ELEMENTIS

A global specialty chemicals company

23 March 2021

ELEMENTIS plc
PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

Self-help actions partially offset COVID-19 related volume impacts

- Despite demand recovery in H2, revenue down 14% (12% underlying*) from $874m to $751m principally due to COVID-19 related volume impact across industrial and consumer end markets.
- Statutory loss after tax of $67m, primarily due to non-cash goodwill impairments across Energy and Talc assets booked in the first half due to COVID-19 impacts. Adjusted operating profit down 34% (33% underlying*) to $82m, in line with expectations, with good Coatings performance, pricing resilience and cost savings offset by lower volumes.
- Net debt reduced by $46m from $454m (December 2019) to $408m, due to strong operating cash conversion[4] of 137% and the suspension of the dividend, representing a year end financial leverage[4] of 3.2x. The Group continues to have significant liquidity, with over $350m immediately available.

Further strategic progress, well positioned for sustainable growth and value creation

- Business fundamentals remain strong – a higher quality, advantaged portfolio with material growth and self-help opportunities. Personal Care, Coatings and Talc represent over 90% of earnings.
- Good progress on Innovation, Growth and Efficiency strategy to deliver medium term Group performance objectives. Delivered $30m of new business opportunities, 12 new product launches and increased new products** from 12% to 14% of sales.
- Proactive cash and cost management - $15m of cost savings ($10m temporary) and $7m of working capital reduction delivered in 2020. Accelerated delivery of $10m of supply chain savings for 2021. New 2023 targets of $10m cost savings and $10m working capital reduction.

2021 outlook – improved financial performance and deleveraging expected

- An encouraging start to 2021, but cautious on outlook due to COVID-19 dynamic.
- Continued demand improvement from H2 20 activity levels, linked to COVID-19 recovery, and self-help focus anticipated to drive improved financial performance and a reduction in leverage.

FINANCIAL SUMMARY

	2020	2019	% Change
Revenue	**$751m**	**$874m**	-14%
Adjusted operating profit[1]	**$82m**	**$123m**	-34%
Adjusted profit before tax[1]	**$53m**	**$94m**	-44%
Adjusted diluted earnings per share[2]	**6.5c**	**12.4c**	-48%
Adjusted operating cash flow[3]	**$110m**	**$155m**	-29%
Net debt[4]	**$408m**	**$454m**	-10%
Ordinary dividend per share	–	**2.8c**	n/a
Statutory results			
Statutory (loss)/profit for the period	**$(67)m**	**$46m**	n/a
Statutory basic (loss)/earnings per share[2]	**(11.5)c**	**8.0c**	n/a

Business performance overview

- **Personal Care** revenue down 9% on an underlying basis* (18% on a reported basis), from $195m to $161m. Adjusted operating profit down 20% on an underlying basis* (21% on a reported basis) from $43m to $34m; adjusted operating margin of 20.9% vs 21.9% in 2019.
  - Volumes impacted by demand weakness in colour cosmetics and anti-perspirant deodorants due to COVID-19 related social and travel restrictions.
  - Adjusted margins solid at 20.9% despite weaker volumes and relatively lower sales of higher margin hectorite based cosmetics ingredients.

- **Coatings** revenue down 7% on an underlying basis* (8% on a reported basis), from $320m to $296m. Adjusted operating profit down 2% on an underlying* and reported basis from $48m to $47m, with adjusted operating margin up from 15.1% to 15.9%.
  - Revenue impacted by weak demand in industrial markets, such as automotive and protective coatings, partially offset by robust decorative activity.
  - Despite volume headwinds, adjusted margins improved to 15.9%, reflective of an improved underlying cost position, enhanced product portfolio and new business wins.

- **Talc** revenue down 13% on an underlying basis* (12% on a reported basis), from $151m to $133m. Adjusted operating profit down 35% from $26m to $17m, with adjusted operating profit margin of 12.5%.
  - Revenue impacted by Q2 automotive shutdowns and reduced paper demand, partially offset by coatings growth and geographic expansion. Strong H2 recovery with Q4 volumes above the prior year period.
  - Adjusted margins of 12.5%, down from 17.1% in 2019 due to lower volumes and reduced fixed cost absorption.

- **Chromium** revenue down 14% from $171m to $147m; adjusted operating profit down 69% from $18m to $6m.
  - Revenue impacted by lower volumes due weaker industrial production, particularly in Q2 and Q3, and pricing declines principally outside of North America.
  - Adjusted operating profit margin down from 10.6% to 3.8% due to weaker volumes and pricing, partially offset by efficiency gains.

- **Energy** revenue down 49% from $47m to $24m. Adjusted operated profit down from $4m to a $6m loss in 2020.
  - Lower drilling activity (c. 50% lower in North America vs 2019) drives revenue decline.
  - Charleston plant closure and consolidation of capacity at St Louis to restore future profitability.

Commenting on the results, CEO, Paul Waterman said:

"In 2020 we faced challenging demand conditions due to the unprecedented impact of COVID-19 on communities around the world. I am grateful for the support of all our stakeholders during this period, and I am proud of the way our people have remained focused on safe, reliable operations and taking care of our customers through such a difficult time.

We have made an encouraging start to 2021, and for the full year expect improved financial performance and deleveraging, linked to COVID-19 developments. We will continue to maintain our focus on self-help actions to optimise performance, and in 2021 expect to deliver more than $30m of new business opportunities, over 20 new products and $10m of cost savings.

The fundamentals of our business remain strong and we have high quality assets with enduring competitive advantages. I am confident that the implementation of our Innovation, Growth and Efficiency strategy, in combination with our self-help actions, will position Elementis to capture growth, deliver our medium term financial ambitions and generate significant shareholder value".

Further information
A presentation for investors and analysts will be held at 11am GMT on 23 March 2021. The presentation will be webcast on www.elementis.com. Conference call dial in details:

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Notes:
* Adjusted for constant currency and M&A. Previously referred to as 'organic'. See Finance Report.
** New products defined as products launched within the last 5 years, patented and protected products (excluding Chromium)

1 – See note 5.
2 – See note 7.
3 – See Finance Report.
4 – See alternative performance measures and unaudited information.

– ENDS –

Chairman's statement

This year has posed unprecedented challenges for all of us. The COVID-19 pandemic has brought personal hardship and suffering to many of our communities, colleagues and customers. Paul Waterman, his Leadership Team and everyone at Elementis has risen to the task - their rapid and decisive actions have helped the Company to navigate safely through these turbulent times.

