ELEMENTIS

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

Elementis plc (ELM.L), a global specialty chemicals company, announces its results for the year ended 31 December 2016.

HIGHLIGHTS

- Group earnings declined due to the negative impact of currency on our Chromium segment and oil prices on the Energy sector within our Specialty Products segment.
- Progress overall in Specialty Products where constant currency sales were up 3 per cent in 2016 and up 8 per cent in H2 2016 versus the same period last year.
  - Coatings sector up 4 per cent for the year*; 6 per cent growth* in Coatings Asia.
  - Personal Care sector up 14 per cent*, with good momentum in H2 which was up 23 per cent year on year*.
  - Energy down 16 per cent* for the year but H2 2016 sales improved by 15 per cent compared to H1*.
- Proposed acquisition of SummitReheis, a high quality personal care business, was announced on 10 February 2017 – expected to complete mid-year after regulatory requirements are satisfied.
- Continued strong cash generation – net cash position increased to $77.5 million.
- Total dividends for the year increased by 2 per cent to 16.80 cents:
  - Final dividend maintained at previous year level.
  - Special dividend increased by 4 per cent; fifth consecutive payment.

* constant currency sales reflect prior year results translated at current year exchange rates

FINANCIAL SUMMARY

	2016	2015
Sales	**$659.5m**	$677.2m†
IFRS profit for the year	**$68.1m**	$94.6m†
Statutory basic earnings per share	**14.7c**	20.5c†
Operating profit$^{\Delta}$	**$94.2m**	$121.5m†
Profit before tax$^{\Delta}$	**$89.7m**	$115.2m†
Diluted earnings per share$^{\Delta}$	**16.8c**	20.6c†
Operating cash flow$^{\Delta}$	**$96.0m**	$102.5m
Net cash	**$77.5m**	$74.0m
Dividends to shareholders:		
- Interim dividend	**2.70c**	2.70c
- Final proposed	**5.75c**	5.75c
- Special dividend proposed	**8.35c**	8.00c
- Total for the year	**16.80c**	16.45c

$^{\Delta}$ after adjusting items – see note 5
† restated – see note 9

Paul Waterman, Chief Executive Officer, of Elementis said:

"While 2016 performance was negatively impacted by currency and oil prices, significant progress was made to position Elementis for future growth. Elementis delivered good growth in the Personal Care and Coatings Asia sectors*, and another year of strong cash generation. These and other good performances in our Specialty Products segment were offset financially by the continued impact of the strong US dollar and low oil price on our Chromium segment and Energy sector, respectively.

Elementis has many strengths – high value propositions in Coatings, Energy and Personal Care, a material and growing position in China and an advantaged, cash-generative Chromium business in North America.

We are making progress with our ’Reignite Growth’ strategy, outlined in November 2016, that focuses on pursuing the best growth opportunities, supply chain transformation, innovation and a culture of high performance.

In line with our Reignite Growth strategy, we were very pleased recently to have announced the acquisition of SummitReheis, a leading supplier of specialty personal care additives and materials for the anti-perspirant, pharmaceutical and dental markets. This complementary acquisition will help transform the scale and growth prospects of our Personal Care activities, which will make an increasing contribution to driving the future growth of Elementis overall.

As we look to the future, we see significant opportunities for Elementis. The economic environment is likely to continue to be uncertain. However, the management team is focused on ‘self help’ to improve performance, whatever the market environment.

The Group has a solid financial platform, a new, energised leadership team and a clear strategy for delivery. We are confident that we have the foundations on which to make progress in 2017 and beyond."

END

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Chairman's statement

The markets in which we operate continued to be challenging in 2016, adversely affecting our two principal business segments.

In the Chromium segment, although the US business remained structurally advantaged and maintained a consistently high degree of stability, a strengthening US dollar and competitive pressures impacted both volumes and margins on export sales from the US to the rest of the world. As a result, the overall impact on volumes and earnings in 2016 has been material.

In the Specialty Products segment, we saw good underlying performance in all our sectors, with a resumption of growth in our Chinese coatings activities and the delivery of good growth in Personal Care. However, lower oil prices reduced demand in our Energy sector by some 16 per cent versus 2015 and the appreciation of the US dollar against most global currencies also impacted results.

Our new CEO Paul Waterman joined us in February 2016 and he has, initially with the support of our CFO at the time, Brian Taylorson, set about developing a strategy for the business in order to 'reignite growth' which aligns the management of the Company in the delivery of this strategy, which was presented to analysts and investors in November 2016. Following Brian's decision to step down after his many years of great service we appointed his successor, Ralph Hewins, who took up his role in November 2016. This growth strategy continues to build on the long standing strengths of the Group, improving operational efficiency through a range of 'self help' initiatives and focusing investment towards our highest growth markets and in our high performing Personal Care sector in particular. Since the end of the year, I am delighted to report that we have reached agreement on the acquisition of SummitReheis, which is a world leading personal care chemicals business, and will increase our exposure to this attractive sector. We expect the acquisition to complete mid-year after regulatory requirements are satisfied. Our track record of consistent cash generation over the last seven years has been an important component of the Group's investment case, contributing significantly to total shareholder returns. I am pleased that in 2016, despite the more challenging environment, the Group still delivered a strong cash flow performance. This in turn means that we have been able to increase our special dividend by four per cent.

Financial results

In 2016, Group sales were $659.5 million compared to $677.2 million in the previous year and IFRS profit before tax was $75.5 million compared to $120.8 million. These results were mainly due to the impact of currency on Chromium and oil prices on Energy described above. Group basic earnings per share was 14.7 cents compared to 20.5 cents in 2015.

In addition the Group's results will report a number of adjusting items and these items are discussed more fully in the Finance report. After taking account of these items, Group diluted earnings per share after adjusting items was 16.8 cents compared to 20.6 cents$^{\Delta}$ last year.

Balance sheet

The Group's balance sheet remains strong after another year of robust cash generation despite lower profits and higher dividend payouts. The Group's net cash position at the end of 2016 was $77.5 million compared to $74.0 million at the end of the previous year.

The IAS 19 deficit on the Group's post retirement benefit plans changed from $29.0 million at the end of 2015 to $30.1 million. The UK pension plan accounts for the majority of the Group's pension obligations.

Dividends

Under the dividend policy introduced in 2012, the Board undertook to pay approximately one third of earnings, after adjusting items, each year in a combination of interim and final dividends. In addition, a special dividend is paid each year of up to 50 per cent of the net cash balance at the end of year, provided there are no immediate investment plans for that cash. This year, the Board is recommending a maintained final dividend, reflecting its confidence in the Group's business model and its medium term prospects. In addition, as the year end net cash balance increased, we will be distributing half of this by way of a special dividend, notwithstanding our investment in the acquisition of SummitReheis.

Consequently, proposed total dividends for the year are increased by two per cent to 16.80 cents per share, the components of which are as follows:

- The Board is recommending a final dividend for 2016 of 5.75 cents per share (2015: 5.75 cents) and a special dividend of 8.35 cents per share (2015: 8.00 cents).
- The Board declared an interim dividend at the time of the Interim Results announcement of 2.70 cents per share (2015: 2.70 cents).

The final and special dividends will be paid on 26 May 2017, in pounds sterling at an exchange rate of £1.00:$1.2502 (equivalent to a sterling amount of 11.2782 pence per share), to shareholders on the register on 28 April 2017.

Health, safety and the environment

This is an area in which we have intensified focus in 2016. Whilst our overall performance continues to be of a high standard compared to the industry, management is seeking continuous improvement. Our goal is for everyone to go home safely every day.

We continue to invest in measures to improve our environmental impact. We will continue to be cooperative and proactive with regulators, while striving always to exceed their expectations.

Board changes

This has been a year of change at the top of our Company. As reported this time last year, Paul Waterman became CEO, joining the Board on 8 February 2016, replacing David Dutro. Ralph Hewins was appointed CFO-Designate and a Director of the Company on 12 September 2016 and replaced Brian Taylorson as CFO on 1 November 2016, when Brian stepped down from the role and the Board. On behalf of the Board I would like to take this opportunity to thank Brian for his significant contribution as CFO during the past 14 years. He has been central to the strong progress made by Elementis over many years and provided much valued support to myself and to both Paul and Ralph during the leadership transition.

