	(17.5)	(4.4)	(0.2)	(22.1)
Contributions by employees	–	–	–	–
Actuarial gains/(losses) arising from:				
– demographic assumptions	22.0	0.2	–	22.2
– financial assumptions	39.1	8.0	0.3	47.4
– experience adjustments	(15.4)	–	–	(15.4)
Benefits paid	42.7	8.1	0.6	51.4
Exchange differences	40.9	–	–	40.9
Closing defined benefit obligation	(649.2)	(124.0)	(5.6)	(778.8)

25. Retirement benefit obligations continued

Actuarial assumptions

A full actuarial valuation was carried out on 30 September 2017 for the UK scheme and at 31 December 2015 for the US schemes.

The principal assumptions used by the actuaries for the major schemes have been updated by the actuaries at the balance sheet date and were as follows:

	UK %	US %
2019		
Rate of increase in salaries	**4.0**	**3.00**
Rate of increase in pensions in payment	**2.9**	**N/A**
Discount rate	**2.0**	**3.1**
Inflation	**3.0**	**2.25**
2018		
Rate of increase in salaries	4.2	3.00/3.45
Rate of increase in pensions in payment	3.1	N/A
Discount rate	2.8	4.0
Inflation	3.2	2.25

The assumed life expectancies on retirement are:

	UK		US	
	2019 years	2018 years	**2019 years**	2018 years
Retiring at 31 December				
Males	**22**	22	**20**	21
Females	**24**	24	**22**	22
Retiring in 20 years				
Males	**24**	24	**21**	21
Females	**25**	25	**23**	23

The main assumptions for the PRMB scheme are a discount rate of 3.05% (2018: 4.0%) per annum and a health care cost trend of 6.5% (2018: 6.5%) per annum for claims pre age 65 reducing to 4.5% per annum by 2022 (2018: 4.5%). 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 2019, the weighted average duration of the defined benefit obligations for the major schemes was as follows:

UK: 13 years

US: 10 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 UK scheme	Impact on US scheme
Discount rate	Increased/decreased by 0.5%	Decreased/increased by 6%	Decreased/increased by 5%
Rate of inflation	Increased/decreased by 0.5%	Increased/decreased by 5%	Increased/decreased by 0%
Rate of salary growth	Increased/decreased by 0.5%	Increased/decreased by 0%	Increased/decreased by 0%
Rate of mortality	Increased by 1 year	Increased by 5%	Increased by 3%

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. 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.

26. Share based payments

The Group maintains a number of active share option and award plans and schemes for its employees. These are as follows:

Savings-related options

Options are granted under the tax-advantaged Save As You Earn (SAYE) share option scheme in the UK. The SAYE allows UK-based eligible employees to acquire options over the Company's shares at a discount of up to 20% of their market value at the date of grant. Options are normally exercisable during the six month period following either the third or fifth anniversary of the start of the relevant savings contract. Savings contracts are subject to the statutory savings limit of £500 per month.

US-based employees can enter into a similar share save scheme (Share Save). Employees can enter into two year savings contracts saving up to a maximum of $2,000 per month, allowing eligible employees to acquire options over the Company's shares at a discount of up to 15% of their market value at the date of grant.

Long-term incentive plan (LTIP) awards

The LTIP is a discretionary employee share scheme for Executive Directors and senior managers. The vesting of the awards are subject to performance conditions over a three year period at the discretion of the Remuneration Committee. The performance conditions of the LTIP are detailed in the Remuneration Report on pages 79 to 95. As approved at the 2018 AGM, restricted shares (i.e. shares that vest based on time only) are awarded to participants below Board level. Shadow LTIPs are in place for senior managers based in China and Malaysia.

Deferred share bonus plan (DSBP) awards

The DSBP operates exclusively for the Executive Directors. Under this scheme, 50% of any cash bonus payable is awarded in shares and deferred for two years. There are no other performance conditions other than continued employment.

Legacy Schemes

Prior to the introduction of the LTIP for senior managers, certain employees participated in the Executive Share Option Scheme ('ESOS'). The ESOS which (except for outstanding awards which will run their course) has been discontinued. The Company operated shadow ESOS for a number of senior managers, who were employed or based in China or Malaysia.

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:

	2019	2018
Fair value per option (pence)	**115.6**	155.4
Expected volatility (%)	**31**	26
Risk free rate (%)	**0.5**	0.7
Expected dividend yield (%)	**4.3**	3.4

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous five years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The Group recognised total expenses of $3.0m (2018: $2.8m) related to share based payment transactions during the year.

26. **Share based payments** continued

At 31 December 2019 the following options/awards to subscribe for ordinary shares were outstanding:

		Exercisable						
Year of grant	Exercise price (p)[1]	From	To	At 1 January 2019 '000	Granted '000	Exercised '000	Expired '000	At 31 December 2019 '000
UK savings related share option scheme								
2015	189.72	01/10/18	01/04/19	9	–	–	(9)	–
2016	160.89	01/10/19	01/04/20	163	–	(31)	(22)	110
2017	207.40	01/10/20	01/04/21	24	–	–	(12)	12
2018	163.91	01/01/22	01/07/22	200	–	–	(134)	66
2019	121.33	01/11/22	01/05/23	–	342	–	–	342
2019	121.33	01/11/24	01/05/25	–	25	–	–	25
				396	367	(31)	(177)	555
US savings related share option scheme								
2017	217.18	07/09/19	07/12/19	236	–	–	(229)	7
2018	160.14	05/12/20	05/03/21	585	–	–	(208)	377
2019	133.96	11/09/21	11/12/21	–	578	–	–	578
				821	578	–	(437)	962
Executive share option schemes/awards granted under the LTIP*								
2010	52.16	06/04/13	06/04/20	186	–	(92)	–	94
2011+	137.18	04/04/14	04/04/21	110	–	–	(14)	96
2012+	177.81	27/06/15	27/06/22	216	–	–	(20)	196
2016+	218.17	04/04/19	04/04/26	904	–	–	(904)	–
2016*	Nil	04/04/19	04/04/26	999	–	–	(999)	–
2016∆	Nil	04/04/19	19/09/26	263	–	–	(263)	–
2017∆	Nil	07/03/17	07/03/27	92	–	–	–	92
2017#	Nil	07/03/19	07/03/27	55	–	(48)	–	7
2017~	Nil	07/03/20	07/03/27	17	–	–	–	17
2017+	264.66	03/04/20	03/04/27	847	–	–	(59)	788
2017*†	Nil	03/04/20	03/04/27	1,474	–	–	(71)	1,403
2017∆	Nil	01/08/19	01/08/27	63	–	–	(63)	–
2018#	Nil	05/03/20	05/03/28	233	–	–	–	233
2018*†	Nil	30/04/21	30/04/21	2,141	–	–	(239)	1,902
2018*	Nil	27/06/21	27/06/21	7	–	–	–	7
2018*	Nil	29/10/21	29/10/21	38	–	–	(2)	36
2018*	Nil	21/12/20	21/12/20	209	-	–	–	209
2018*	Nil	21/12/21	21/12/21	361	-	–	–	361
2019	Nil	03/01/21	30/01/21	–	124	–	–	124
2019	Nil	03/01/22	30/01/22	–	157	–	–	157
2019□	Nil	06/03/21	06/03/21	–	110	–	–	110
2019#	Nil	06/03/21	06/03/29	–	49	–	–	49
2019*~	Nil	01/04/22	01/04/22	–	3,899	–	(98)	3,801
2019 †	Nil	01/04/22	01/04/22	–	5	–	–	5
				8,215	4,344	(140)	(2,732)	9,687

1 Where necessary option prices were adjusted for by a factor of 1.092715 to reflect the dilutive effects of the 2018 Rights Issue.