Our greatest concern has been the safety and welfare of our employees and I am immensely grateful for the efforts of every single one of them. Through their hard work we have maintained effective operations in our supply chain, manufacturing, innovation and customer support, such that every customer has continued to receive the products they need. This has been achieved with unprecedented levels of digitally enabled remote working and enhanced safe working practices. I have been impressed by the resilience of the organisation; it is a testament to the quality of our people and the work that has been done over recent years in transforming the business.

Looking to the future, we have a clearer path towards returning to a more normal environment with the vaccine roll out, although uncertainties remain including the impact on the way we live and work. Our strong values have supported us well and we all look forward to re-establishing personal contact and relationships with colleagues and customers.

BUSINESS PERFORMANCE

In 2020, our financial performance was materially impacted by COVID-19, with weaker demand across all our businesses, although encouragingly, we have seen quarter-on-quarter recovery from the lows of Q2. While Personal Care has been affected by restrictions limiting social interaction and travel, our more industrial focused businesses were impacted by weak demand in areas such as industrial coatings, manufacturing and long life plastics.

In response, we have focused on the things that we can control through active cost and cash management, while continuing to innovate for our customers. As a result, we have delivered a resilient level of performance and cash flow in 2020, while continuing to invest in growth projects and improvements to our supply chain. It is expected that further benefits from these improvements will be evident in 2021 and beyond, and that they will be reinforced by our structural growth opportunities as we emerge from COVID-19. Despite the economic challenges in our end markets, it has been particularly pleasing to see our Coatings business respond so effectively to the management changes implemented over recent years with an encouraging increase in operating profit margins.

OUR STRATEGY

Over the last few years, we have made significant progress repositioning Elementis as a premium performance additives business with advantaged positions in growing markets such as Personal Care, Coatings and Talc. The delivery of the benefits of recent acquisitions has been held back by business specific challenges and the impact of COVID-19. However, we have a clear strategic framework and set of priorities in place to improve returns and create shareholder value.

In November 2019, we outlined Innovation, Growth and Efficiency as the pillars of our new strategic agenda. They remain our core drivers. In 2020 we captured new business representing $30m of revenue, launched 12 new products and delivered $15m of cost savings. These successes demonstrate our strategy in action.

Elementis is fit for the future and well positioned to deliver sustainable long term growth through our distinctive and competitively advantaged assets and technologies. Our strategic priorities and medium term Group performance objectives remain unchanged albeit delayed by the impact of the pandemic.

BALANCE SHEET

During the year the Group took several steps to provide additional financial headroom and preserve cash, including the suspension of the dividend, thus contributing to a significant reduction in net debt from $454m to $408m. The management team also accelerated cost reduction and working capital improvement programmes while continuing to drive new business opportunities. These measures contributed to a resilient performance in the most challenging of circumstances and give confidence in the outlook for the business. The Board recognises the importance of dividends to shareholders and will look to reinstate payments once material progress is made on reducing financial leverage.

Looking forward, our capital allocation priorities are clear: investment to drive organic growth, further debt reduction and, when appropriate, the resumption of dividends to our shareholders.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

Commitment to our purpose of developing products which help our customers respond to their biggest challenges was never more important than in 2020. Building our product portfolio to address sustainable megatrends such as natural personal care ingredients, vehicle light weighting, recyclable food packaging and water based industrial coatings contributed to a resilient performance in 2020. They also provide the platform for our strategy of Innovation, Growth and Efficiency.

In 2020 the Board, in conjunction with our executives and our employees, developed a set of new sustainability objectives for the next decade, through to 2030. Our ambition is to deliver material reductions in areas including greenhouse gas emissions (GHG), energy, waste and water usage. We are excited about these ambitious targets because improving our sustainability is the right thing to do and it is fully aligned with the delivery of superior performance for stakeholders through innovation and the increasing use of natural ingredients.

Our culture, values and a diverse management team and workforce are all key to achieving our goals. Our values - Safety, Solutions, Ambition, Respect and Team - have been critical in maintaining resilient and safe operations throughout the pandemic and also in sustaining a shared commitment while working remotely over a prolonged period of time. I would like to thank every one of our team members for their efforts on the Company's behalf and appreciate that many employees have had to manage challenging circumstances at home as well.

GOVERNANCE AND BOARD

At this time of change and volatility, compounded by the COVID-19 pandemic, where we need to maintain financial strength, your Board has continued to prioritise good governance and dynamic risk management. This focus ensures that we ask the right questions of Paul and his team, supporting them in driving results for the short and medium term.

Board succession planning is something in which we have invested time to ensure that we have the depth of leadership capability to support strategic delivery. We have a good breadth of experience which brings richness to our discussions. During the last 12 months I am pleased to have welcomed John O'Higgins as Senior Independent Director and Christine Soden as a Non-Executive Director, further strengthening the experience and diversity of the Board as well as strengthening succession options within the Board. I am pleased to be able to say that we have achieved gender diversity of 38% in our Board and 27% in our Executive Leadership team and direct reports. We are building a pipeline of diverse executive talent to ensure that we have strong succession plans for all of our executives.

It has been a privilege to serve as Chair of Elementis during its transformation over recent years. Paul has assembled a strong management team over this time and it has been a pleasure to support them and their colleagues as they met the challenges presented by the pandemic. There is good momentum in the business and deleveraging and strategic progress will continue to be key priorities. I believe that this is therefore the right time to step down and allow a new Chair to lead the Board and the Company into this important next phase, building on its high quality assets and market positions. The Nomination Committee has initiated a process to identify a successor which will be announced in due course.

STAKEHOLDER ENGAGEMENT

The Board greatly values the views of shareholders, customers and our other stakeholders, and makes it a priority to meet as many of our employees as we can. While COVID-19 has limited our ability to visit Elementis' global sites, virtual contact has to some extent filled the gap. This engagement is a valuable way of assessing the success of strategy delivery and getting a real feel for the culture of the organisation.

I've also met many of our shareholders this year. Discussions have focused on our strategic progress and financial strength, but also on the prospects for the business in the context of the unsolicited takeover offer received towards the end of the year. The Board appreciates the support of shareholders and accepts the expectations for performance that come with that support. The Board will continue to remain highly engaged with our shareholders as we strive to deliver sustained value creation.