Having served for nearly nine years, Andrew Christie will be standing down as a Director and as Chairman of the Remuneration Committee, in line with best practice, at the conclusion of the Annual General Meeting on 25 April 2017. Steve Good will succeed Andrew as Chairman of the Remuneration Committee at the conclusion of the meeting. Andrew has served the Board with great commitment over many years and I wish to extend my thanks to him for his efforts on our behalf.

Following a review of the Board's structure, capabilities, international experience and diversity, it was decided to increase the size of the Board from seven to eight members by appointing an additional non-executive Director. Sandra Boss and Dorothee Deuring joined the Board on 1 February 2017 and 1 March 2017 respectively. Both new Directors bring different expertise and insights and will make strong contributions in our boardroom. I am delighted to welcome them to Elementis and look forward to working with them.

Governance

One of the primary points of focuses for the Board in 2016 was the successful implementation of the change of executive leadership. The Board is pleased that the transition to the new CEO and CFO team in Paul and Ralph was a smooth process. One of the challenges that this type of change brings is that the dynamics between non-executive and executive Directors need to be re-established and I am pleased to report that your Board remains cohesive and transparent, and has shared values that are based on trust, integrity and a common purpose, which enable all Directors to perform effectively, both collectively and as individuals. It is my intention to ensure that these dynamics are further strengthened by the recent Board additions.

The Board considers that it has applied fully all of the principles and provisions of the Corporate Governance Code during 2016. More information is provided in the Corporate governance report.

People

The business owes its success to the contribution of all of its talented individuals. One of the distinctive features of Elementis is the dedication and commitment of its employees. Despite the challenges and changes of 2016, this has been unwavering and, on behalf of the Board, I would like to thank all of the staff for everything they have done.

Outlook

The Board believes that the economic environment is likely to continue to be uncertain as we go through the current year. However, the management team is focused on self help measures to deliver underlying operational improvements, as well as concentrating on our strengths and the development of our principal growth sectors, whatever the market environment. We expect to maintain our distinctive margins and are looking to grow share in our markets based on superior products and customer service.

The Group has a solid financial platform, a new, energised leadership team and a clear strategy for delivery. We are confident that we have the foundations on which to make progress in 2017 and beyond.

Andrew Duff
Chairman
1 March 2017

[Δ] after adjusting items – see note 5

Chief Executive Officer's overview

It is an exciting time for Elementis. Having joined the Company early in 2016 I have been in the role long enough to develop an informed view of how we need to progress.

I have spent time in this first year going to visit our people, customers and sites around the world, and as I reflect on the business we have today, there are a number of strengths that we can build upon:

- We have a strong heritage – with the Company's roots going back over 150 years.
- We have a talented team of very motivated employees.
- We have distinctive technology that our customers value.
- Our teams are customer focused and quick to respond.
- We have a good position in China that continues to grow.
- Our Personal Care sector is doing well and offers a number of opportunities.

Overall we are a high quality business, generating good free cash flow, and have a prudently financed balance sheet that offers options for the future.

Elementis offers its customers real distinctiveness and that has enabled it to grow successfully. Ten years ago it made $58 million profit and was worth around $0.7 billion. Today it is a great deal more than that. The reality is also that more recently growth has stalled, with earnings declining in the past two years. In 2016 this decline was quite pronounced.

In looking back at 2016 I will start with safety. There is nothing more important to us than our people going home safely every day. Whilst we continue to deliver safety performance that is amongst the leaders in the industry, we will not be satisfied until we achieve our goal of no one getting hurt working at Elementis. One immediate change was to make our VP Global HSE report directly to me. In 2016 we initiated the Take Two…*for safety*™ programme to reduce risk in our operations.

In 2016 our people agenda was focused on transforming our organisational structure. Elementis is a relatively small company and every person counts. So getting the organisation operating efficiently is essential to grow the business. We have made some changes in 2016 to let us do that.

Prior to 2016 there were two main business segments – Chromium and Specialty Products, and functions such as Marketing and R&D were embedded into regional activities. We have now moved to a structure that is much flatter, where the Specialty Products sector leaders, such as in Personal Care, Energy and the Coatings regions, all report to me, and we have globalised the functions so they can develop capability across the world and focus on fewer bigger things. We also created a global supply chain organisation so we can manage assets, operations and procurement on a global basis.

In HR we have initiated new processes to develop the leaders for tomorrow. We implemented a global HR management system supported by Workday so we can systematically manage our people processes such as talent, succession planning and reward.

Group performance

Revenue

	Revenue restated† 2015 $million	Effect of exchange rates $million	Increase/ (decrease) 2015 $million	**Revenue 2016 $million**
Specialty Products	453.2	(7.6)	14.8	460.4
Chromium	181.1	-	(12.3)	168.8
Surfactants	53.8	(0.7)	(10.0)	43.1
Inter-segment	(10.9)	-	(1.9)	(12.8)
	677.2	(8.3)	(9.4)	659.5

Operating profit

	Operating profit restated[†] 2015[Δ] $million	Effect of exchange rates $million	Increase/ (decrease) 2015 $million	**Operating profit 2016[Δ] $million**
Specialty Products	79.9	(3.9)	2.8	78.8
Chromium	48.0	-	(20.9)	27.1
Surfactants	4.5	0.1	(5.2)	(0.6)
Central costs	(10.9)	0.6	(0.8)	(11.1)
	121.5	(3.2)	(24.1)	94.2

[Δ] after adjusting items – see note 5

[†] restated – see note 9

Turning to our business performance in 2016, the biggest decline was in our Chromium segment.

We have great distinctiveness in this business with the only North American manufacturing base combined with unique delivery systems to our customers. This enabled us to maintain a strong performance in North America in 2016. However the rest of the world business was vulnerable to the impacts of a stronger US dollar, which had the impact of reducing volumes and margins significantly. Results were also adversely impacted in the latter part of the year by operational interruptions due to a hurricane and a centrifuge failure at our Castle Hayne site. We will continue to strengthen our North American base.

Towards the end of 2016 we saw the price of our key raw material, chrome ore, rise significantly. As a result we are now implementing price increases to protect our margins. Our expectations at this time is that underlying Chromium profitability in 2017 will be comparable to 2016.

In our Specialty Products segment, sales were up 3 per cent[†] over 2015 on a constant currency basis, although this progress masks some varied sector performance within this segment.

- In Energy the impact of the low oil price (mainly on North American drilling) saw constant currency sales reduce by 16 per cent[†]. The second half did see some recovery in volumes versus the second half of 2015 as the oil price rise boosted activity and we should see this modest momentum carry over into 2017.

- In Coatings constant currency sales growth of 4 per cent[†] was supported by a strong performance in China, which saw something of a rebound after the impact of destocking in 2015. However, reported results from Asia were impacted by the stronger US dollar.

- Our Americas activities continued to see growth in decorative coatings (with New Martinsville products being a driver) as well as a modest recovery in Latin America. Overall sales growth in the region was 2 per cent[†] at constant currency.

- In EMEA soft market conditions limited growth, but despite that we achieved a 3 per cent[†] constant currency sales growth, helped by a strong distributor performance, particularly in southern Europe.

- The stand out performer in our Specialty Products segment was Personal Care, which achieved a 14 per cent[†] growth in constant currency sales. This was accomplished through improved sales in all geographies, with particularly strong growth in Asia, of our new Rheoluxe® line of products and strong sales into aerosol anti-perspirants and colour cosmetics.

[†] restated – see note 9

In the Surfactants segment, operating profit declined from $4.5 million to a loss of $0.6 million. Volumes were 13 per cent lower as Chinese textile and leather market demand softened, whilst some specific customer orders were lower. We have taken steps to lower costs at the Delden site and are conducting a strategic review of the options for this business, which offers flexible manufacturing capabilities across a wide range of chemistries.

Looking at our overall financial performance, the strong cash generation of the Group was a stand-out with our year end net cash balance at $77.5m, enabling us to return cash to shareholders by way of a special dividend.