+ These options include cash settled shadow executive options granted to a number of executives on the same basis as the executive 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 closing balance of the 2011 and 2017 options shown above include approximately 5,000 and 57,000 shadow options respectively.

∆ Awards made as one-off agreements that borrow from the terms of the LTIP.

† These options include cash settled shadow LTIPs granted to a number of executives on the same basis as the LTIP (with the same performance conditions and exercise provisions). These shadow LTIPs are included in the calculation of the total expenses recognised by the Group related to share based payments. The closing balance of 2018 and 2019 LTIPs shown above include approximately 45,000 and 84,000 shadow LTIPs respectively.

Conditional share award under the Deferred Share Bonus Plan.

~ Awards made as one-off agreements under the Deferred Share Bonus Plan (nil cost options).

* 2018 and 2019 LTIPs shown above include approximately 44,960 and 83,951 shadow LTIPs respectively.

□ Conditional share award under the Deferred Share Bonus Plan (nil cost award, structured as restricted share units).

The weighted average remaining contractual life of the above shares outstanding at 31 December 2019 was 7.9 years (2018: 7.1 years).

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

	2019 Average exercise price (p)	2018 Average exercise price (p)
At 1 January	**79.8**	113.2
Granted	**23.0**	41.7
Exercised	**57.4**	118.9
Expired	**100.5**	147.4
At 31 December	**44.4**	79.8
Exercisable at 31 December	**116.8**	nil

The weighted average share price at the date of exercise of share options exercised during the year was 126 pence (2018: 153 pence). The number of exercisable options outstanding as at 31 December 2019 was 540,821 (31 December 2018: nil).

27. 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% 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.

The Group consists of the Parent Company, Elementis plc, incorporated in the United Kingdom and its subsidiaries and associates. In accordance with Section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation and the effective percentage of equity owned as at 31 December 2019 is disclosed in Note 11 to the parent company financial statements.

The remuneration of key management personnel of the Group, which is defined as the Board and the business president, Chromium, is shown below:

	2019 $m	2018 $m
Salaries and short term employee benefits	**2.4**	2.3
Other long term benefits	**0.3**	0.4
Share based payments	**0.6**	1.6
	3.3	4.3

Full details of all elements of the remuneration of Directors is set out in the Directors' remuneration report on pages 79 to 95.

Notes to the consolidated financial statements continued
For the year ended 31 December 2019

28. Movement in net cash/(borrowings)

	2019 $m	2018 $m
Change in net cash resulting from cash flows:		
Increase in cash and cash equivalents	**8.8**	45.9
Decrease /(increase) in borrowings repayable within one year	**0.6**	(0.2)
Decrease/(increase) in borrowings repayable after one year	**29.7**	(257.8)
	39.1	(212.1)
Currency translation differences	**4.8**	5.1
Decrease/(increase) in net borrowings	**43.9**	(207.0)
Net borrowings at beginning of year	**(498.1)**	(291.1)
Net borrowings at end of year	**(454.2)**	(498.1)

	Bank and other borrowings $m	Lease liabilities $m	Total financing liabilities $m	Cash and cash equivalents $m	Net debt and lease liabilities $m
At 1 January 2018	**(346.1)**	**–**	**(346.1)**	**55.0**	**(291.1)**
Exchange rate adjustments	9.9	–	9.9	(4.8)	5.1
Business acquired (see note 32)	–	–	–	(484.7)	(484.7)
Business disposed (see note 33)	–	–	–	58.0	58.0
Issue of shares net of issue costs*	–	–	–	222.2	222.2
Cash flows from financing activities	(258.0)	–	(258.0)	258.0	–
Other movements	–	–	–	(7.6)	(7.6)
At 31 December 2018	**(594.2)**	**–**	**(594.2)**	**96.1**	**(498.1)**
Adoption of IFRS 16	–	(53.3)	(53.3)	–	(53.3)
Revised 1 January 2019	**(594.2)**	**(53.3)**	**(647.5)**	**96.1**	**(551.4)**
Exchange rate adjustments	5.8	0.5	6.3	(1.0)	5.3
Business disposed	–	0.5	0.5	(2.1)	(1.6)
Cash flows from financing activities	30.4	6.0	36.4	(30.4)	6.0
Other movements	(0.1)	(0.6)	(0.7)	41.3	40.6
At 31 December 2019	**(558.1)**	**(46.9)**	**(605.0)**	**103.9**	**(501.1)**

* Cash flows relating to the rights issue were $222.2m ($232.7m less issuance costs of $10.5m).

29. Dividends

An interim dividend of 2.80 cents per share (2018: 2.95 cents) was paid on 27 September 2019 and the Group is proposing a final dividend of 5.75 cents per share (2018: 5.70 cents) for the year ended 31 December 2019. The total dividend for the year is 8.55 cents per share (2018: 8.65 cents).

The amount payable for the final dividend, based on the anticipated number of qualifying ordinary shares registered on the record date, is $33.3m.

The payment of this dividend will not have any tax consequences for the Group.

Following the Rights Issue in October 2018, dividends per share for periods prior to this have been rebased to reflect the bonus element resulting from this Rights Issue.

	2019			2018		
	Interim	Final	Full-year	Interim	Final	Full-year
Unadjusted dividend per share (cents)	**2.80**	**5.75**	**8.55**	2.95	5.70	8.65
Adjustment factor (x)	**1.00**	**1.00**		0.9152	1.00	
Rebased dividend per share (cents)	**2.80**	**5.75**	**8.55**	2.70	5.70	8.40

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.

In 2013 the UK Government (through HMRC) introduced the UK Finance Company Exemption ('FCE') regime. Elementis entered into the FCE regime during 2014. In October 2017 the European Commission opened a State Aid investigation into the regime. In April 2019 the European Commission concluded that the FCE regime constituted State Aid in circumstances where Groups had accessed the regime using a financing company with UK significant people functions; the European Commission therefore instructed the UK Government to collect any relevant State Aid amounts. The UK Government indicated that it disagreed with the European Commission's conclusion and appealed the decision in July 2019. In autumn 2019 HMRC made an initial information request to the Groups affected, which included Elementis. We understand that HMRC will now seek to assess Groups for State Aid based upon their UK significant people function analyses. Following consultation with external professional advisers Elementis believes that there is a technical position for asserting that our relevant financing company should not be deemed to have UK significant people functions. The range of possible outcomes is between $nil and $19.4m, however based on the work undertaken to date management believe that the potential for a material outflow is low. On this basis no provision has been made within these financial statements in respect of this case.

31. Events after the balance sheet date

There were no other significant events after the balance sheet date.

32. Acquisition

On 23 October 2018 the Group acquired all the shares of Mondo Minerals Holding B.V. (Mondo), for an initial purchase consideration of $500m. Mondo is a leading mine-to-market producer of talc and other mineral products with a strong presence in Northern and Central Europe and a growing customer base in Eastern Europe, Southern Europe, South America and Asia. The Mondo Group supplies talc to customers operating in a wide range of end markets, including industrial sectors (e.g. plastics, paints & coatings, technical ceramics, life sciences) and paper sectors (e.g. paper filler, paper coatings). Mondo uses proprietary flotation process know how and formulation expertise to deliver superior product quality and consistency to its customers.