OUR PEOPLE

In such a challenging environment, our collaborative team of people and the culture they embody has been key to the resilience of our business. The way that our employees around the world have risen to the challenge of maintaining supply and support to our customers despite the huge difficulties faced has made me immensely proud. On behalf of the Board, I would like to thank them again for their professionalism, dedication and understanding during this most challenging year.

LOOKING AHEAD

Elementis' strong businesses, market leading positions and clear strategic priorities provide a solid foundation for recovery as we transition from the COVID-19 pandemic towards a 'new normal'. Our business continues to act with discipline, and we are confident that the growth opportunities for Elementis are very attractive. Your Board and Leadership Team will ensure that Elementis continues to focus on long term value creation for all our stakeholders.

Andrew Duff
Chairman
23 March 2021

Chief Executive Officer's overview

The world is in a very different place compared with 12 months ago; COVID-19 has brought significant challenges to individuals and all businesses. In early 2020, we started to see the virus spread through China. The actions we put in place there, to look after our people, manage our operations and reliably supply our customers, stood us in good stead as the virus then spread around the world during the rest of the year.

Our priority was, and remains, the health and safety of our people, and we have reacted to ensure these are protected. I am proud of the way our people responded to keep the business operating largely uninterrupted throughout the crisis and I would like to thank all our employees for their dedication and efforts during the year.

The Group has demonstrated its resilience in the most challenging of situations and that gives me significant confidence regarding our future prospects.

COVID-19 RESPONSE

Our top priority is to do the right thing for our people, in the knowledge that they will look after our customers. In 2020, most of our office based staff (approximately 25-30% of our workforce) successfully switched to home working. Their ability to do so was significantly enabled by our digital technology investments over recent years. At our 23 global manufacturing plants, employee wellness protocols, hygiene and social distancing measures helped to keep our people safe. Enhanced employee communications, improved health benefits and well-being resources ensured continued engagement and close collaboration across the organisation. Many of these changes have been beneficial from an efficiency perspective – for instance increased flexible working and digital connectivity – and it is anticipated some will continue into 2021 and beyond.

We continued to provide a reliable service for our customers throughout 2020. Except for temporary closures at two sites in China and one site each in Brazil and the US, the Company's production sites operated continuously, with no raw material shortages. This performance is partly reflective of recent operating improvements. For instance, reducing our single sourced raw materials from 40% in 2016 to 25% and increasing operational automation has made our supply chain more efficient and resilient. It is also a credit to our people who worked tirelessly with suppliers, logistics partners and customers to ensure adequate plans were in place for all contingencies. We have also continued to support our partners' innovation efforts. Through the delivery of virtual innovation and technical support sessions to over 10,000 customer employees, we helped our partners develop new products and grow their industry and application knowledge, in spite of COVID-19 restrictions.

As demand quickly declined, we took swift and decisive action to reduce costs, conserve cash and strengthen our balance sheet. While the Group benefited from $5m of headcount related cost reductions taken in late 2019, and accelerated progress towards our 2021 target of $10m in supply chain savings, in year mitigation focused on the cessation of discretionary expenditure in areas such as marketing and travel. This saved approximately $10m in 2020. Coordination between our global supply chain, sales and finance teams also delivered $7m of sustainable working capital savings in 2020, bringing our total working capital reduction to $30m since 2017. In addition, given the market and economic uncertainties, the Group took steps to provide additional financial headroom and preserve cash. Firstly, we secured a relaxation of our banking covenants from 3.25x to 3.75x net debt/EBITDA for 2020 and 2021; and secondly, the 2019 final dividend was suspended in March 2020 and the Board decided not to declare an interim or final dividend for 2020.

PERFORMANCE

The year was challenging from a financial performance perspective, as weak demand and destocking impacted most of our end markets, particularly in Q2. While Coatings, our biggest business, benefited to some extent from increased DIY activity, albeit more than offset by weaker industrial demand, Personal Care and Talc were both negatively impacted by COVID-19. In Personal Care, restrictions on social interaction and travel resulted in the cosmetics and anti-perspirant deodorant markets declining significantly as 2020 progressed. In Europe, it is estimated retail sales of cosmetics fell by 21% and deodorants by 8%. Likewise, in Talc, a 16% decline in global light vehicle production was a material headwind to performance. Results in Chromium and Energy were impacted by weak industrial production and lower oil prices respectively.

In response to economic and market uncertainties, we took several steps to reduce costs and control cash. Savings of $15m, of which $10m are temporary, protected earnings, whilst tight control of capital expenditure and working capital management drove a $46m reduction in net debt to $408m, representing a leverage ratio of 3.2x*.

Elementis has a strong track record of cash conversion and our focus remains on reducing our financial leverage as quickly as possible. This will be driven by delivery of our strategic priorities, continued efficiency programmes and further demand recovery as the impact of COVID-19 recedes.

HEALTH AND SAFETY

Health and safety are the bedrock of our licence to do business and I am pleased to report another year of good performance relative to both the industry and our medium term track record. However, with nine recordable injuries we recognise we still have more to do to ensure all our employees go home safely every day.

Many of our sites achieved notable milestones this year and deserve recognition – for instance, Corpus Christi recorded its 17th year of no recordable injuries. The recent launch of our TogetherSAFE safety campaign and the introduction of enhanced supervisor training and audits, mean we are well placed to drive future improvement.

SUSTAINABILITY

Sustainability progress is a major focus at Elementis. This is reflected in both how we run our operations and the benefits our products bring to customers and wider society. This year we introduced sustainability targets for 2030 and are now focused on actions to progress towards these goals. Our ultimate goal is to be carbon neutral and delivering on our 2030 sustainability targets is a step towards this.

Our ambitious targets are based on clear operational improvement programmes. The installation of solar panels at our Newberry, California site and ensuring that our new site in India will operate a closed loop water system are examples of projects that make both great business sense and are much better for the environment.