So a decline in 2016 due to difficult markets in important parts of our business – headwinds in Chromium, the low oil price affecting Energy demand and the impact of foreign exchange on US dollar profits. Looking ahead, I am convinced we cannot rely on the external environment getting better. Equally, underlying growth in the rest of our business has been limited.

In 2016 we completed a strategy review on our Specialty Products business and deeply analysed both Chromium and Surfactants. All of this work has been undertaken with a good balance of outsider input, fresh thinking and contributions from our experienced teams. This has allowed us to get really clear on where we can improve and I would highlight the following areas:

- We are quite dependent on business cycles and we need to continue to find ways we can make the business more resilient.
- We have been a little unfocused in our investment of money and people in some areas such as Personal Care, Sales and Technology.
- Growth opportunities, for example with our larger accounts and in Asia outside China, have not got the focus they need.
- Our functions have been dispersed regionally and have missed out on the chance to have a global focus and agenda.
- We have a number of assets which tie up capital but do not generate the returns we need – we need to make clearer choices about which assets we improve and which have a different future.

Underpinning all that, we need to ensure our organisation is set up to succeed and that we run our businesses with a culture of high performance.

These opportunities to improve translate into a set of four strategic priorities that we set out in November 2016. These priorities, taken together, articulate how we will 'reignite growth' at Elementis.

None of these rely on hope or the environment getting better but on us executing really well. Today is a low growth world and I don't see any signs of that changing. We cannot rely only on the hope that customer markets will be strong or that we will grow much faster than the competition. In short, we must also focus on self help.

Our strategic priorities

Our priorities are set out below.

1. Pursue the best Growth opportunities
We have selected three big areas of focus.

Key Account Management
This is all about accelerating and globalising how we work and grow with our major customers.

Over the last ten years the large regional coatings companies have globalised. We want to grow with these companies by developing a consistent global approach led by cross-functional key account teams that are focused on meeting clear goals.

Coatings Asia
We have an established operation in China and we are the clear leader in the market, servicing customers through an experienced sales force. The opportunity for Elementis is twofold: expanding into the rest of Asia and building our decorative coatings activities in the region.

Personal Care

In 2016 we made this sector report directly to me. I have also committed more resources to support growth.

We have a unique position with our hectorite mine. Hectorite organoclay is a very important ingredient to give cosmetic products the right viscosity or rheology. Just a small amount of it in a product gives it the right texture and makes it look and feel good. Hectorite gives Elementis a real competitive advantage: its colour is white, it is all natural and its chemistry is very efficient and versatile. These characteristics make it a highly valued ingredient in Personal Care and we see major opportunities to further expand and grow.

Next to hectorite, we have recently launched a range of new synthetic rheology modifiers called Rheoluxe®. We used the expertise from our Coatings group to launch these associative thickeners in Personal Care.

In addition to organic growth (which we believe can achieve double digit growth over the medium term), we announced in February 2017 the proposed acquisition of SummitReheis. This will provide a material and complementary addition to our Personal Care sector. SummitReheis is a high quality, high margin specialty chemicals business that produces a range of critical active ingredients and materials tailored for use in personal care, pharmaceutical and dental products.

SummitReheis' anti-perspirant actives business (more than 60 per cent of its sales) is the global leader in the manufacture and sale of active ingredients for anti-perspirants and has long standing relationships with key consumer product companies across the Americas, Europe and Asia.

It offers enhanced growth potential driven by the combination of complementary products, customers and a broader geographical presence which together offer cross-selling opportunities.

2. Supply Chain Transformation

We have a good set of assets that are run safely.

Our Chromium sites are globally cost competitive due to low cost energy and economies of scale, production cycles can easily be switched on or off to meet demand shifts, and have a flexible product mix. All the sites in the US are positioned well to service the North American market.

For Specialty Products, whilst we have a number of ‘advantaged’ sites, we also have identified a number of sites that are ‘neutral’ or ‘disadvantaged’. We have to address those assets. Transformation of a site could mean investment, simplification of processes within the operations, product rationalisation or finding a lower cost option.

Transformation goes beyond our asset portfolio to improvements in operations. This might involve:
- Cost reduction.
- Improving utilisation.
- Sourcing products from the lowest cost supply chain.
- Reducing cycle times.
- Product rationalisation.
- Improving procurement spend.

3. Innovation

We have a great technology base but need to invest in and focus our innovation. We have built industry leading expertise in four areas of technology:

- Rheology is the control of the flow behaviour of materials. Rheology modifiers bring this flow control to product formulations.
- Surface active chemistry is another area of technology critical to the service we provide to customers. Surface active compounds modify materials to improve their compatibility with other substances.
- Designing and synthesising polymers that deliver properties on demand.
- Guiding and supporting customers in creating the formulations sold to the end user.

We need to continue to strengthen our R&D pipeline of high value projects. We have eliminated a significant number of small projects with the intent of focusing on fewer, bigger and more material opportunities to ensure the new products we do choose to get behind are the most compelling. We manage this prioritisation on a quarterly basis.

4. Creating a culture of high performance

Beyond the organisational changes we have made, we are making further changes to improve the way we run the business. For example, our capital allocation can be more productive; we have introduced a stage gate process for managing capital projects and are re-focusing our spend to those areas that support strategy execution and are the most attractive.

The new global Marketing and R&D functions are now ensuring people and investment is spent on a clear pipeline that is prioritised. A high performance culture involves strong performance management: clear targets and measurement, ensuring accountability rests clearly with individuals and rewarding success. We are implementing standard management information and reporting to measure and manage performance in a common way.

By focusing on these four priorities we believe we can improve earnings and returns, whilst delivering improved cash flow and maintaining a strong financial position.

Summary

In the short term market conditions will continue to be an important factor in results given our current Chromium and Energy cyclical exposure. The end markets appear healthier than in the past couple of years but the key to our success will be not to depend only on the markets but to focus on self help and ensure the culture of high performance permeates the organisation. That gives me confidence that focusing on our strategic priorities will reignite growth for the Company.

All of this is with the intent of creating value. This is a strongly cash generative business that gives us resources. We have shown great discipline in the past, as shown in the dividend policy and record. We will continue to be highly disciplined.

It won’t necessarily be a smooth progression with two parts of our portfolio exposed to cycles, but what I can promise you is a relentless determination to improve this business, even in a low growth world, and create value for our shareholders.

I strongly believe we can reignite growth – earnings growth and better returns, translating into a strong cash flow and a more valuable business. I hope you are as excited by the future of Elementis as I am.

Paul Waterman
CEO
1 March 2017

Finance report

Revenue

	2016 $million	2015 restated† $million
Specialty Products	**460.4**	453.2
Chromium	**168.8**	181.1
Surfactants	**43.1**	53.8
Inter-segment	**(12.8)**	(10.9)
	659.5	677.2

Operating profit

	2016 Operating profit $million	**Adjusting items $million**	**2016 Adjusted operating profit $million**	2015 Operating profit restated† $million	Adjusting items $million	2015 Adjusted operating profit$^{\Delta}$ restated† $million
Specialty Products	**77.5**	**1.3**	**78.8**	77.5	2.4	79.9
Chromium	**23.6**	**3.5**	**27.1**	60.0	(12.0)	48.0
Surfactants	**(0.9)**	**0.3**	**(0.6)**	3.3	1.2	4.5
Central costs	**(15.7)**	**4.6**	**(11.1)**	(13.7)	2.8	(10.9)
	84.5	**9.7**	**94.2**	127.1	(5.6)	121.5

$^{\Delta}$ after adjusting items – see note 5 † restated – see note 9

Group results

Group sales in 2016 were $659.5 million compared to $677.2 million in the previous year, a reduction of 3 per cent, or 1 per cent excluding currency movements. The stronger US dollar impacted our results in non-US markets. Constant currency sales in our Specialty Products segment increased by 3 per cent, with strong performances from our Personal Care and Coatings Asia sectors (up 14 per cent and 6 per cent respectively). Low oil prices affected sales within our Energy sector particularly in the first half, but the performance improved towards the year end. Constant currency sales in the Surfactants segment were 19 per cent lower due to weakened end markets in Asia, and reduced volumes with specific customers. In our Chromium segment, sales declined 7 per cent as a consequence of the rest of world volume decline that resulted from the strength of the US dollar and excess capacity in the global market.