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

	Note	Book value at acquisition $m	Fair value adjustments $m	Fair value of assets acquired $m
Intangible assets	10	19.6	68.7	88.3
Property, plant and equipment	11	226.2	24.1	250.3
Inventories		24.3	1.9	26.2
Trade and other receivables		21.9	(1.1)	20.8
Tax indemnification asset		–	6.6	6.6
Trade and other payables		(18.1)	(1.0)	(19.1)
Other accruals		(26.1)	–	(26.1)
Cash and cash equivalents		39.9	–	39.9
Provisions	15	(2.7)	(1.1)	(3.8)
Corporation tax		(0.4)	0.2	(0.2)
Deferred tax	16	(12.2)	(24.3)	(36.5)
Total identifiable net assets acquired		272.4	74.0	346.4
Goodwill				200.5
Total consideration				546.9
of which:				
Contingent consideration				22.3
Consideration paid, satisfied in cash				524.6
Cash acquired				(39.9)
Net cash outflow				484.7

32. Acquisition continued

The fair value adjustment to inventories of $1.9m is the net of an uplift due to fair value of $2.9m less an increase in provision for obsolescence of $1.0m.

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	Valuation technique
Property, plant and equipment	A cost approach method, benchmarked to market where available, was the method used to value machinery & equipment and buildings. Land that had previously been valued during a purchase price allocation exercise conducted in 2012 was included at NBV due to management's opinion that values had not varied significantly in the intervening period.
Intangible assets	Intangible assets have been categorised into two groups: customer relationships and technology. Customer relationships have been valued using a Multi-period Excess Earnings Method, in which the value is equal to the present value of incremental after-tax cash flows attributable to the asset after deducting contributory asset charges. Technology has been valued using a Relief from Royalty methodology.
Inventories	The market approach has been used to determine fair value based on the net realisable value of the inventory less costs to sell and a reasonable profit margin.

The consideration for the acquisitions has been allocated against identified net assets with the remaining balance recorded as goodwill. The goodwill recognised on acquisition reflects both the capabilities of the acquired entities' personnel and the synergistic opportunities going forward, neither of which can be allocated to an identifiable intangible asset.

Contingent consideration of $22.3m recognised on acquisition for the Mondo transaction was made up of:

a. $9.4m relating to potential payouts that may be made under an earn-out mechanism dependant on EBITDA performance for the years 2018 -2020 exceeding certain thresholds. The potential undiscounted amount payable under the agreement is between $0.0m and $53.0m. The fair value of the contingent consideration arrangement of $9.4m was estimated by calculating the present value of the future expected cash flows based on a weighted probability analysis of a range of payments to give an estimate of the final obligation.
b. a further $12.9m that may be payable subject to the successful conclusion of an historic, pre-acquisition interest deduction dispute with the Finnish Tax authorities.

There were a number of one-off costs associated with the acquisition of Mondo Minerals – primarily the write off of the set-up costs of the previous financing syndicate, now replaced by a new facility, bank and lawyers fees, retention bonuses for Mondo employees, that have not been capitalised in accordance with IFRS 3. However, these have been reflected as adjusting items within Note 5 and recognised in administrative expenses and operating cash.

Acquisitions made during 2018 contributed $21.5m to the Group's revenue and $3.9m to the operating profit.

The estimated contribution of Mondo Minerals to the results of the Group, had the acquisition been made on 1 January 2018, and assuming that the fair value adjustments that arose on acquisition would have been the same at the earlier date, are as follows:

	2018 $m
Revenue	158.4
Operating profit	24.6

33. Business exits

On 10 December the Group disposed of SRL Dental GmbH which comprised the Dental plant at Ludwigshafen, Germany for consideration of $0.2m.

The results of SRL Dental GmbH, which have been included in the consolidated income statement were as follows:

	Year ended 31 December 2019 $m
Revenue	**17.9**
Expenses	**(17.9)**
Profit before tax	**–**
Attributable tax expense	**(0.1)**
Net profit attributable to discontinued operations (attributable to owners of the Company)	**(0.1)**

Revenue includes $nil related to inter-segment sales in 2019 (2018: $nil).

During the year, SRL Dental GmbH contributed $1.8m (2018: $(1.9)m) to the Group's net operating cash flows and paid $nil (2018: $0.4m) in respect of investing activities.

The Group recognised a total loss on current year disposal of:

	Year ended 31 December 2019 $m
Consideration received	**0.2**
Net assets disposed of (see table below)	**(7.8)**
Disposal costs	**(1.0)**
Recycling of deferred foreign exchange gains	**(0.4)**
Loss on disposal	**(9.0)**

Details of assets and liabilities at the date of disposal are provided in the following table:

	2019 $m
Goodwill	
Intangible assets	**8.7**
Property, plant and equipment	**1.9**
Inventories	**1.6**
Trade and other receivables	**2.3**
Cash and bank balances	**1.3**
Total assets	**15.8**
Trade and other payables	**(1.1)**
Pensions	**(4.0)**
Tax liabilities	**(2.9)**
Total liabilities	**(8.0)**
Net assets	**7.8**

33. Business exits continued

2018 Business exits – discontinued operations

On 28 February 2018 the Group disposed of Elementis Specialties Netherlands BV, which carried out all of the Group's Surfactants operations. The disposal generated cash flow for the expansion of the Group's other businesses.

The results of the discontinued operations, which have been included in the consolidated income statement on the line 'Loss from discontinued operations', were as follows:

	Year ended 31 December 2018 $m
Revenue	4.8
Expenses	(15.2)
Profit before tax	(10.4)
Attributable tax expense	2.0
Net profit attributable to discontinued operations (attributable to owners of the Company)	(8.4)

Revenue includes $nil related to inter-segment sales in 2018.

During 2018, Elementis Specialties Netherlands BV contributed $1.1m to the Group's net operating cash flows and paid $0.6m in respect of investing activities.

The Group recognised a total loss on disposal of:

	Year ended 31 December 2018 $m
Consideration received	47.9
Net assets disposed of (see table below)	(42.0)
Disposal costs	(2.2)
Recycling of deferred foreign exchange gains	(4.2)
Loss on disposal	(0.5)

Net assets disposed of are analysed as follows:

	2018 $m
Goodwill	3.2
Intangible assets	2.4
Property, plant and equipment	38.0
Inventories	8.6
Trade and other receivables	11.1
Cash and bank balances	2.8
Total assets	66.1
Trade and other payables	(20.3)
Pensions	(0.4)
Tax liabilities	(3.4)
Bank overdrafts and loans	–
Total liabilities	(24.1)
Net assets	42.0

34. Balance sheet restatement

In accordance with IAS 1 we have shown below a balance sheet as at the beginning of the comparative period to show the UK pension surplus of $21.9m within non current assets and to offset unamortised syndicate fees of $5.3m against the borrowings to which they relate within non current liabilities.