INNOVATION, GROWTH AND EFFICIENCY

In the last few years, we have made significant progress transforming our portfolio and have repositioned Elementis as a premium performance additives business, based on unique assets with clear opportunities for growth. Our strategic pillars of Innovation, Growth and Efficiency are designed to leverage this differentiated portfolio and create significant value for our shareholders. Our medium term Group performance objectives are unchanged:

- 17% adjusted operating profit margin: driven by Innovation, Growth, Efficiency and COVID-19 recovery
- 90% plus operating cash conversion: consistent with 5 year average track record
- Reduce leverage to under 1.5x net debt / EBITDA: consistent with debt reduction track record

1) INNOVATION

Innovation excellence is critical for any specialty chemicals company and targeted innovation drives both growth and efficiency. In 2020 our revenue from new products** rose from 12% to 14%, progressing towards our goal of 17% by 2025 and driven by 12 new products in areas such as natural personal care ingredients and premium decorative coatings. Our innovation pipeline is well positioned and in 2021 we plan to bring more than 20 new products to the market.

While COVID-19 reduced the physical time spent in laboratories with our customers during 2020, we continued to deliver innovation excellence via virtual interaction. Starting with our established customer relationships and using digital platforms, we delivered virtual training and technical workshops to over 10,000 employees at 500 customers in 60 countries around the world. This innovation support allowed our customers to grow and develop their industry and application knowledge even while working remotely.

Our innovation priorities are clear. Firstly, we want to create distinctive new technologies that deliver both improved performance and sustainability benefits. At present 45% of our revenue is from products that are natural or naturally derived – for example, hectorite based skin care ingredients or organic thixotropes derived from castor wax - and our aim is to drive this higher in coming years.

Secondly, we are focused on the material innovation challenges that face our customers and the industries in which they operate. In the last 12 months we have launched solutions for recyclable food packaging, waterborne industrial coatings and natural skin care ingredients. This focus ensures our resources are directed to the biggest, most impactful opportunities.

Thirdly, the integration of our technology and commercial teams, and a focus on fast prototyping and technology transfer across segments means we are increasing the speed of our innovation. In 2020, products such as high surface area talc for food products, preservative free thickeners for decorative coatings and dispersants for waterborne industrial coatings were all commercialised within 12 months of customer request or project start.

Lastly, we also understand that a collaborative and open approach to innovation often accelerates time to market and provides differentiation. Our new partnership with NXTLEVVEL Biochem is developing biomass derived products that protect our environment, starting with two biobased solvents for industrial coatings in early 2021. In addition, with AQDOT, a supramolecular chemtech company, we are combining their novel odour capture and smart fragrance release solutions with our market leading anti-perspirant deodorant formulation capabilities to enhance our customer value proposition.

2) GROWTH

Our Personal Care, Coatings and Talc operations transform natural and long life resources into high value additives through distinctive processing and formulation, and have clear medium term structural growth opportunities. While our financial performance was materially impacted in 2020 by COVID-19, we continued to execute against our strategic priorities and captured around $30m of new business opportunities, building on the $25m delivered in 2019. This focus, combined with further investment in key sales and technology resources in emerging markets, means we expect to deliver over $30m of opportunities in 2021 and are well set to capture medium term revenue growth opportunities of over $100m.

In Coatings, we are a leading supplier of high value, premium additives, critical to performance. As a result of our transformation programme the business is simpler, more efficient and performance focused – with higher operating margins. Growth opportunities exist where our technologies play into specific market needs or trends with clear sustainability benefits – areas such as premium decorative coatings and waterborne (as opposed to solvent based) industrial additives. In aggregate, such growth platforms represent roughly one third of our Coatings revenue. In 2020, they grew 6% by volume – a good result in a very tough market environment, and a clear indication of the potential for further profitable, high margin, growth in these differentiated technology areas.

We also see significant opportunities in Personal Care. Despite double digit average annual cosmetics growth in Asia since 2015, the region represents under 20% of our global business. Aiming to double our sales in the region over the medium term, we have invested in a new dedicated technical service centre in Shanghai, China, due to open in the first half of 2021. Progress in the construction of our AP Actives plant in India was slowed by the COVID-19 pandemic; however we are on track for a mid-2021 start up. This will build on our global leadership position as we will have the most advantaged global supply chain while simultaneously providing better access to faster growing Asian markets. Skin care is an attractive market for our natural solutions, and here our ambition is to add $10m of sales over the medium term. In 2020, our new skin care ingredients showed encouraging early growth, appearing in new products such as Tula Serum and GlamGlow's water-gel moisturiser, and we have a growing new business pipeline already worth $8m of revenue.

In Talc we are the second largest global producer, serving high value industrial applications. While customer demand was lower in 2020 due to the impact of COVID-19, we continued to make encouraging progress. Our growth strategy is based on leveraging our global scope and scale, synergistically expanding into new geographies and market sectors. In 2020 we grew sales by 6% in Asia, predominantly in long life plastics applications as we increased our market share. Sales of talc to coatings customers rose 1%, as we expanded into 13 new countries such as Brazil and South Africa – driving our revenue synergies since acquisition to $7m, and on track for $20-25m by the end of 2023. We are also expanding into new applications. In barrier coatings, where our natural talc ingredients help replace single use plastics in food packaging we have over 30 live customer projects and further commercial roll out planned for 2021.

3) EFFICIENCY

Improving efficiency is an ongoing focus at Elementis. We are always seeking to improve our organisation, drive ongoing efficiency gains and become more agile. We are currently focused on three areas: organisational structure, operational efficiency and digitalisation.

In 2020, we implemented a new organisational structure, better aligned to our improved portfolio. The creation of a flatter organisational structure with fewer layers has facilitated faster decision making and more efficient execution. At the same time we embedded our newly aligned job levels on a global basis. These steps resulted in $5m of cost savings in the year. In addition, in response to COVID-19, short term cost mitigation has focused on the cessation of discretionary expenditure in areas such as marketing and travel, saving approximately $10m in 2020.

Ongoing work in our global supply chain is focused on volume reallocation across our asset footprint, efficiency gains in Chromium and developing key capabilities to underpin future improvements. We are aiming to deliver $10m of supply chain savings in 2021. A key driver of these savings will be improved efficiency and capacity utilisation across our North American operations following the recent closure of our Charleston, West Virginia, production plant and consolidation of capacity at our St Louis, Missouri, site. In addition, enhanced key capabilities such as global procurement, continuous improvement of operations and capital project management will support future efficiency gains.

Sustainability and the reduction of our environmental footprint are at the forefront of all operational decisions. We have made considerable progress across our supply chain with increased feedstock recycling and the conversion to more sustainable raw materials. In 2021, we will install solar panels at our Newberry site, start our zero-water discharge plant in India and drive further efficiency gains in our Chromium operations. These decisions are appropriate from both an efficiency and environmental perspective and are the first steps on the road to fulfilling our newly adopted 2030 sustainability targets.