IFRS profit before tax was $75.5 million compared to $120.8 million. The decline was mainly due to the impact of currency on Chromium and oil prices on Energy described above. Operating profit$^{\Delta}$ for the year was $94.2 million, compared to $121.5 million in 2015, a reduction of 22 per cent, or 20 per cent excluding currency movements. Although Specialty Products' margins remained stable at constant currency, Group operating margin declined by 4 per cent to 14 per cent of sales, due to weakness within Surfactants and both the difficult trading conditions and non-repeat of one time cost credits from 2015 within Chromium, which had benefited by approximately $5 million from a legal settlement and property easement fees.

$^{\Delta}$ after adjusting items – see note 5

Adjusting items

A number of items have been recorded under 'adjusting items' in 2016 by virtue of their size and/or one time nature (2015: recorded as "non-recurring items"), in order to provide a better understanding of the Group's results. The net impact of these items on the Group profit before tax for the year is an increase of $14.2 million (2015: decrease of $5.6 million). The items fall into a number of categories, as summarised below:

Charge	Re-structuring	Business review	Environmental provisions	Acquisition costs	Total
Specialty Products	(1.3)	-	-	-	(1.3)
Surfactants	(0.3)	-	-	-	(0.3)
Chromium	-	-	(5.5)	-	(5.5)
Central costs	(1.4)	(2.4)	(2.5)	(0.8)	(7.1)
Total	(3.0)	(2.4)	(8.0)	(0.8)	(14.2)

<u>Re-structuring</u>

Following the appointment of a new Chief Executive Officer, the Group has reorganised the management structure and various parts of the business. Costs of this exercise including redundancy costs, as well as recruitment and other costs associated with changes in the management structure, was $3.0 million.

<u>Business review</u>

In the first half of 2016 a business review was undertaken with external assistance to support development of the long term strategy for Elementis. The one time cost of this exercise was $2.4m.

<u>Environmental provisions</u>

The Group's environmental provision is calculated on a discounted basis, reflecting the time period over which spending is estimated to take place. Following discussions with our external environmental advisors the Group has concluded that it would be appropriate to reduce the discount rate being used to value liabilities resulting in a charge of $4.5 million. We continue to fund the remediation work on the legacy Chromium site at Eaglescliffe that was closed in 2009. The work programme is determined in part through consultation with the local regulatory authorities and a re-assessment in the year of the outstanding tasks and their timeframe has resulted in a charge of $3.5 million.

<u>Acquisition costs</u>

On 10 February 2017 the Group announced its intention to acquire SummitReheis. During 2016 transaction related costs of $0.8 million were incurred in connection with this acquisition. Further costs will be expensed in 2017.

Currency hedging

Although a large part of the Group's business is transacted in US dollars, the Group also transacts in other currencies, in particular euros, pounds sterling and Chinese renminbi. In order to reduce earnings volatility from these currency exposures, the Group takes out cash flow hedges each year where these are readily available. In 2015, overall currency movements were such that the net impact of these hedge transactions was a charge to operating profit of $5.0 million, while in 2015 there was a benefit of $2.6 million.

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 office. In 2016 central costs$^{\Delta}$ were $11.1 million, compared to $10.9 million in 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 $1.4 million in 2016 compared to $2.1 million in the previous year. In 2015 costs were higher due to the finalisation of the 2014 triennial funding exercise.

$^{\Delta}$ after adjusting items – see note 5

Net finance costs$^{\Delta}$

	2016 $million	2015 $million
Finance income	**0.1**	**0.2**
Finance cost of borrowings	**(0.8)**	**(1.2)**
	(0.7)	(1.0)
Increase in environmental provisions	**(4.5)**	-
Net pension finance costs	**(1.0)**	(1.8)
Discount unwind on provisions	**(1.4)**	(1.4)
Net finance costs	**(7.6)**	(4.2)

$^{\Delta}$ after adjusting items – see note 5

Net finance costs increased by $3.4 million in 2016 to $7.6 million due to lower net borrowing and pension finance costs offset by an increase of $4.5m million due to a change in the discount rate used when calculating the environmental provisions. Net borrowing costs relate mostly to amortised arrangement and commitment fees on unutilised borrowing facilities, as well as interest income and expense on deposits and borrowings. These costs were lower than the previous year, at $0.7 million, due to lower average borrowings for the year. Pension finance costs, which are a function of discount rates under IAS 19 and the value of the schemes' deficit or surplus positions, were lower than the previous year at $1.0 million driven mainly by the impact of the UK scheme moving into a net surplus position during 2015, which resulted in a pension interest credit for that scheme in 2016. Discount on provisions relates to the annual time value of the Group's environmental provisions, which are calculated on a discounted basis and at $1.4 million were at a similar level to 2015.

Taxation

Tax charge

	$million	**2016 Effective rate per cent**	restated† $million	2015 Effective rate restated† per cent
Reported tax charge	**7.4**	**9.8**	26.2	21.7
Adjusting items	**3.7**	**2.6**	(7.2)	(5.2)
After adjusting items	**11.1**	**12.4**	19.0	16.5

† restated – see note 9

The tax charge on profits represents an effective rate after adjusting items for the year ended 31 December 2016 of 12.4 per cent (2015: 16.5 per cent). The Group is international and 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 decrease in tax rate arises from changes in the geographical mix of profits. In 2015 there had been a reduction due to the release of overseas provisions where the treatment of certain items had been resolved. The effective tax rate between 2012 and 2014 averaged in the low 20s. We expect the effective rate to return to this level, with the actual rate determined largely by the geographical split of profits.

Earnings per share

Note 7 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.

Diluted earnings per share, after adjusting items, was 16.8 cents compared to 20.6 cents† in the previous year. The year on year reduction was a result of lower operating profit which more than offset the impact of a lower tax rate in the year. Basic earnings per share was 14.7 cents compared to 20.5 cents† in 2015. This is after a reduction due to adjusting items of 2.3 cents in the year compared to 0.3 cents† in the prior year. Adjusting items in 2016 are described earlier in this report.

Distributions to shareholders
During 2016 the Group paid a final dividend in respect of the year end 31 December 2015 of 5.75 cents per share (2015: 5.75 cents) and a special dividend of 8.00 cents per share (2015: 6.95 cents). An interim dividend of 2.70 cents per share (2015: 2.70 cents) was paid on 30 September 2016 and the Board is recommending a final dividend of 5.75 cents per share and a special dividend of 8.35 cents per share, both of which will be paid on 26 May 2017.

Cash flow[Δ]
The cash flow is summarised below.

	2016 **$million**	2015 restated[†] $million
EBITDA[1]	**122.2**	148.4
Change in working capital	**13.4**	(11.8)
Capital expenditure	**(35.3)**	(31.3)
Other	**(4.3)**	(2.8)
Operating cash flow	**96.0**	102.5
Pension deficit payments	**(4.7)**	(22.8)
Interest and tax	**(3.5)**	(13.8)
Adjusting items	**(5.1)**	20.1
Other	**(0.2)**	(3.2)
Free cash flow	**82.5**	82.8
Dividends paid	**(76.2)**	(71.1)
Acquisitions and disposals	**-**	-
Currency fluctuations	**(2.8)**	(1.9)
Movement in net cash	**3.5**	9.8
Net cash at start of year	**74.0**	64.2
Net cash at end of year	**77.5**	74.0

[1] EBITDA – earnings before interest, tax, adjusting items, depreciation and amortisation
[Δ] after adjusting items – see note 5 [†] restated – see note 9

The Group delivered another positive cash flow performance in the year, with reported net cash flow from operating activities increasing from $111.6m in 2015 to $117.9m in 2016 and increasing net cash by $3.5 million to $77.5 million. The challenging trading conditions resulted in a reduced EBITDA figure, $26.2 million lower than 2015 at $122.2 million, but this was mitigated by a positive performance within working capital where there was a cash inflow of $13.4 million compared to an outflow of $11.8 million in 2015. The working capital improvement was driven by a reduction in Chromium inventory and by supplier payment patterns towards the end of the year. Capital expenditure of $35.3 million in 2016 was $4.0 million higher than in 2015 and exceeded depreciation and amortisation for the year of $28.0 million (2015: $26.9 million) as the Group continued to invest in its facilities. Within Specialty Products investment has continued in the decorative additives facility in New Martinsville, US, and also in Delden, with an expansion of our organic thixatrol capabilities. Spending on regional compliance HSE projects remains an important part of the Group's investment programme, with major projects ongoing in Delden and throughout Asia.