	2018 31 December $m	Restatement	Restated 2018 31 December $m	2017 31 December $m	Restatement	Restated 2017 31 December $m
Non-current assets						
Goodwill and other intangible assets	976.6	–	976.6	717.2	–	717.2
Property, plant and equipment	478.2	–	478.2	219.5	–	219.5
ACT recoverable	9.8	–	9.8	16.2	–	16.2
Deferred tax assets	24.4	–	24.4	0.2	–	0.2
Net retirement benefit surplus	–	22.1	22.1	–	21.9	21.9
Total non-current assets	1,489.0	22.1	1,511.1	953.1	21.9	975.0
Current assets						
Inventories	188.7	–	188.7	143.6	–	143.6
Trade and other receivables	139.4	(5.6)	133.8	124.6	(5.3)	119.3
Derivatives	2.0	–	2.0	0.9	–	0.9
Current tax assets	3.0	–	3.0	4.3	–	4.3
Cash and cash equivalents	96.1	–	96.1	55.0	–	55.0
Total current assets	429.2	(5.6)	423.6	328.4	(5.3)	323.1
Assets classified as held for sale	–	–	–	58.2	–	58.2
Total assets	1,918.2	16.5	1,934.7	1,339.7	16.6	1,356.3
Current liabilities						
Bank overdrafts and loans	(2.8)	–	(2.8)	(2.7)	–	(2.7)
Trade and other payables	(140.6)	–	(140.6)	(117.7)	–	(117.7)
Financial liabilities	(0.1)	–	(0.1)	–	–	–
Current tax liabilities	(17.1)	–	(17.1)	(14.1)	–	(14.1)
Provisions	(7.3)	–	(7.3)	(10.8)	–	(10.8)
Total current liabilities	(167.9)	–	(167.9)	(145.3)	–	(145.3)
Non-current liabilities						
Loans and borrowings	(591.4)	5.6	(585.8)	(343.4)	5.3	(338.1)
Retirement benefit obligations	(9.9)	(22.1)	(32.0)	(10.5)	(21.9)	(32.4)
Deferred tax liabilities	(151.7)	–	(151.7)	(93.4)	–	(93.4)
Provisions	(41.5)	–	(41.5)	(21.9)	–	(21.9)
Financial liabilities	(40.2)	–	(40.2)	–	–	–
Total non-current liabilities	(834.7)	(16.5)	(851.2)	(469.2)	(16.6)	(485.8)
Liabilities classified as held for sale	–	–		(22.9)	–	(22.9)
Total liabilities	(1,002.6)	(16.5)	(1,019.1)	(637.4)	(16.6)	(654.0)
Net assets	915.6	–	915.6	702.3	–	702.3
Equity						
Share capital	52.1	–	52.1	44.4	–	44.4
Share premium	237.6	–	237.6	21.9	–	21.9
Other reserves	85.5	–	85.5	99.0	–	99.0
Retained earnings	540.4	–	540.4	537.0	–	537.0
Total equity attributable to equity holders of the parent	915.6	–	915.6	702.3	–	702.3
Total equity	915.6	–	915.6	702.3	–	702.3

* Cash flows relating to the rights issue were $222.2m ($232.7m less issuance costs of $10.5m).

The 31 December 2018 balance sheet has been restated to show the UK pension surplus of $22.1m within non-current assets and to offset unamortised syndicate fees of $5.6m against the borrowings to which they relate within non-current liabilities. Erroneously the pension surplus of $22.1m had been offset against pension liabilities of $32.0m. In addition, the unamortised syndicate fees of $5.6m were previously incorrectly presented within trade and other receivables. None of the restatements have had any impact on diluted or basic EPS.

Balance sheet

at 31 December 2019

	Note	2019 £m	Restated[1] 2018 £m
Fixed assets			
Investments	6	**773.9**	771.8
Non-current assets			
Debtors	7	**12.7**	12.7
Creditors: amounts falling due within one year			
Creditors	8	**(0.6)**	(0.6)
Net current assets		**12.1**	12.1
Total assets less current liabilities		**786.0**	783.9
Creditors: amounts falling due after more than one year			
Amounts due to subsidiary undertakings		**(188.2)**	(146.4)
Net assets		**597.8**	637.5
Capital and reserves			
Called up share capital	9	**28.9**	28.9
Share premium account		**176.5**	176.4
Capital redemption reserve	9	**83.3**	83.3
Other reserves		**250.5**	250.5
Share option reserve	9	**17.7**	15.6
Profit and loss account		**40.9**	82.8
Equity shareholders' funds		**597.8**	637.5

1 Restated to move amounts relating to share based payments to share based payments reserve, see note 12 for the restatement of the 31 December 2017 company balance sheet.

The Company recognised a loss for the financial year ended 31 December 2019 of £3.1m (2018: £1.3m).

The financial statements of Elementis plc, registered number 3299608, on pages 162 to 170 were approved by the Board on 4 March 2020 and signed on its behalf by:

Paul Waterman
CEO

Ralph Hewins
CFO

Statement of changes in equity

for the year ended 31 December 2019

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Restated[1] Share options reserve £m	Restated[1] Retained earnings £m	Total £m
Balance at 1 January 2018	23.1	12.8	83.3	250.5	2.9	75.5	448.1
Restatement	–	–	–	–	10.6	(10.6)	–
Restated balance at 1 January 2018	23.1	12.8	83.3	250.5	13.5	64.9	448.1
Comprehensive income							
Profit for the year	–	–	–	–	–	(1.3)	(1.3)
Total other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	(1.3)	(1.3)
Transactions with owners							
Issue of shares by the Company	5.8	163.6	–	–	–	–	169.4
Share based payments	–	–	–	–	2.1	–	2.1
Dividends received	–	–	–	–	–	50.0	50.0
Dividends paid	–	–	–	–	–	(30.8)	(30.8)
Total transactions with owners	5.8	163.6	–	–	2.1	19.2	190.7
Balance at 31 December 2018	28.9	176.4	83.3	250.5	15.6	82.8	637.5
Balance at 1 January 2019	28.9	176.4	83.3	250.5	15.6	82.8	637.5
Comprehensive income							
Profit for the year	–	–	–	–	–	(3.1)	(3.1)
Total other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	(3.1)	(3.1)
Transactions with owners							
Issue of shares by the Company	–	0.1	–	–	–	–	0.1
Share based payments	–	–	–	–	2.1	–	2.1
Dividends received	–	–	–	–	–	–	–
Dividends paid	–	–	–	–	–	(38.8)	(38.8)
Total transactions with owners	–	0.1	–	–	2.1	(38.8)	(36.6)
Balance at 31 December 2019	28.9	176.5	83.3	250.5	17.7	40.9	597.8

1 Restated to move amounts relating to share based payments to the share based payments reserve, see note 12 for the restatement of the 31 December 2017 company balance sheet.

The Company's distributable reserves amount to £40.9m (2018: £82.8m) at the end of the period. The Company regularly reviews its distributable reserves and makes dividend recapitalisations as and when necessary to ensure it can make all expected dividend payments. The Company has sufficient subsidiary reserves to enable such recapitalisations in 2020 and going forward.

For more information on the dividend issued and the dividend per share please see Note 29 of the Group financial statements.

Notes to the company financial statements of Elementis plc

for the year ended 31 December 2019

1. General information

Elementis plc is a public company limited by shares and is incorporated and domiciled in England. The address of its registered office is Caroline House, 55-57 High Holborn, London, WC1V 6DX. The principal activity of the Company is to act as the ultimate holding company of the Elementis Group of companies.

2. Basis of preparation

The Company's financial statements have been prepared under the historical cost convention, in compliance with applicable United Kingdom accounting standards, including Financial Reporting Standard 101 – 'Reduced disclosure framework – Disclosure exemptions from EU -adopted IFRS for qualifying entities' ('FRS 101'), and with the Companies Act 2006. The Company has presented its results under FRS 101.

As a qualifying entity whose results are consolidated in the Elementis plc Consolidated financial statements on pages 107 to 161, the Company has taken advantage of the exemption under FRS 101 from preparing a statement of cashflows and associated notes, the effects of new but not yet effective IFRSs, disclosures in respect of transactions and the capital management of wholly owned subsidiaries and key management personnel compensation disclosures.

As the consolidated financial statements include equivalent disclosures, the Company has also taken the disclosure exemptions under FRS 101 in respect of group settled share-based payments under IFRS 2 Share based payment, IFRS 16 leases, disclosures required by IFRS 7 Financial Instruments Disclosures and by IFRS 13 Fair Value Measurement.

By virtue of section 408 of the Companies Act 2006 the company is exempt from presenting an income statement and disclosing employee numbers and staff costs.

As a consequence of the majority of the Company's assets, liabilities and expenses originating in UK pound sterling, the Company has chosen the UK pound sterling as its reporting currency.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Company has adopted FRS 101 in these financial statements.

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 subsidiaries are included in the balance sheet at cost less accumulated impairment losses.

Potential indicators of impairment including the market capitalisation of the group dropping below the net assets of Elementis plc have been considered. The recoverable amounts of cash generating units as determined for the impairment testing of goodwill also support the recoverable amounts of the parent company's investments.