Digitalisation is a key enabler of our efficiency and simplification drive. In 2020, the investments in modern tools and system integration, in areas such as data management and infrastructure, proved crucial to our ability to remotely manage the Company, interact with our customers, and for many of our people to switch to online working through the COVID-19 pandemic.

Our website and digital tool-set are ready to deliver online ordering for customers. This capability will launch in 2021 as part of our multi-channel customer engagement offering and will result in an improved customer experience.

CHROMIUM

It is worth noting the quality of Chromium and the role it holds in our portfolio. Our Chromium business holds significant competitive advantages. We are the only producer of chromium chemicals in North America and we utilise a proprietary delivery system that eliminates both operational and safety risks associated with handling these chemicals. This has resulted in a very high and resilient market share accompanied by attractive cash flows and returns on invested capital. Due to the COVID-19 related industrial shutdowns, global industry capacity utilisation of chromium chemicals and rest of the world pricing were the weakest since 2009. That said, as the pandemic abates and conditions improve, we expect demand recovery to positively impact volumes, pricing conditions and, ultimately, materially improve operating cash flow; a key attribute as the Group focuses on quickly reducing debt levels.

OUR PEOPLE AND CULTURE

Elementis aims to be an open and inclusive workplace. We continue to move forward in shaping our culture for success, engaging our people at all levels in conversations. The feedback we receive is incredibly helpful, highlighting both what we do well and what we can do better. Everyone at Elementis understands our values, the behaviours expected and actions we must take to ramp up the delivery of our business strategy.

We are fortunate to have developed a deeply experienced and highly committed leadership team. Their contribution in this particularly challenging year was crucial to our performance. During the year I was pleased to welcome Stijn Dejonckheere as SVP Personal Care replacing Marci Brand who retired after a long and distinguished career. Stijn is an accomplished leader who has thoroughly demonstrated an ability to lead high performing Personal Care teams during his career at Elementis.

OUTLOOK

While the last 12 months have been uniquely challenging, the transformation of the business in recent years has created a solid foundation and enabled the Group to respond with speed and resilience. The fundamentals of our business remain strong, with high quality assets and a clear strategy for value creation.

We will continue to maintain our focus on delivering our Innovation, Growth and Efficiency strategy, and self-help actions to optimise performance. In 2021 we expect to deliver more than $30m of new business opportunities, over 20 new products and $10m of additional cost savings. Also, as previously communicated we expect to see the impact of the reversal of temporary cost savings from last year alongside ongoing growth investment

We have made an encouraging start to 2021 but remain cautious on the outlook given the COVID-19 dynamic. For the full year, we are confident that further steady demand improvement from H2 2020 levels, augmented by our self help actions will drive improved financial performance and a reduction in leverage.

Paul Waterman
CEO
23 March 2021

* See alternative performance measures information.
** New products defined as products launched within the last 5 years, patented and protected products (excluding Chromium)

Business commentaries

Revenue

	Revenue 2019 $m	Effect of exchange rates $m	Impact of M&A** $m	(Decrease)/ increase 2020 $m	**Revenue 2020 $m**
Personal Care	195.0	(0.8)	(18.0)	(15.4)	160.8
Coatings	320.1	(1.6)	–	(23.0)	295.5
Talc	150.7	1.3	–	(19.5)	132.5
Chromium	171.0	–	–	(24.1)	146.9
Energy	46.6	–	–	(23.0)	23.6
Inter-segment	(9.8)	–	–	1.8	(8.0)
Revenue	873.6	(1.1)	(18.0)	(103.2)	751.3

Adjusted operating profit

	Operating profit/(loss) 2019* $m	Effect of exchange rates $m	Impact of M&A** $m	(Decrease)/ increase 2020 $m	**Operating profit/(loss) 2020* $m**
Personal Care	42.7	(0.1)	(0.6)	(8.4)	33.6
Coatings	48.3	–	–	(1.2)	47.1
Talc	25.7	0.1	–	(9.2)	16.6
Chromium	18.2	–	–	(12.6)	5.6
Energy	3.8	–	–	(9.5)	(5.7)
Central costs	(15.7)	0.1	–	–	(15.6)
Adjusted operating profit	123.0	0.1	(0.6)	(40.9)	81.6

* See note 5
** M&A includes the sale of a non-core gypsum plant (previously part of the Dental business)

Personal Care

Personal Care revenue in 2020 was $161m compared with $195m in the prior year, an 18% decline on a reported basis. Of this reported decline, $18m was due to the sale of a non-core dental gypsum plant in December 2019 and $1m was due to adverse currency movements. Excluding these impacts, revenue fell by 9% on an underlying basis*.

This decline was primarily a result of demand weakness in our two key end markets, colour cosmetics and anti-perspirant deodorants. Due to COVID-19 related social and travel restrictions, it is estimated that retail sales of cosmetics and deodorants fell by 21% and 8% respectively in Europe during 2020. While these markets will rebound once life starts to normalise, weak consumer demand significantly impacted our performance. Actions taken to expand our presence in Asia, grow in skin care and increase our market share in anti-perspirant deodorants helped to partially offset the decline in industry demand.

Adjusted operating profit fell by 21% from $43m to $34m, with adjusted operating margins solid at 20.9% (21.9% in the prior year period). This decline was primarily a result of weaker volumes and unfavourable mix, due to relatively lower sales of our higher margin hectorite based ingredients for use in colour cosmetics applications such as lipsticks and mascaras.

Coatings

Coatings revenue in 2020 was $296m compared with $320m in the prior year, an 8% decline on a reported basis. On an underlying* basis revenue fell by 7%, primarily due to weak demand in industrial markets, such as automotive and protective coatings, as a result of the macroeconomic impacts of COVID-19.

Europe and the Americas reported a resilient performance, with sales falling 4% on an underlying* basis in both regions. While demand from industrial markets was weak, decorative demand, which represents approximately 40% of our sales in both regions, was relatively strong as consumers used COVID-19 lockdowns as an opportunity to undertake home improvements. In Asia, industrial end markets represent around 90% of our sales, and as a result underlying* revenue declined by 12%.

Adjusted operating profit declined by 2% from $48m to $47m, representing an adjusted operating profit margin of 15.9%, up from the 15.1% reported in 2019. This degree of margin improvement is an encouraging result in a tough demand environment and reflects an improved underlying cost position, enhanced product portfolio and new business wins.