The decline in pension payments from $22.8 million in 2015 to $4.7 million is mainly attributable to the revised funding agreement concluded with the UK Trustees in 2015, which has resulted in significantly lower payments than in recent years.

Balance sheet

	2016 **$million**	2015 restated[†] $million
Intangible fixed assets	**359.9**	362.5
Tangible fixed assets	**217.3**	211.2
Working capital	**118.0**	138.5
Net tax liabilities	**(76.3)**	(65.0)
Provisions & retirement benefit obligations	**(69.3)**	(67.4)
Net cash	**77.5**	74.0
Total Equity	**627.1**	653.8

Group equity decreased by $26.7 million in 2016 (2015: increase of $13.4 million). Intangible fixed assets declined by $2.6 million with amortisation charges of $3.4 million and currency translation losses of $3.0 million offsetting additions of $3.8 million. Tangible fixed assets increased by $6.1 million as additions of $34.0 million exceeded the depreciation charge of $24.6 million and the minor impact of currency translation and disposals. Working capital decreased by $20.5 million driven primarily by the increase in trade and other payables of $19.0 million and a reduction of inventory balances of $5.4 million, most significantly within Chromium. Net tax liabilities increased by $11.3 million, as the tax charge on profits for the year of $7.4 million and currency translation adjustments exceeded actual cash tax paid. Movements in provisions and retirement benefit obligations are discussed elsewhere in this report. Net cash increased by $3.5 million as described in the previous section.

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

		2016		2015
	Year end	**Average**	Year end	Average
Pounds sterling	**0.81**	**0.73**	0.68	0.65
Euro	**0.95**	**0.90**	0.92	0.90

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 2016 the Group held provisions of $39.2 million (2015: $38.4 million), consisting of environmental provisions of $31.4 million (2015: $29.5 million), self insurance provisions of $2.5 million (2015: $3.1 million) and restructuring and other provisions of $5.3 million (2015: $5.8 million). Within environmental provisions, which increased by $1.9 million in 2016, there was reduced spending of $6.1 million (2015: $9.1 million) offset by an increase in the provision relating to the closed Eaglescliffe site ($3.5 million) and an adjustment relating to the discount rate used to calculate the liability ($4.5 million), both of which have been treated as adjusting items. 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, which were set up following various adjusting charges made during 2015 and 2016, the $5.3 million balance includes the remaining liability under a right of first refusal agreement, a provision for an ongoing regulatory case in Europe and future payments relating to reorganisation measures taken during 2015 and 2016. $2.2 million was spent against these provisions in 2016.

Pensions and other post retirement benefits

	2016 $million	2015 $million
Net (surplus)/liability:		
UK	**(4.3)**	(6.7)
US	**29.4**	30.7
Other	**5.0**	5.0
	30.1	29.0

UK plan

The largest of the Group's retirement plans is the UK defined benefit pension scheme ("UK Scheme") which at the end of 2016 had a surplus, under IAS 19, of $4.3 million (2015: $6.7 million). 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. Positive asset returns in the year of 19 per cent (2015: negative 2 per cent) in the year partially offset the $24.2 million financial cost of liabilities (2015: $27.4 million) and other liability adjustments of $110.8 million (2015: $57.2 million improvement) which arose due to lower discount rates based on real corporate bond yields. Company contributions of $3.3 million were substantially lower than the $21.1m paid in 2015 as a result of the funding agreement that was reached with the UK Trustees in 2015 following the September 2014 triennial valuation. Under this agreement the funding deficit is expected to be eliminated by 30 September 2018 and the maximum annual contributions by the Company for any year, in pounds sterling, are as follows:

Year payable	Amount (£million)
2017	5.2
2018	3.9

US plans

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 2016 of $23.1 million (2015: $24.4 million), and a post retirement medical plan with a liability of $6.3 million (2015: $6.3 million). The US pension plan is smaller than the UK plan and is closed to future accruals. In 2016 the overall deficit value reduced by $1.3 million as the financial cost of the liability for the year of $5.4 million (2015: $5.1 million) and actuarial increases on the liability of $3.1 million (2015: reduction of $4.1 million) exceed the benefit of the improved asset returns of 8 per cent (2015: decline of 0.2 per cent) and employer contributions of $2.2 million (2015: $2.7 million).

Other plans

Other liabilities at 31 December 2016 amounted to $5.0 million (2015: $5.0 million) and relate to pension arrangements for a relatively small number of employees in Germany and certain UK legacy benefits.

Consolidated income statement
for the year ended 31 December 2016

	Note	2016 $million	2015 restated† $million
Revenue		**659.5**	677.2
Cost of sales		**(420.5)**	(418.2)
Gross profit		**239.0**	259.0
Distribution costs		**(80.0)**	(85.8)
Administrative expenses		**(74.5)**	(63.1)
Profit on property disposal		**-**	17.0
Operating profit		**84.5**	127.1
Other expenses		**(1.4)**	(2.1)
Finance income	3	**0.1**	0.2
Finance costs	4	**(7.7)**	(4.4)
Profit before income tax		**75.5**	120.8
Tax		**(7.4)**	(26.2)
Profit for the year		**68.1**	94.6
Attributable to:			
Equity holders of the parent		**68.1**	94.6
		68.1	94.6
Earnings per share			
Basic (cents)	7	**14.7**	20.5
Diluted (cents)	7	**14.6**	20.3

† restated – see note 9

Consolidated statement of comprehensive income
for the year ended 31 December 2016

	2016 $million	2015 restated† $million
Profit for the year	**68.1**	94.6
Other comprehensive income:		
Items that will not be reclassified subsequently to profit and loss:		
Remeasurements of retirement benefit obligations	**(2.6)**	17.4
Deferred tax associated with retirement benefit obligations	**(0.5)**	(6.6)
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	**(16.5)**	(20.9)
Effective portion of change in fair value of net investment hedge	**(1.4)**	(0.6)
Effective portion of changes in fair value of cash flow hedges	**(0.3)**	(0.9)
Fair value of cash flow hedges transferred to income statement	**0.9**	(0.1)
Exchange differences on translation of share options reserves	**(0.7)**	-
Other comprehensive income	**(21.1)**	(11.7)
Total comprehensive income for the year	**47.0**	82.9
Attributable to:		
Equity holders of the parent	**47.0**	82.9
Total comprehensive income for the year	**47.0**	82.9

† restated – see note 9

Consolidated balance sheet
as at 31 December 2016

	2016 31 December $million	2015 31 December restated† $million
Non-current assets		
Goodwill and other intangible assets	**359.9**	362.5
Property, plant and equipment	**217.3**	211.2
ACT recoverable	**23.0**	34.0
Deferred tax assets	**16.1**	14.2
Total non-current assets	**616.3**	621.9
Current assets		
Inventories	**121.3**	126.7
Trade and other receivables	**96.0**	92.0
Cash and cash equivalents	**82.6**	79.1
Total current assets	**299.9**	297.8
Total assets	**916.2**	919.7
Current liabilities		
Bank overdrafts and loans	**(5.0)**	(5.1)
Trade and other payables	**(98.9)**	(79.9)
Derivatives	**(0.4)**	(0.3)
Current tax liabilities	**(6.7)**	(0.2)
Provisions	**(9.5)**	(9.5)
Total current liabilities	**(120.5)**	(95.0)
Non-current liabilities		
Loans and borrowings	**(0.1)**	-
Retirement benefit obligations	**(30.1)**	(29.0)
Deferred tax liabilities	**(108.7)**	(113.0)
Provisions	**(29.7)**	(28.9)
Total non-current liabilities	**(168.6)**	(170.9)
Total liabilities	**(289.1)**	(265.9)
Net assets	**627.1**	653.8
Equity		
Share capital	**44.4**	44.4
Share premium	**20.9**	20.2
Other reserves	**75.2**	93.0
Retained earnings	**486.6**	496.2
Total equity attributable to equity holders of the parent	**627.1**	653.8
Total equity	**627.1**	653.8