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.

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. Details of the latest actuarial valuation carried out in September 2017 can be found in the 2018 Elementis plc Annual report and accounts. Following the introduction of the revised reporting standard, any surplus or deficit in the Elementis Group defined benefit pension scheme is to be reported in the financial statements of Elementis UK Ltd, which employs the majority of active members of the scheme and is responsible for making deficit contributions under the current funding plan.

Taxation

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. Advance corporation tax recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors as appropriate.

There were no significant judgements or estimates necessary in 2019.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of IFRS 16 Leases. There has been no impact from this standard on the Company's financial statements.

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

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.

4. 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 £3.1m (2018: £1.3m loss) is dealt with in the financial statements of the Company.

5. Directors' remuneration

Details of Directors' remuneration for the Company are included in the Directors' remuneration report within the Elementis plc Annual Report and Accounts on pages 79 to 95.

6. Investments

	Unlisted shares at cost £m	Unlisted loans £m	Capital contributions £m	Total £m
Cost at 1 January 2019	0.1	759.0	12.7	771.8
Additions	–	–	2.1	2.1
Net book value 31 December 2019	**0.1**	**759.0**	**14.8**	**773.9**
Net book value 31 December 2018	0.1	759.0	12.7	771.8

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

Notes to the company financial statements of Elementis plc continued
for the year ended 31 December 2019

6. Investments continued

The trading subsidiaries and associates of Elementis plc, all of which are wholly owned, excluding Alembic Manufacturing Limited, where the Group holds a 25% interest, are as follows:

Subsidiary undertakings		Country of incorporation and operation
Adentatec GmbH Competence in Dental	Personal Care products	Germany[1]
Alembic Manufacturing Ltd	Personal Care products	United Kingdom[2]
Deuchem Co., Ltd	Additives and resins	Taiwan[3]
Deuchem (HK) Trading Co Ltd	Additives and resins	People's Republic of China – Hong Kong Special Administrative Region[4]
Deuchem (Shanghai) Chemical Co. Ltd	Additives and resins	People's Republic of China[5]
Eisenbacher Dentalwaren ED GmbH	Personal Care products	Germany[6]
Elementis Chromium Inc	Chromium chemicals	United States of America[7]
Elementis Chromium LLP	Chromium chemicals	United Kingdom[8]
Elementis Deuchem (Shanghai) Chemical Ltd	Additives and resins	People's Republic of China[5]
Elementis LTP Inc	Chromium chemicals	United States of America[7]
Elementis Minerals BV	Talc products	Netherlands[9]
Elementis Specialties (Anji) Ltd	Organoclays	People's Republic of China[10]
Elementis Specialties (Changxing) Ltd	Organoclays	People's Republic of China[11]
Elementis Specialties do Brasil Quimica Ltda	Coatings additives	Brazil[12]
Elementis Specialties Inc	Rheological additives, colourants, waxes, other specialty additives	United States of America[7]
Elementis SRL Inc	Personal Care products	United States of America[7]
Elementis UK Limited trading as: Elementis Specialties	Rheological additives, colourants, waxes, other specialty additives	United Kingdom[8]
Elementis Pharma GmbH	Personal Care products	Germany[13]
Mondo Minerals Deutschland GmbH	Talc products	Germany[14]
Elementis Minerals Nickel Oy	Talc products	Finland[15]
Mondo Trading (Beijing) Company Ltd	Talc products	People's Republic of China[16]

1 Registered office Konrad-Adenauer-Straße 13, 50996 Köln, Germany.
2 Registered office Unit 6 Wimbourne Buildings, Atlantic Way, Barry Docks, Barry, South Glamorgan CF63 3RA, UK.
3 Registered office 92, Kuang-Fu North Road, Hsinchu Industrial Park, Hukou, Hsinchu Taiwan, ROC.
4 Registered office Flat P, 14/F, Haribest Industrial Building, 45-47 Au Pui Wan Street, Fotan, Shatin N.T Hong Kong.
5 Registered office 99 Lianyang Road, Songjiang Industrial Zone, Shanghai, China.
6 Registered office Dr.-Konrad-Wiegand-Str. 9, 63939 Wörth a.Main, Germany.
7 Registered office 1209 Orange Street, Wilmington, Delaware, 19801, US.
8 Registered office Caroline House, 55-57 High Holborn, London WC1V 6DX, UK.
9 Registered office: Kajuitweg 8, 1041 AR, Amsterdam, Netherlands.
10 Registered office Huibutai, Majiadu Village, Dipu Town, Anji County, Huzhou City, Zhejiang Province, China.
11 Registered office Sian Town, Changxing County, Zhejiang Province, China.
12 Registered office Rodovia Nelson Leopoldino, SP 375, Km 13,8, s/n, Bairro Rural, Palmital, São Paulo, Brazil.
13 Registered office Giulinistr.2, 67065 Ludwigshafen, Germany.
14 Registered office Friedrichsallee 14, 42117, Wuppertal, Germany.
15 Registered office Talkkitie 7, 83500, Outokumpu, Finland.
16 Registered office Nan Zhugan Hutong no.6, floor 9, 01-007, Dongcheng District, 100010, Beijing, China.

Non-trading and dormant subsidiaries of Elementis plc, all of which are wholly owned within the Group, are as follows:

Subsidiary undertakings		Country of incorporation and operation
Agrichrome Ltd	Non-trading	United Kingdom[1]
American Chrome & Chemicals Inc	Dormant	United States of America[2]
Deuchem Holding Inc	Dormant	Samoa[3]
Deuchem International Inc	Dormant	Samoa[3]
Elementis America Shared Services Inc	Dormant	United States of America[2]
Elementis Australia Ltd	Dormant	United Kingdom[1]
Elementis Benelux NV	Non-trading (in liquidation)	Belgium[4]
Elementis Catalysts Inc	Dormant	United States of America[2]
Elementis Chemicals Inc	Dormant	United States of America[2]
Elementis Chromium America Inc	Dormant	United States of America[2]
Elementis Export Sales Inc	Non-trading	United States of America[2]
Elementis Finance (Australia) Ltd	Dormant	United Kingdom[1]
Elementis Finance (Europe) Ltd	Non-trading	United Kingdom[1]
Elementis Finance (Germany) Ltd	Non-trading	United Kingdom[1]
Elementis Finance (Ireland) Ltd	Non-trading	Ireland[5]
Elementis Finance (Jersey) Ltd	Non-trading	Jersey[6]
Elementis Finance (US) Ltd	Non-trading	United Kingdom[1]
Elementis Germany GmbH	Non-trading	Germany[7]
Elementis Germany Ltd	Dormant	United Kingdom[1]
Elementis Global LLC	Non-trading	United States of America[2]
Elementis GmbH	Non-trading	Germany[7]
Elementis Group (Finance) Ltd	Non-trading	United Kingdom[1]
Elementis Group BV	Non-trading	Netherlands[8]
Elementis Group Ltd	Dormant	United Kingdom[1]
Elementis Holdings Ltd	Non-trading	United Kingdom[1]
Elementis London Ltd	Dormant	United Kingdom[1]
Elementis Minerals Holding BV	Non-trading	Netherlands[9]
Elementis Nederland BV	Non-trading	Netherlands[8]
Elementis New Zealand Ltd	Dormant	United Kingdom[1]
Elementis NZ Ltd	Non-trading	New Zealand[10]
Elementis Overseas Investments Ltd	Non-trading	United Kingdom[1]
Elementis Pigments Inc	Dormant	United States of America[2]
Elementis S.E.A. (Malaysia) Sdn Bhd	Non-trading	Malaysia[11]
Elementis Securities Ltd	Non-trading	United Kingdom[1]
Elementis Services GmbH	Non-trading	Germany[7]
Elementis Specialties (India) Private Ltd	Non-trading	India[12]
Elementis US Holdings Inc	Non-trading	United States of America[2]
Elementis US Ltd	Non-trading	United Kingdom[1]
H & C Acquisitions Ltd	Dormant	United Kingdom[1]
H & C Lumber Inc	Dormant	United States of America[2]
Harcros Chemicals Canada Inc	Dormant	Canada[13]
Iron Oxides S.A. de CV	Dormant	Mexico[14]
Mondo Minerals International BV	Dormant	Netherlands[8]