Talc

Revenue in 2020 was $133m compared with $151m in the prior year, a 12% decline on a reported basis. Excluding the impact of currency movements, revenue fell by 13% due to weak demand in industrial markets, primarily talc for use in automotive applications. Performance in the second half of the year improved substantially, with fourth quarter revenue above the prior year period, driven by a rebounding plastics market, market share gains and geographic expansion.

Despite a strong track record of underlying* sales growth, averaging 8% over the decade to 2019, industrial talc sales declined by 6% in 2020 primarily due to automotive market weakness as global light vehicle production declined 16%. This was partially offset by growth in Asia and revenue synergy delivery. In Asia, our sales grew 6% as we increased market share, primarily in long life plastics applications. Sales of talc for coatings applications rose 1% as we gained new customers and entered new geographies, in line with our strategy to grow Talc outside our core European market, taking our revenue synergies since acquisition to $7m.

Outside of industrial talc, sales to the graphic paper market declined significantly as retailers cancelled the printing of catalogues in response to COVID-19 lockdowns. Though representing just over 10% of total Talc revenue, 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.

Adjusted operating profit declined by 35% from $26m to $17m, with adjusted operating margins of 12.5% down from 17.1% in the prior year period. This decline in earnings and margin was primarily a result of lower volumes and lower fixed cost absorption.

Chromium

Revenue in 2020 was $147m compared with $171m in the prior year period, a decrease of 14% driven by weak global industrial demand and pricing for chromium chemicals. Despite a pick up in activity in Q4, our volumes declined by 10% on the prior year period due to lower demand from industrial applications such as metal plating and leather tanning. Average pricing was also lower, reflective of weaker global industry capacity utilisation which we estimate fell from 80% on average in 2019 to 70% in 2020.

While our North American volumes were impacted by the global industrial production slowdown and customer plant shutdowns due to COVID-19, compared with the rest of the world our margins in the region were relatively robust, protected by our strong market share and differentiated customer delivery system. Outside North America, our performance was more materially impacted by lower unit pricing.

Adjusted operating profit declined by 69% from $18m to $6m, with lower volumes and pricing partially offset by efficiency gains.

Energy

Energy revenue in 2020 declined by 49% from $47m to $24m as a result of lower drilling activity. A decline in the oil price, due to COVID-19 and OPEC supply decisions, along with cash constraints for exploration and discovery companies, resulted in notably weaker demand for our products. In North America the rig count fell by approximately 50% versus 2019.

Adjusted operating profit declined from $4m in 2019 to a loss of $6m in 2020. This swing was primarily a result of lower volumes and therefore weaker fixed cost absorption. Going forward, the closure of our Charleston facility and consolidation of production at our St Louis site, announced in November 2020, will restore future profitability, even at a 2020 level of sales.

For future external reporting purposes, Energy will be absorbed within Coatings, with which it shares a senior management structure and a global production network.

* Adjusted for FX (where constant currency reflects prior year results translated at current year exchange rates) and the impact of M&A. Previously referred to as 'organic'.

Finance report

Revenue

	2020 $m	2019 $m	Change
Personal Care	**160.8**	195.0	-18%
Coatings	**295.5**	320.1	-8%
Talc	**132.5**	150.7	-12%
Chromium	**146.9**	171.0	-14%
Energy	**23.6**	46.6	-49%
Inter-segment	**(8.0)**	(9.8)	-18%
Total revenue	**751.3**	873.6	-14%

Operating profit

	2020 Operating profit/(loss) $m	Adjusting items $m	2020 Adjusted operating profit/(loss)[1] $m	2019 Operating profit/(loss) $m	Adjusting items $m	2019 Adjusted operating profit/(loss)[1] $m
Personal Care	**20.0**	**13.6**	**33.6**	29.1	13.6	42.7
Coatings	**43.3**	**3.8**	**47.1**	43.7	4.6	48.3
Talc	**(22.4)**	**39.0**	**16.6**	19.9	5.8	25.7
Chromium	**(3.6)**	**9.2**	**5.6**	12.6	5.6	18.2
Energy	**(48.2)**	**42.5**	**(5.7)**	3.8	–	3.8
Central costs	**(17.3)**	**1.7**	**(15.6)**	(8.2)	(7.5)	(15.7)
Total operating profit	**(28.2)**	**109.8**	**81.6**	100.9	22.1	123.0

[1] After adjusting items – see note 5.

Group results

In 2020, revenue declined 14% from $874m to $751m principally due to COVID-19 related impact on volumes across both industrial and consumer markets. Excluding the impact of currency translation and business disposals, underlying revenue declined 12%. Revenue in Personal Care fell 18% on a reported basis and 9% on an underlying basis*, with demand impacted by restrictions limiting social interaction and travel. In Coatings, revenue declined 8% on a reported basis and 7% on an underlying basis*, with resilient DIY decorative demand more than offset by weaker industrial activity. In Talc, revenue declined 12% on a reported basis and 13% on an underlying basis*, with a strong second half demand recovery and encouraging revenue synergy progress offset by automotive plant shutdowns in the second quarter. Revenue in Chromium decreased 14% due to weaker volumes and pricing, primarily outside of North America. Energy revenue declined by 49% as a result of the lower oil price and weaker drilling activity in North America.

Reported operating profit declined from $101m to a loss of $28m due to a reduction in revenue and associated earnings as well as an $88m increase in adjusting items, mostly due to the $60m non-cash impairment of Energy and Talc goodwill recognised in the first half of the year. Adjusted operating profit declined 33% on an underlying basis* from $123m to $82m with the aforementioned lower revenue and associated earnings partially offset by $15m of cost savings delivered in the year. The statutory result for the year was a loss of $67m compared to a profit of $46m in 2019.

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. Adjusting items in 2020 resulted in a charge of $121.5m before tax, an increase of $89.0m 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.