† restated – see note 9

Consolidated statement of changes in equity for the year ended 31 December 2016

	Share capital $million	Share premium $million	Translation reserve restated $million	Hedging reserve $million	Other reserves $million	Retained earnings restated $million	Total equity restated $million
Balance at 1 January 2015	**44.4**	**18.7**	**(40.3)**	**(6.9)**	**163.6**	**464.6**	**644.1**
Restatement (see note 9)	-	-	(0.2)	-	-	(3.5)	(3.7)
Balance at 1 January 2015 (restated)	**44.4**	**18.7**	**(40.5)**	**(6.9)**	**163.6**	**461.1**	**640.4**
Comprehensive income							
Profit for the year	-	-	-	-	-	94.6	94.6
Other comprehensive income							
Exchange differences	-	-	(21.5)	-	-	-	(21.5)
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	-	-	-	(0.9)	-	-	(0.9)
Remeasurements of retirement benefit obligations	-	-	-	-	-	17.4	17.4
Deferred tax adjustment on pension scheme deficit	-	-	-	-	-	(6.6)	(6.6)
Transfer	-	-	-	-	(2.6)	2.6	-
Total other comprehensive income	-	-	(21.5)	(1.0)	(2.6)	13.4	(11.7)
Total comprehensive income	-	-	(21.5)	(1.0)	(2.6)	108.0	82.9
Transactions with owners							
Purchase of own shares	-	-	-	-	-	(0.6)	(0.6)
Issue of shares by the Company	-	1.5	-	-	(0.2)	-	1.3
Share based payments	-	-	-	-	2.1	-	2.1
Deferred tax on share based payments recognised within equity	-	-	-	-	-	(1.2)	(1.2)
Dividends paid	-	-	-	-	-	(71.1)	(71.1)
Total transactions with owners	-	1.5	-	-	1.9	(72.9)	(69.5)
Balance at 31 December 2015	**44.4**	**20.2**	**(62.0)**	**(7.9)**	**162.9**	**496.2**	**653.8**
Balance at 1 January 2016	**44.4**	**20.2**	**(62.0)**	**(7.9)**	**162.9**	**496.2**	**653.8**
Comprehensive income							
Profit for the year	**-**	**-**	**-**	**-**	**-**	**68.1**	**68.1**
Other comprehensive income							
Exchange differences	**-**	**-**	**(17.9)**	**-**	**(0.7)**	**-**	**(18.6)**
Fair value of cash flow hedges transferred to the income statement	**-**	**-**	**-**	**0.9**	**-**	**-**	**0.9**
Effective portion of changes in fair value of cash flow hedges	**-**	**-**	**-**	**(0.3)**	**-**	**-**	**(0.3)**
Remeasurements of retirement benefit obligations	**-**	**-**	**-**	**-**	**-**	**(2.6)**	**(2.6)**
Deferred tax adjustment on pension scheme deficit	**-**	**-**	**-**	**-**	**-**	**(0.5)**	**(0.5)**
Transfer	**-**	**-**	**-**	**-**	**(2.4)**	**2.4**	**-**
Total other comprehensive income	**-**	**-**	**(17.9)**	**0.6**	**(3.1)**	**(0.7)**	**(21.1)**
Total comprehensive income	**-**	**-**	**(17.9)**	**0.6**	**(3.1)**	**67.4**	**47.0**
Transactions with owners							
Purchase of own shares	**-**	**-**	**-**	**-**	**-**	**(0.9)**	**(0.9)**
Issue of shares by the Company	**-**	**0.7**	**-**	**-**	**-**	**-**	**0.7**
Share based payments	**-**	**-**	**-**	**-**	**2.6**	**-**	**2.6**
Deferred tax on share based payments recognised within equity	**-**	**-**	**-**	**-**	**-**	**0.1**	**0.1**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(76.2)**	**(76.2)**
Total transactions with owners	**-**	**0.7**	**-**	**-**	**2.6**	**(77.0)**	**(73.7)**
Balance at 31 December 2016	**44.4**	**20.9**	**(79.9)**	**(7.3)**	**162.4**	**486.6**	**627.1**

Consolidated cash flow statement
for the year ended 31 December 2016

	2016 $million	2015 restated† $million
Operating activities:		
Profit for the year	**68.1**	94.6
Adjustments for:		
Other expenses	**1.4**	2.1
Finance income	**(0.1)**	(0.2)
Finance costs	**7.7**	4.4
Tax charge	**7.4**	26.2
Depreciation and amortisation	**28.0**	26.9
(Decrease)/increase in provisions	**(3.5)**	2.8
Pension payments net of current service cost	**(4.7)**	(22.8)
Share based payments	**2.6**	2.1
Operating cash flow before movement in working capital	**106.9**	136.1
Decrease in inventories	**1.7**	14.2
(Increase)/decrease in trade and other receivables	**(9.6)**	14.2
Increase/(decrease) in trade and other payables	**22.5**	(38.9)
Cash generated by operations	**121.5**	125.6
Income taxes paid	**(2.7)**	(12.7)
Interest paid	**(0.9)**	(1.3)
Net cash flow from operating activities	**117.9**	111.6
Investing activities:		
Interest received	**0.1**	0.2
Disposal of property, plant and equipment	**0.3**	1.6
Purchase of property, plant and equipment	**(34.0)**	(30.3)
Purchase of business	**-**	-
Acquisition of intangible assets	**(1.6)**	(1.1)
Net cash flow from investing activities	**(35.2)**	(29.6)
Financing activities:		
Issue of shares by the Company and the ESOT	**0.7**	1.4
Dividends paid	**(76.2)**	(71.1)
Receipt of unclaimed dividends	**-**	-
Purchase of shares by the ESOT	**(0.9)**	(0.6)
Decrease in borrowings	**-**	(3.9)
Net cash used in financing activities	**(76.4)**	(74.2)
Net increase in cash and cash equivalents	**6.3**	7.8
Cash and cash equivalents at 1 January	**79.1**	73.7
Foreign exchange on cash and cash equivalents	**(2.8)**	(2.4)
Cash and cash equivalents at 31 December	**82.6**	79.1

† restated – see note 9

Notes to the financial statements

1. Preparation of the preliminary announcement

The financial information in this statement does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies, and those for 2016 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

This preliminary announcement was approved by the Board of Directors on 1 March 2017.

2. Basis of preparation

Elementis plc (the "Company") is incorporated in the UK. The information within this document has been prepared based on the Company's consolidated financial statements which are prepared in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS) and consistent with the accounting policies as set out in the previous consolidated financial statements, with the exception of the restatement of the comparatives for the previous year for the change in revenue recognition policy. See note 9.

The Group's financial statements have been prepared on the historical cost basis except that derivative financial instruments and financial instruments held for trading or available for sale are stated at their fair value. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. The preparation of financial statements requires the application of estimates and judgements that affect the reported amounts of assets and liabilities, revenues and costs and related disclosures at the balance sheet date. The accounting policies have been consistently applied across Group companies to all periods presented.

The Group and Company financial statements have been prepared on the going concern basis, as the directors are satisfied that the Group and Company have adequate resources to continue to operate for at least a period of 12 months from the date of approval of the financial statements. An explanation of the directors' assessment of using the going concern basis is given in the Directors' report in the Annual Report and Accounts 2016 which will be made available to shareholders on 17 March 2017.