Notes to the company financial statements of Elementis plc continued
for the year ended 31 December 2019

6. Investments continued

Subsidiary undertakings		Country of incorporation and operation
NB Chrome Ltd	Dormant	United Kingdom[1]
Reheis, Inc.	Non-trading	United States of America[2]
SRL Coöperatief U.A.	Non-trading	Netherlands[9]
SRLH Holdings Inc	Non-trading	United States of America[2]
SRL International Holdings, LLC	Non-trading	United States of America[2]
Talc Holding Finance Oy	Non-trading	Finland[15]
Talc Holding Oy	Non-trading	Finland[15]
WBS Carbons Acquisitions Corp	Non-trading	United States of America[2]

1 Registered office: Caroline House, 55-57 High Holborn, London WC1V 6DX, UK.
2 Registered office: 1209 Orange Street, Wilmington, Delaware, 19801, US.
3 Registered office: Maystar Chambers, P.O. Box 3269, Apia, Samoa.
4 Registered office: Regus Brussels Airport, Pegasuslaan 5,1831 Diegem, Belgium.
5 Registered office: 8th Floor, Block E, Iveagh Court, Harcourt Road, Dublin 2, Ireland.
6 Registered office: 3rd Floor, 44 Esplanade, St Helier, Jersey, JE4 9WG.
7 Registered office: Stolberger Str.370, 50933, Köln, Germany.
8 Registered office: Strawinskylaan 411, 1077XX Amsterdam, Netherlands.
9 Registered office: Kajuitweg 8, 1041 AR, Amsterdam, Netherlands.
10 Registered office: KPMG, P O Box 1584, 18 Viaduct Harbour Avenue, Maritime Square, Auckland, New Zealand.
11 Registered office: 10th Floor, Menara Hap Seng, No. 1 & 3 Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia.
12 Registered office: Unit-B, Ground Floor, Jaswanti Landmark, Mehra Industrial Estate, L.B.S. Marg, Vikhroli (W), Mumbai 400079, India.
13 Registered office: C/o Stewart McKelvey Stirling Scales,44 Chipman Hill, Suite 1000 ON E2L 4S6, Canada.
14 Registered office: Calle San Ignacio N 105, 22106 Tijuana,Baja California Mexico.
15 Registered office: Kajaanintie 54, 88620, Korholanmaki, Finland.

Notes:
- Other than Elementis Export Sales Inc, Elementis Group BV and Elementis Overseas Investments Ltd, none of the undertakings is 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, with the exceptions of (i) Elementis Specialties (India) Private Ltd for which the relevant date is 31 March; and (ii) Elementis Finance (Germany) Limited for which the relevant date is 30 September.
- 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.

7. Debtors

	2019 £m	2018 £m
Group relief receivable	**12.7**	12.7

8. Creditors: amount falling due within one year

	2019 £m	2018 £m
Accruals and deferred income	**0.6**	0.6

9. Share capital and reserves

	2019 Number '000	2019 £m	2018 Number '000	2018 £m
Called-up allotted and fully paid:				
Ordinary shares of 5 pence each				
At 1 January	**580,394**	**28.9**	463,938	23.1
Issue of shares	**124**	**–**	116,456	5.8
At 31 December	**580,518**	**28.9**	580,394	28.9

During the year a total of 124,110 ordinary shares with an aggregate nominal value of £6,206 were allotted and issued for cash to various employees at subscription prices between 52 pence and 170 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 £0.1m.

In October 2018 the Group undertook a rights issue on the basis of 1 share for every four fully paid ordinary shares held. The issue was resulted in the issue of 116,058,808 ordinary shares at £1.52 per share.

397,326 ordinary shares with an aggregate nominal value of £19,866 were allotted and issued for cash to various employees at subscription prices between 170 pence and 226 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 £172.5m as a result of the rights issue and employee allotments. The holders of ordinary shares are entitled to receive dividends and entitled to one vote per share at meetings of the Company.

The Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The Capital redemption reserve represents the nominal value of the shares redeemed.

The share options reserve comprises amounts accumulated in equity in respect of share options and awards granted to employees.

Details of the shared based payments in the year are set out in Note 26 to the Elementis plc consolidated financial statements.

10. Related party transactions

The Company is a guarantor to the Elementis Group defined benefit 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% 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.

11. UK registered subsidiaries exempt from audit

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 December 2019. Unless otherwise stated, the undertakings listed below are all 100% owned, either directly or indirectly, by Elementis plc. The Company will guarantee the debts and liabilities of the UK subsidiaries listed below at the balance sheet date in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company Number
Agrichrome Limited	100	–	2228826
Elementis Finance (Germany) Limited	100	–	5531634
Elementis Finance (US) Limited	100	–	9303101
Elementis Germany Limited	100	–	48664
Elementis Group (Finance) Limited	100	–	9303017
Elementis Group Limited	100	–	4048541
Elementis Overseas Investments Limited	100	–	8008981
Elementis Securities Limited	100	–	597303
Elementis US Limited	100	–	8005226
Elementis Finance (Europe) Limited	100	–	11717371

Notes to the company financial statements of Elementis plc continued
for the year ended 31 December 2019

12. Balance sheet restatement

In accordance with IAS 1 we have shown below a balance sheet as at the beginning of the comparative period to show the reclassification of amounts relating to share based payments to the share based payments reserve. These were incorrectly included in the profit and loss account in the prior year. The amounts in the share-based payments reserve are non-distributable.

	2017 31 December £m	Restatement	Restated 2017 31 December £m
Fixed assets			
Investments	769.7	–	769.7
Non-current assets		–	
Debtors	12.7	–	12.7
Creditors: amounts falling due within one year			
Creditors	(0.6)	–	(0.6)
Net current assets	12.1	–	12.1
Total assets less current liabilities	781.8	–	781.8
Creditors: amounts falling due after more than one year			
Amounts due to subsidiary undertakings	(333.7)	–	(333.7)
Net assets	448.1	–	448.1
Capital and reserves			
Called up share capital	23.1	–	23.1
Share premium account	12.8	–	12.8
Capital redemption reserve	83.3	–	83.3
Other reserves	250.5	–	250.5
Share option reserve	2.9	10.6	13.5
Profit and loss account	75.5	(10.6)	64.9
Equity shareholders' funds	448.1	–	448.1

Alternative performance measures and unaudited pro forma information

Alternative performance measures

A reconciliation from reported profit for the year to earnings before interest, tax, depreciation and amortisation (EBITDA) is provided to support understanding of the summarised cash flow included within the Finance Report on pages 38 to 43.

	2019 Profit and loss on total operations $m	2018 Profit and loss on continuing operations $m	2018 Profit and loss on discontinued operations $m	2018 Profit and loss on total operations $m
Profit for the year	**46.4**	49.8	(8.4)	41.4
Adjustments for				
Finance income	**(0.4)**	(0.3)	–	(0.3)
Finance costs and other expenses after adjusting items	**31.3**	19.8	–	19.8
Tax charge	**14.6**	15.6	(2.0)	13.6
Depreciation and amortisation	**70.1**	45.6	0.3	45.9
Excluding intangibles arising on acquisition	**(18.6)**	(15.0)	–	(15.0)
Adjusting items impacting profit before tax	**31.1**	47.7	9.8	57.5
EBITDA	**174.5**	163.2	(0.3)	162.9

There are also a number of key performance indicators (KPIs) on pages 22 and 23, the reconciliations to these are given below.