Credit/(charge)	Personal Care $m	Coatings $m	Talc $m	Chromium $m	Energy $m	Central costs $m	Total $m
Restructuring	–	(0.9)	–	–	–	–	(0.9)
Business transformation	(3.0)	(1.8)	–	(2.3)	(15.6)	–	(22.7)
Environmental provisions	–	–	–	(6.7)	–	–	(6.7)
M&A and disposal costs	(2.0)	–	–	–	–	(1.7)	(3.7)
Impairment of goodwill	–	–	(33.4)	–	(26.9)	–	(60.3)
Amortisation of intangibles arising on acquisition	(8.6)	(1.1)	(5.6)	(0.2)	–	–	(15.5)
Total charge to operating profit	**(13.6)**	**(3.8)**	**(39.0)**	**(9.2)**	**(42.5)**	**(1.7)**	**(109.8)**
Sale of Elementis Specialties (Changxing) Ltd	0.3	–	–	–	–	–	0.3
Charge to finance costs							
Mark to market of derivatives	–	–	–	–	–	(10.2)	(10.2)
Currency hedge due to dividend cancellation	–	–	–	–	–	(1.8)	(1.8)
Total	**(13.3)**	**(3.8)**	**(39.0)**	**(9.2)**	**(42.5)**	**(13.7)**	**(121.5)**

Restructuring
In 2020, restructuring costs relate predominantly to the organisational efficiency programme commenced in late 2019 which eliminated duplicate roles, reduced management layers and increased spans of control in order to realise cost savings and efficiencies across the Group. The restructuring programme concluded in 2020.

Business transformation
In November 2020, in line with Elementis' ongoing strategy to optimise its footprint, the closure of the Charleston plant was announced resulting in a one-off charge of $15.6m. Further charges of $7.1m relate to the continuation of the programme to review and optimise the supply chain and manufacturing footprint across our Coatings, Personal Care, Energy and Chromium businesses.

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. The movement in provision relates to a change in discount rates that has increased the liability by $1.1m in the year, extra remediation work identified in the year which has resulted in a $6.1m increase to the liability offset by unused amounts reversed in the year of $0.5m. As these costs relate to non-operational facilities they are classed as adjusting items.

M&A and disposal costs
Charges of $3.7m represent costs relating to the disposal of small, non-core businesses in the Personal Care business segment and advisory fees incurred in response to an unsolicited takeover approach received in the year.

Impairment of goodwill
As a result of the low average oil price in 2020 and the expected ongoing challenging outlook for the Energy sector, in particular the North American shale market, a $26.9m impairment has been recognised in Energy. In Talc, while the business fundamentals are unchanged and the medium term growth outlook attractive, the significant impact of COVID-19 on wider industrial activity and the near term profitability of the business combined with an increase in the pre-tax discount rate has resulted in a $33.4m goodwill impairment charge.

Amortisation of intangibles arising on acquisition
Amortisation of $15.5m (2019: $18.6m) 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.

Sale of Elementis Specialties (Changxing) Ltd
The profit on the exit of a non-core plant (previously part of the Coatings business) has been treated as an adjusting item in 2020.

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.

Currency hedge due to dividend cancellation
The charge of $1.8m relates to the cancellation of currency hedges following the suspension of the 2019 final ordinary dividend that provided additional financial headroom in response to COVID-19.

Hedging
Cash flow hedges are used as part of a programme to manage our exposure to interest rate risk and commodity price risk particularly associated with USD and EUR interest payments and aluminium pricing. In 2020, interest rate and commodity price movements were such that the net impact of these hedge transactions was a loss of $0.9m (2019: $0.0m) recycled to the income statement.

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 2020, adjusted central costs of $15.6m were broadly similar to the $15.7m for the previous year.

COVID-19 assistance
The Group has accessed various government support schemes aimed at mitigating the potential impact on individuals' job losses resulting from the impact of COVID-19. The most significant amounts received by the Group include the following:

- $0.9m in relation to government support under temporary wage support schemes available in the Netherlands and China. The Group does not have any unfulfilled obligations relating to these support programmes. This amount has been offset against employee remuneration costs.

- Agreement of payment plans with tax authorities in the US and China to defer payments of corporation taxes and payroll taxes resulting in $3.0m payment deferrals across the Group.

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 $1.6m in 2020 compared with $1.5m in the previous year.

Net finance costs

	2020 $m	2019 $m
Finance income	**0.3**	0.4
Finance cost of borrowings	**(22.6)**	(23.7)
	(22.3)	(23.3)
Net pension finance costs	**(0.6)**	(0.5)
Discount unwind on provisions	**(2.7)**	(2.4)
Fair value movement on derivatives	**(10.2)**	(1.4)
Dividend currency hedge cancellation	**(1.8)**	–
Interest on lease liabilities	**(1.7)**	(1.8)
Net finance costs	**(39.3)**	(29.4)

Net finance costs for 2020 were $39.3m, an increase of $9.9m on last year. 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.

The increase in net finance costs is primarily due to the fair value movement on derivatives ($8.8m increase) and the cancellation of the dividend currency hedge following the suspension of the 2019 final ordinary dividend ($1.8m increase). Finance cost of borrowings decreased by $1.1m due to lower average net borrowing in the year.

Both pension finance costs, which are a function of discount rates under IAS 19 and the value of schemes' deficit or surplus positions, and the interest on lease liabilities, were broadly consistent in 2020 compared with 2019.

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 small increase to the provision in 2019 has resulted in a higher discount unwind in 2020.

Taxation

Tax charge

	2020 $m	2020 Effective rate %	2019 $m	2019 Effective rate %
Reported tax (credit)/charge	**(1.8)**	**(2.6)**	14.6	23.9
Adjusting items tax credit	**16.0**	**–**	6.1	–
Underlying tax charge	**14.2**	**26.9**	20.7	22.1

The Group incurred a tax charge of $14.2m (2019: $20.7m) on adjusted profit before tax, resulting in an effective tax rate of 26.9% (2019: 22.1%). As previously guided, the Group's effective tax rate in 2020 is slightly above its usual range due to withholding tax incurred on the repatriation of profits from Asia and the derecognition of a deferred tax asset in the US. Tax on adjusting items, which in 2019 primarily related to the amortisation of intangible assets, was further impacted in 2020 by the consequences of the impairment of goodwill associated with the Energy business, the closure of the Charleston plant and other restructuring actions.

The expectation for the Group's effective P&L tax rate is around 22-23% until 2023, after which it is anticipated to rise to 25-26% due to the recently announced increase in UK corporation tax rates from April 2023.

Following the European Commission's State Aid investigation into the UK Finance Company Exemption ('FCE') regime, Elementis received a charging notice in February 2021 for the maximum exposure of $19m (excluding interest). Elementis paid the notice amount to HMRC on 5 March 2021, as required, and has lodged an appeal. As Elementis considers that the appeal will ultimately be successful, an asset will be recorded in the 2021 accounts on the expectation that the charge will be repaid in due course.