Reporting currency

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

3. Finance income

	2016 $million	2015 $million
Interest on bank deposits	**0.1**	0.2

4. Finance costs

	2016 $million	2015 $million
Interest on bank loans	**0.8**	1.2
Pension and other post retirement liabilities	**1.0**	1.8
Increase in environmental provisions due to change in discount rate	**4.5**	-
Unwind of discount on provisions	**1.4**	1.4
	7.7	4.4

5. Adjusting items and Alternative Performance Measures

	2016 $million	2015 $million
Land sale	**-**	(17.0)
Restructuring	**3.0**	4.2
Business review	**2.4**	-
Environmental provisions		
Increase in provisions due to additional remediation work identified	**3.5**	-
Increase in provisions due to change in discount rate	**4.5**	-
Acquisition costs	**0.8**	
Other	**-**	7.2
	14.2	(5.6)
Tax (credit) /charge in relation to adjusting items	**(3.7)**	2.5
Recognition of reduced tax assets	**-**	4.7
	10.5	1.6
Cash flows relating to adjusting items	**(5.1)**	(7.7)

A number of items have been recorded under 'adjusting items' in 2016 by virtue of their size and/or one time nature, in order to provide a better understanding of the Group's results. The net impact of these items on the Group profit before tax for the year is an increase of $14.2 million (2015: decrease of $5.6 million).

Re-structuring
Following the appointment of a new Chief Executive Officer, the Group has reorganised the management structure and various parts of the business. Costs of this exercise including redundancy costs, as well as recruitment and other costs associated with changes in the management structure, was $3.0 million.

Business review
In the first half of 2016 a business review was undertaken with external assistance to support development of the long term strategy for Elementis. The one time cost of this exercise was $2.4m.

Environmental provisions
The Group's environmental provision is calculated on a discounted basis, reflecting the time period over which spending is estimated to take place. Following discussions with our external environmental advisors the Group has concluded that it would be appropriate to reduce the discount rate being used to value liabilities resulting in a charge of $4.5 million. We continue to fund the remediation work on the legacy Chromium site at Eaglescliffe that was closed in 2009. The work programme is determined in part through consultation with the local regulatory authorities and a re-assessment in the year of the outstanding tasks and their timeframe has resulted in a charge of $3.5 million.

Acquisition costs
On 10 February 2017 the Group announced its intention to acquire SummitReheis. During 2016 transaction related costs of $0.8 million were incurred in connection with this acquisition. Further costs will be expensed in 2017.

To support comparability with the financial statements as presented in 2015, the reconciliation to the adjusted consolidated income statement is shown below.

	2016 Profit and loss $million	Adjusting items $million	2016 After adjusting items $million	2016 Profit and loss restated $million	Adjusting items $million	2015 After adjusting items restated $million
Revenue	**659.5**	**-**	**659.5**	677.2	-	677.2
Cost of sales	**(420.5)**	**-**	**(420.5)**	(418.2)	-	(418.2)
Gross profit	**239.0**	**-**	**239.0**	259.0	-	259.0
Distribution costs	**(80.0)**	**-**	**(80.0)**	(85.8)	-	(85.8)
Administrative expenses	**(74.5)**	**9.7**	**(64.8)**	(63.1)	11.4	(51.7)
Profit on property disposal	**-**	**-**	**-**	17.0	(17.0)	-
Operating profit	**84.5**	**9.7**	**94.2**	127.1	(5.6)	121.5
Other expenses	**(1.4)**	**-**	**(1.4)**	(2.1)	-	(2.1)
Finance income	**0.1**	**-**	**0.1**	0.2	-	0.2
Finance costs	**(7.7)**	**4.5**	**(3.2)**	(4.4)	-	(4.4)
Profit before income tax	**75.5**	**14.2**	**89.7**	120.8	(5.6)	115.2
Tax	**(7.4)**	**(3.7)**	**(11.1)**	(26.2)	7.2	(19.0)
Profit for the year	**68.1**	**10.5**	**78.6**	94.6	1.6	96.2
Attributable to:						
Equity holders of the parent	**68.1**	**10.5**	**78.6**	94.6	1.6	96.2
	68.1	**10.5**	**78.6**	94.6	1.6	96.2
Earnings per share						
Basic (cents)	**14.7**	**2.3**	**17.0**	20.5	0.3	20.8
Diluted (cents)	**14.6**	**2.2**	**16.8**	20.3	0.3	20.6

To support comparability with the financial statements as presented in 2015, a reconciliation from reported profit/(loss) before interest to adjusted profit before income tax by segment is shown below for each year.

	2016					
	Specialty Products $million	**Surfactants $million**	**Chromium $million**	**Segment totals $million**	**Central costs $million**	**Total $million**
Reported profit/(loss) before interest	**77.5**	**(0.9)**	**23.6**	**100.2**	**(15.7)**	**84.5**
Adjusting Items						
Restructuring	**1.3**	**0.3**	**-**	**1.6**	**1.4**	**3.0**
Business review	**-**	**-**	**-**	**-**	**2.4**	**2.4**
Increase in environmental provisions due to additional remedial work identified	**-**	**-**	**3.5**	**3.5**	**-**	**3.5**
Acquisition costs	**-**	**-**	**-**	**-**	**0.8**	**0.8**
Adjusted profit /(loss) before interest	**78.8**	**(0.6)**	**27.1**	**105.3**	**(11.1)**	**94.2**
Other expenses	**-**	**-**	**-**	**-**	**(1.4)**	**(1.4)**
Finance income	**-**	**-**	**-**	**-**	**0.1**	**0.1**
Finance costs	**-**	**-**	**-**	**-**	**(7.7)**	**(7.7)**
Adjusting items						
Finance costs	**-**	**-**	**-**	**-**	**4.5**	**4.5**
Adjusted profit before income tax	**78.8**	**(0.6)**	**27.1**	**105.3**	**(15.6)**	**89.7**

	2015					
	Specialty Products restated $million	Surfactants $million	Chromium restated $million	Segment Totals restated $million	Central costs $million	Total restated $million
Reported profit/(loss) before interest	77.5	3.3	60.0	140.8	(13.7)	127.1
Adjusting Items						
Land sale	-	-	(17.0)	(17.0)	-	(17.0)
Restructuring	2.1	0.5	0.7	3.3	0.9	4.2
Other	0.3	0.7	4.3	5.3	1.9	7.2
Adjusted profit/(loss) before interest	79.9	4.5	48.0	132.4	(10.9)	121.5
Other expenses	-	-	-	-	(2.1)	(2.1)
Finance income	-	-	-	-	0.2	0.2
Finance costs	-	-	-	-	(4.4)	(4.4)
Adjusted profit before income tax	79.9	4.5	48.0	132.4	(17.2)	115.2

A reconciliation from reported profit for the year to EBITDA is provided to support understanding of the summarised cash flow included within the Finance report.

	2016 **$million**	2015 restated $million
Profit for the year	**68.1**	94.6
Adjustments for		
Finance income	(0.1)	(0.2)
Finance costs and other expenses after adjusting items	4.6	6.5
Tax charge	7.4	26.2
Depreciation and amortisation	28.0	26.9
Adjusting items	14.2	(5.6)
EBITDA	**122.2**	148.4

6. Income tax expense

	2016 $million	2015 restated† $million
Current tax:		
Recognition of UK Advance Corporation Tax credits	**-**	-
UK corporation tax	**6.6**	5.3
Overseas corporation tax	**9.9**	8.8
Adjustments in respect of prior years:		
United Kingdom	**-**	1.3
Overseas	**(1.1)**	(2.9)
Total current tax	**15.4**	12.4
Deferred tax:		
United Kingdom	**0.2**	2.4
Overseas	**(8.4)**	8.0
Adjustment in respect of prior years:		
United Kingdom	**-**	3.4
Overseas	**0.2**	-
Total deferred tax	**(8.0)**	13.8
Income tax expense for the year	**7.4**	26.2
Comprising:		
Income tax expense for the year	**7.4**	26.2
Adjusting items$^{\Delta}$		
Overseas taxation on adjusting items	**1.9**	(2.5)
UK taxation on adjusting items	**1.8**	-
Recognition of UK ACT and losses	**-**	-
UK ACT and deferred tax charge	**-**	(4.7)
Taxation on adjusting items	**3.7**	(7.2)
Income tax expense for the year after adjusting items	**11.1**	19.0
Adjusting items		