Operating cash flow

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 adjusting items.

	2019 $m	2018 $m
Net cash flow from operating activities	**143.4**	84.3
Less: Capital expenditure	**(47.3)**	(50.8)
Add:		
Income tax paid or received	**2.2**	6.9
Interest paid or received	**25.0**	14.3
Pension contributions net of current service cost	**1.2**	1.2
Adjusting items	**30.3**	21.8
Operating cash flow	**154.8**	77.7

Operating cash conversion

Operating cash conversion is defined as operating cash flow (as defined above) excluding payments for provisions and share based pay, divided by operating profit from total operations after adjusting items.

	2019 $m	2018 $m
Operating profit from total operations after adjusting items	**123.0**	132.0
Operating cash flow	**154.8**	77.7
Add:		
Provision and share based pay	**5.4**	4.5
	160.2	82.2
Operating cash flow conversion	**130%**	62%

Alternative performance measures and unaudited pro forma information continued

Contribution margin

The Group's contribution margin, which is defined as sales less all variable costs, divided by sales and expressed as a percentage.

	2019 $m	2018 $m
Revenue	**873.6**	827.0
Variable costs	**(473.1)**	(444.2)
Non variable costs	**(79.1)**	(76.7)
Cost of sales	**(552.2)**	(520.9)

Adjusted Group profit before tax

Adjusted Group profit before tax is defined as the Group profit before tax from total operations (both continuing and discontinued) after adjusting items, excluding adjusting items relating to tax.

Return on operating capital employed

The return on operating capital employed (ROCE) is defined as operating profit from total operations after adjusting 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 retirement benefit obligations.

	2019 $m	2018 $m
Operating profit from total operations after adjusting items	**123.0**	132.0
Fixed assets excluding goodwill	**746.0**	737.5
Working capital	**152.1**	181.9
Operating provisions	**(51.6)**	(48.8)
Operating capital employed	**846.5**	870.6
Return on capital employed %	**15%**	15%

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 (net of provisions) and trade payables. It specifically excludes repayments, capital or interest related receivables or payables, changes due to currency movements and items classified as other receivables and other payables.

Adjusted operating profit/operating margin

Adjusted operating profit is the profit derived from the normal operations of the business. Adjusted operating margin is the ratio of operating profit, after adjusting items, to sales.

Unaudited information

To better understand the full year performance of the business segments operated by the Group for the 12 months to 31 December 2018 for comparative purposes, the information below includes the results for the Talc segment for the ten months prior to acquisition.

Group performance	2019 continuing operations $	2018 Continuing operations $m[1]	2018 Talc 1 Jan to 22 Oct $m[2]	2018 Pro forma continuing operations $m
Revenue	873.6	822.2	136.9	959.1
Adjusted operating profit	123.0	132.6	20.7	153.3
Adjusted operating margin	14.1%	16.1%	15.1%	16.0%
Adjusted EBITDA	174.5	163.2	36.6	199.8
IFRS 16 adjustment	(7.9)	–	–	–
Adjusted EBITDA pre IFRS 16	166.6	163.2	36.6	199.8
Net Debt[3]	454.2	498.1	–	498.1
Net Debt / EBITDA *	2.73			2.49

External revenue by business segment	2018 Continuing operations $m[1]	2018 Talc 1 Jan to 22 Oct $m[2]	2018 Pro forma continuing operations $m	%
Personal Care	210.3	–	210.3	21.9
Coatings	362.2	–	362.2	37.8
Talc	21.5	136.9	158.4	16.5
Chromium	173.3	–	173.3	18.1
Energy	54.9	–	54.9	5.7
	822.2	136.9	959.1	100.0

External revenue by geography	2018 Continuing operations $m[1]	2018 Talc 1 Jan to 22 Oct $m[2]	2018 Pro forma continuing operations $m	%
North America	290.3	6.0	296.3	30.9
Europe	233.2	116.1	349.3	36.4
Rest of World	298.7	14.8	313.5	32.7
	822.2	136.9	959.1	100.0

Mondo performance	**12 months to 31 Dec 2019 €m**	12 months to 31 Dec 2018 €m[2]
Revenue	**135.6**	134.3
Adjusted operating profit	**23.0**	20.8

* Net Debt/EBITDA where EBITDA is the Adjusted EBITDA on continuing operations of the Group on a pre IFRS16 basis and including full prior months of Mondo is the definition of Net Debt/ EBITDA for Elementis' core banking covenants.
1 Source – Elementis annual accounts.
2 Source – Mondo management accounts for the relevant period.
3 See note 28.

Five year record

	2019 $m	2018 $m	2017 $m	2016 restated[2] $m	2015 restated[2] $m
Turnover					
Continuing operations	**883.4**	833.2	797.7	629.2	623.4
Discontinued operations	**–**	4.8	47.8	43.1	53.8
Group turnover	**883.4**	838.0	845.5	672.3	677.2
Operating profit after adjusting items					
Continuing operations	**123.0**	132.6	122.7	97.3	119.8
Discontinued operations	**–**	(0.6)	5.4	(0.3)	4.5
	123.0	132.0	128.1	97.0	124.3
Adjusting items before interest	**(31.1)**	(57.5)	(30.9)	(12.5)	2.8
Profit before interest	**91.9**	74.5	97.2	84.5	127.1
Other expenses	**(1.5)**	(1.6)	(1.2)	(1.4)	(2.1)
Net interest payable	**(29.4)**	(17.9)	(11.7)	(7.6)	(4.2)
Profit before tax	**61.0**	55.0	84.3	75.5	120.8
Tax	**(14.6)**	(13.6)	33.3	(7.4)	(26.2)
Profit attributable to equity holders of the parent	**46.4**	41.4	117.6	68.1	94.6

	2019 $m	2018 $m	2017 $m	2016 restated[2] $m	2015 restated[2] $m
Basic					
Earnings per ordinary share (cents)	**8.0**	7.9	23.3	14.7	20.5
Earnings per ordinary share after adjusting items (cents)	**12.6**	17.0	18.1	17.6	21.4
Diluted					
Earnings per ordinary share (cents)	**7.9**	7.9	23.0	13.5	18.7
Earnings per ordinary share after adjusting items (cents)	**12.4**	16.9	17.9	16.1	19.0
Dividend per ordinary share (cents)	**8.55**	8.65	8.80	16.80	16.45
Dividend per ordinary share rebased[3] (cents)	**8.55**	8.40	8.05	15.38	15.06
Interest cover (times)[1]	**5.3**	8.0	13.5	138.6	124.3
Equity attributable to equity holders of the parent	**906.2**	915.6	702.3	627.1	653.8
Net (debt)/cash	**(454.2)**	(498.1)	(291.1)	77.5	74.0
Weighted average number of ordinary shares in issue during the year (million)	**588.5**	526.3	513.0	510.0	509.4

1 Ratio of operating profit after adjusting items to interest on net borrowings.
2 Restated following the adjustment for amortisation of intangibles 2016 and 2015 restated but not prior years. This is not expected to be material.
3 Following the rights issue in October 2018, dividend per share for periods prior to this have been rebased to reflect the bonus element resulting from this rights issue.