$^{\Delta}$ see note 5 for details of adjusting items

The tax charge on profits represents an effective rate after adjusting items for the year ended 31 December 2016 of 12.4 per cent (2015: 16.5 per cent). The Group is international and 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 total charge for the year can be reconciled to the accounting profit as follows:

	2016 $million	2016 per cent	2015 restated† $million	2015 restated† per cent
Profit before tax	**75.4**		120.8	
Tax on ordinary activities at 20 per cent (2015: 20.25per cent)*	**15.1**	**20.0**	24.5	20.3
Difference in overseas effective tax rates	**(2.7)**	**(3.6)**	4.9	4.1
Income not chargeable for tax purposes	**(4.6)**	**(6.0)**	(5.0)	(4.1)
Expenses not deductible for tax purposes	**0.5**	**0.6**	0.4	0.3
Adjustments in respect of prior years	**(0.9)**	**(1.2)**	(3.3)	(2.7)
Recognition of adjusting tax items	**-**	**-**	4.7	3.9
Tax charge and effective tax rate for the year	**7.4**	**9.8**	26.2	21.7

* The UK corporation tax rate will reduce to 19 per cent from 1 April 2017 and 17 per cent from 1 April 2020; these reductions were substantively enacted on 26 October 2015.

† restated – see note 9

7. 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:

	2016 $million	2015 restated† $million
Earnings:		
Earnings for the purpose of basic earnings per share	**68.1**	94.6
Adjusting items net of tax	**10.5**	1.6
Adjusted earnings	**78.6**	96.2

	2016 million	2015 restated† million
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	**462.8**	462.2
Effect of dilutive share options	**3.9**	4.0
Weighted average number of shares for the purposes of diluted earnings per share	**466.7**	466.2

	2016 cents	2015 restated† cents
Earnings per share:		
Basic	**14.7**	20.5
Diluted	**14.6**	20.3
Basic after adjusting items	**17.0**	20.8
Diluted after adjusting items	**16.8**	20.6

† restated for IAS 18 Revenue

8. Contingent liabilities

As is the case with other chemical companies, the Group occasionally receives notices of litigation relating to regulatory and legal matters. A provision is recognised when the Group believes it has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where it is deemed that an obligation is merely possible and that the probability of a material outflow is not remote, the Group would disclose a contingent liability. No contingent liability was considered to be reportable at 31 December 2016.

9. Prior year restatement

During 2016 the Board considered the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 Revenue and, in particular when the Group had transferred the significant risks and rewards of ownership of the goods. Following further assessment of the terms of shipment, the Board concluded that international shipments should not be recognised within revenue until they reach the destination port, as this more accurately reflects the commercial substance of the transaction in that risks and rewards of ownership pass to the customer at this point. Due to this change in the accounting policy, the prior year comparatives have therefore been restated to provide comparable information.

The financial statement line items impacted have been set out below.

Consolidated Income Statement	2015 Reported $million	Restatement $million	2015 Restated $million	Adjusting items (Note 5) $million	2015 Restated Adjusted $million
Revenue	678.8	(1.6)	677.2	-	677.2
Cost of sales	(418.8)	0.6	(418.2)	-	(418.2)
Gross profit	260.0	(1.0)	259.0	-	259.0
Operating Profit	128.1	(1.0)	127.1	(5.6)	121.5
Profit before income tax	121.8	(1.0)	120.8	(5.6)	115.2
Tax charge	(26.5)	0.3	(26.2)	7.2	(19.0)
Profit for the year	95.3	(0.7)	94.6	1.6	96.2

Consolidated Statement of Comprehensive Income	2015 Reported $million	Restatement $million	2015 Restated $million
Profit for the year	95.3	(0.7)	94.6
Exchange differences on translation of foreign operations	(21.7)	0.2	(21.5)
Total comprehensive income for the year	83.4	(0.5)	82.9

Balance Sheet At 1 January 2015	2015 Reported $million	Restatement $million	2015 Restated $million
Inventories	137.5	6.8	144.3
Trade and other receivables	121.4	(10.5)	110.9
Retained earnings	464.6	(3.5)	461.1
Translation reserve	(40.3)	(0.2)	(40.5)
At 31 December 2015	2015 Reported $million	Restatement $million	2015 Restated $million
Inventories	119.5	7.2	126.7
Trade and other receivables	103.8	(11.8)	92.0
Current tax liabilities	(0.6)	0.4	(0.2)
Retained earnings	500.4	(4.2)	496.2
Translation reserve	(62.0)	-	(62.0)

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Annual Financial Report

In accordance with Disclosure and Transparency Rule 6.3.5, the following additional information is required to be made through a Regulatory Information Service ("RIS"): Principal risks and uncertainties; and Directors' responsibility statement. The information below, which is summarised and extracted from the 2016 Annual report and accounts that is to be published on 17 March 2017, is included solely for the purpose of complying with DTR 6.3.5(2) and the requirements it imposes on issuers on what material is to be communicated to the media in unedited full text through a RIS. A fuller description is set out in the 2016 Annual report and accounts.

Risk management

The risk management approach at Elementis is mature and well defined. The Board has overall responsibility for setting policy, culture and tone, and providing support and oversight to management. The CEO, supported by his leadership team, is responsible for implementing Group policies, risk management performance, identifying principal risks and ensuring resources are allocated for effective risk management and mitigation. The Audit Committee plays an important role in supporting the work of 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 implementation of a new, flatter and more accountable organisational structure by the CEO has helped to introduce greater transparency in the risk management process. One of the benefits is that there is more focus at leadership team meetings on principal risks and how these should be prioritised and mitigated. Another key change introduced last year was that the Global HSE function was made to report directly to the CEO, putting operational safety and our environmental performance at the heart of our priorities.

The Elementis leadership team, which comprises the CEO, CFO and leaders of the business areas and global functions, meets every month and HSE and risk management are standing agenda items. In 2016, the leadership team carried out a review of the Group's business continuity plans, as well as its annual risk review. The result of the risk review was the identification of the principal risks that are presented in this risk management report. These principal risks were also considered by the Board.

Risk review process

The risk review carried out by the leadership team and Board involved identifying more than 50 risks and assessing these by impact (strategic, financial, operational and reputational) and likelihood of occurrence. Mitigation controls were also considered. In terms of severity of financial impact, a materiality threshold of $5 million in operating profit was set for the purposes of selecting the ten principal risks that are disclosed.

Principal risks and uncertainties

The following is a summary of the principal risks agreed by the Board: (i) uncertain global economic conditions and competitive pressure in the marketplace (including from currency movement); (ii) business interruption as a result of a major event (eg operations/HSE, IT, transport or workplace incident caused by process/system failure, and/or human error, or by fire, storm and/or flood), or a natural catastrophe (eg a hurricane, pandemic and/or security incident); (iii) business interruption as a result of supply chain failure of key raw materials and/or third party service provision (eg infrastructure, transport or IT failure); (iv) increasing regulatory and product stewardship challenges; (v) major regulatory enforcement action, litigation and/or other claims arising from products and/or historical and/or ongoing operations; (vi) talent management and succession planning: failure to attract, manage, develop and/or retain key talent; (vii) cyber security incident: systems security breach and loss of network connectivity and integrity, and/or loss of business and personal data; (viii) industrial espionage, workplace security and loss of intellectual property; (ix) Disruptive technology advances: failure to identify and mitigate the threat posed by new or imitation technology; and (x) changes in international tax policy.

As reported in the 2016 interim results statement, in response to the outcome of the vote in the British referendum on membership of the European Union on 23 June 2016, the Board reviewed a number of risks to the Group of 'Brexit', including sterling depreciation, UK and EU economic depression, increased cost of capital and trade tariffs, and has considered there to be no material impact on the principal risks faced by the Group. The Board has not changed its position on this assessment.

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

Directors' responsibility statement
The following is an extract of the full statement prepared in connection with the Company's Annual Report and Accounts (comprising both consolidated and parent company financial statements) for the year ended 31 December 2016. The full text of the Directors' responsibility statement will appear in the 2016 Annual report and accounts.

The Directors of the Company confirm that to the best of their knowledge:

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

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