Shareholder services

Shareholder profile (by category) as at 31 December 2019

Category	Number of shareholders	Percentage of total	Ordinary shares (million)	Percentage of issued share capital
Private individuals	7,999	91.81%	14,396,054	2.48%
Nominee companies	407	4.67%	445,559,730	76.75%
Limited and public limited companies	263	3.02%	109,401,576	18.85%
Other corporate bodies	42	0.48%	11,134,457	1.92%
Pension funds, insurance companies and banks	2	0.02%	26,510	0.00%

Shareholder profile (by size) as at 31 December 2019

Range of holdings	Number of shareholders	Percentage of total	Ordinary shares (million)	Percentage of issued share capital
1-499	4,390	50.38%	775,265	0.13%
500-999	1,121	12.87%	799,398	0.14%
1,000-4,999	2,189	25.12%	4,734,849	0.82%
5,000-9,999	454	5.21%	3,060,252	0.53%
10,000-49,999	283	3.25%	5,582,390	0.96%
50,000-99,999	65	0.75%	4,667,784	0.80%
100,000-499,999	106	1.22%	23,789,716	4.10%
500,000-999,999	27	0.31%	18,791,358	3.24%
1,000,000 plus	78	0.90%	518,317,315	89.29%

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 addressed to the Company's registrars:

Equiniti Group plc
Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
Tel: 0371 284 2379 or +44 (0)121 415 7043

For shareholders with hearing difficulties:
Tel: 0371 384 2255 or +44 (0)121 415 7028

Lines are open between 8.30am and 5.30pm Monday to Friday (excluding public holidays in England and Wales).

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.

Share dealing services

Equiniti provides a share dealing service that enables shares to be bought or sold by UK shareholders by telephone or over the internet. For telephone share dealing, please call 0345 603 7037 between 8.30am and 4.30pm (lines are open until 6.00pm for enquiries) and for internet share dealing, please visit: www.shareview.co.uk/dealing

Dividends

Shareholders who wish dividends to be paid directly into their bank or building society account should contact Equiniti for a dividend mandate form. This method of payment removes the risk of delay or loss of dividend cheques in the post.

Electronic communications

Shareholders can elect to receive shareholder documents electronically by registering with Shareview at www.shareview.co.uk. This will save on printing and distribution costs, creating environmental benefits. When you register, you will be sent an email notification to say when shareholder documents are available on our website and you will be provided with a link to that information. When registering, you will need your shareholder reference number which can be found on your share certificate or proxy form. Please contact Equiniti if you require any assistance or further information.

Share fraud

Share or investment scams are often run from 'boiler rooms' where fraudsters cold call investors offering them worthless, overpriced or even non-existent shares, or offer to buy their shares in a company at a higher price than the market value. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the company. Even seasoned investors have been caught out by such fraudsters. The FCA has some helpful information.

Report a scam

If you are contacted by a cold caller, you should inform the Company Secretary by email and also the FCA by using their share fraud reporting form at www.fca.org.uk/scams or calling their Consumer Helpline on 0800 111 6768.

If you have already paid money to a share fraudster, please contact Action Fraud on 0300 123 2040 or www.actionfraud.police.uk.

Corporate information

Financial calendar

04 March 2020	Preliminary announcement of final results for the year ended 31 December 2019
29 April 2020	Annual General Meeting
29 April 2020	Trading update
30 April 2020	Ex-dividend for final dividend for 2019 payable on ordinary shares
01 May 2020	Record date for final dividend for 2019 payable on ordinary shares
29 May 2020	Payment of final dividend for 2019 on ordinary shares
28 July 2020	Interim results announcement for the half year ending 30 June 2020
03 September 2020	Ex-dividend date for interim dividend for 2020 payable on ordinary shares
04 September 2020	Record date for interim dividend for 2020 payable on ordinary shares
25 September 2020	Payment of interim dividend for 2020 on ordinary shares

Annual general meeting

The Annual General Meeting of Elementis plc will be held on 29 April 2020 at 9.00am at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London, EC2A 2EG.

The notice of meeting is included in a separate document.

Company secretary

Laura Higgins

Registered number

3299608

Registered office

Caroline House
55-57 High Holborn
London
WC1V 6DX
UK

Principal offices

Elementis plc
Caroline House
55-57 High Holborn
London
WC1V 6DX
UK

Tel: +44 (0)20 7067 2999

Elementis Global
469 Old Trenton Road
East Windsor
NJ 08512
US

Tel: +1 609 443 2000

Independent auditors

Deloitte LLP
1 Little New Street, London EC4A 3TR

Joint corporate broker

JP Morgan Cazenove
60 Victoria Embankment, London EC4Y 0JP

Joint corporate broker

Numis
Cheapside House, 138 Cheapside, London EC2V 6LH

Public relations

Tulchan Communications
2nd Floor, 85 Fleet Street, London EC4Y 1AE

Solicitors

Herbert Smith Freehills LLP
Exchange House, Primrose Street, London EC2A 2EG

Email

company.secretariat@elementis.com

Website

www.elementis.com

Glossary

ACC	American Chemistry Council
ACT	Advance corporation tax
AGM	Annual General Meeting
ART	Annual Report team
Articles	Articles of Association
AWC	Average trade working capital
Board	Board of Directors of Elementis plc
Brexit	The withdrawal of the UK from the EU
CAPAs	Corrective and preventative actions
CapEx	Capital expenditure
CDP	Carbon disclosure project
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash generating unit
CHRO	Chief Human Resources Officer
CO_2	Carbon dioxide
CO_2e	Carbon dioxide equivalent
Code	UK Corporate Governance Code
Company	Elementis plc
COSMOS	Cosmetic Organic and Natural Standard
CSR	Corporate Social Responsibility
DB Scheme	Defined benefit scheme
DEFRA	Department for Environment and Rural Affairs
DNED	Designated Non-Executive Director
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECL	Expected credit losses
ECT	Elementis Compliance Team
ELT	Executive Leadership team
EPS	Earnings per share
ESC	Elementis Sustainability Council
ESG	Environmental, Social and Governance
ESOS	Executive share option scheme
ESOT	Employee share ownership trust
EU	European Union
FRC	Financial Reporting Council
FRS	Financial Reporting Standards
FTSE	Financial Times Stock Exchange
GAAP	Generally Accepted Accounting Principles
GDP	Gross domestic product
GDPR	General Data Protection Regulation
GHG	Greenhouse gases
GJ	Gigajoule
Group	Elementis plc and its subsidiaries
HMRC	HM Revenue & Customs
HSE	Health, safety and environment
IA	Investment Association
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFC	Inside front cover
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISS	Institutional Shareholder Services
KPI	Key performance indicator
kWh	Kilowatt per hour
LDI	Liability driven instrument
LPG	Liquefied Petroleum Gas
LTA	Lost time accident
LTIP	Long term incentive plan
MBTU	Thousand British Thermal Units
Mondo	Mondo Minerals Holding B.V. and its subsidiaries
NED	Non-Executive Director
NIC	National Insurance Contributions
OSHA	Occupational Safety and Health Administration
PBT	Profit before tax
PRMB	Post retirement medical benefit
R&D	Research & Development
REACH	Registration, Evaluation, Authorisation and restriction of Chemicals
RCF	Revolving credit facility
RfR	Relief from royalty
Rights Issue	A one to four Rights Issue that was undertaken by the Company in October 2018
ROCE	Return on capital employed
RSPO	Roundtable for sustainable palm oil
RTO	Regenerative thermal oxidiser
SAYE	Save As You Earn
SID	Senior Independent Director
SummitReheis	SRLH Holdings, Inc. and its subsidiaries
SVP	Senior Vice President
TCFD	The Task Force on Climate-related Financial Disclosures
TRIR	Total recordable incident rate
TSR	Total shareholder return
UK	United Kingdom
UN	United Nations
UN GC COP	United Nations Global Compact Communication On Progress
US	United States of America
VOC	Volatile organic compound

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Elementis plc
Caroline House
55-57 High Holborn
London
WC1V 6DX
UK

Tel: +44 (0)20 7067 2999
www.elementis.com