Earnings per share

To fully understand the underlying performance of the Group, earnings per share reported under IFRS is adjusted for items classified as adjusting.

Adjusted diluted earnings per share was 6.5 cents for 2020 compared with 12.4 cents in the previous year, a decrease of 48% due to lower profit and a higher effective tax rate. Basic earnings per share before adjusting items was a loss per share of 11.5 cents compared to a profit per share of 8.0 cents in 2019.

Note 7 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

Given the market and economic uncertainties during the year, and the Board's desire to provide additional financial headroom and preserve cash, no dividend distributions to shareholders were made during in 2020. The Board is also not recommending a final dividend for 2020. The Board recognise the importance of dividends to shareholders and will look to reinstate payments once material progress is made on reducing financial leverage.

Cash flow

Net cash flow from operating activities decreased by $36.3m to $107.1m in 2020, as a result of lower operating profits in the year. Net cash outflow in relation to investing activities decreased by $9.8m to $39.2m in 2020, due to disciplined cash management of capital expenditure. Net cash outflow in relation to financing activities reduced by $20.9m to $64.7m in 2020, predominantly due to the suspension of the dividend.

The adjusted cash flow which excludes the 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 information.

	2020 $m	2019 $m
EBITDA ◊	**132.8**	174.5
Change in working capital	**18.8**	33.0
Capital expenditure	**(40.0)**	(47.3)
Other	**(1.8)**	(5.4)
Adjusted operating cash flow	**109.8**	154.8
Pension payments	**(0.1)**	(1.2)
Interest	**(23.4)**	(24.6)
Tax	**(8.5)**	(2.2)
Adjusting items	**(12.2)**	(30.4)
Payment of lease liabilities	**(6.7)**	(6.0)
Free cash flow	**58.9**	90.4
Issue of shares	**0.1**	0.1
Dividends paid	**–**	(49.3)
Acquisitions and disposals	**0.5**	(2.1)
Currency fluctuations	**(13.4)**	4.8
Movement in net debt	**46.1**	43.9
Net debt at start of year	**(454.2)**	(498.1)
Net debt at end of year	**(408.1)**	(454.2)

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

Adjusted operating cash flow decreased by $45.0m to $109.8m for 2020 due to lower adjusted EBITDA ($41.8m lower) and a smaller working capital inflow in the period ($14.2m lower), partially offset by disciplined control of capital expenditure ($7.3m benefit).

Free cash flow of $58.9m in 2020 represents a reduction of $31.5m year on the prior year period. Cash tax outflows increased from $2.2m to $8.5m, primarily due to settlement of a historical tax liability to the Belgium tax authorities of $2.1m in 2020 and a one-off tax refund from the IRS in 2019 of $2.0m. This was offset by a reduction in cash outflows associated with adjusting items from $30.4m in 2019 to $12.2m in 2020, principally related to business transformation activities. Net pensions payments in the year decreased by $1.1m to $0.1m mainly due to a reduction in employer contributions to US pension schemes. The 2017 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 $454.2m in 2019 to $408.1m in 2020, a reduction of $46.1m, net debt to adjusted EBITDA increased from 2.7x*** in 2019 to 3.2x*** in 2020. The increase in leverage is due to the decline in adjusted EBITDA, reflective of the Group's lower earnings.

Balance sheet

	2020 $m	2019 $m
Intangible fixed assets	**892.6**	958.1
Tangible fixed assets	**516.0**	513.6
Working capital	**141.4**	152.2
Net tax liabilities	**(132.2)**	(137.9)
Provisions and retirement benefit obligations	**(79.0)**	(68.7)
Financial assets and liabilities	**(30.7)**	(15.1)
Lease liabilities	**(44.4)**	(46.9)
Unamortised syndicate fees	**4.8**	5.1
Net debt	**(408.1)**	(454.2)
Total equity	**860.4**	906.2

Group equity decreased by $45.8m in 2020 (2019: decrease of $9.4m). Intangible fixed assets decreased by $65.5m due to an impairment of $60.3m and $16.1m of amortisation of intangibles partially offset by $10.6m of foreign exchange gains. Tangible fixed assets increased by $2.4m, with gross PPE additions of $41.5m, right of use asset capitalisation of $1.4m and exchange differences of $24.0m partially offset by depreciation of $50.6m and an impairment loss of $11.7m.

Working capital comprises inventories, trade and other receivables and trade and other payables. Working capital decreased by $10.8m in 2020, a result of lower underlying revenue and tight working capital management. As part of our multi year working capital improvement programme $7m of sustainable working reductions were achieved in 2020, taking our cumulative, project related, working capital reductions since 2017 to $30m.

Net tax liabilities decreased by $5.7m primarily due to the continued unwind of deferred tax liabilities on intangible assets.

ROCE (excluding goodwill) decreased to 10%** from 15%** in 2019, due to reduced adjusted operating profit partially offset by reductions in working capital.

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

	2020 Year end	**2020 Average**	2019 Year end	2019 Average
Pounds sterling	**0.73**	**0.78**	0.75	0.78
Euro	**0.82**	**0.88**	0.89	0.89

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 2020 the Group held provisions of $58.8m (2019: $51.6m) consisting of environmental provisions of $50.6m (2019: $44.1m), self-insurance provisions of $1.5m (2019: $2.2m) and restructuring and other provisions of $6.7m (2019: $5.3m).

Environmental provisions have increased by $6.5m in 2020, with $6.7m taken through adjusting items, of which $1.1m relates to a change in the discount rate applied to the liabilities and $6.1m relates to extra remediation work identified offset by unused amounts reversed in the year of $0.5m. The remaining movement relates to $2.0m of unwind of discount in the year, $1.5m of currency translation offset by $3.7m of 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

	2020 $m	2019 $m
Net (surplus)/liability:		
UK	**(7.9)**	(7.4)
US	**18.3**	15.9
Other	**9.8**	8.6
	20.2	17.1

UK plan

The largest of the Group's retirement plans is the UK defined benefit pension scheme ('UK Scheme') which at the end of 2020 had a surplus, under IAS 19, of $7.9m (2019: $7.4m). 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. Return on plan assets of $75.2m (2019: $62.1m) outweighed liability adjustments of $59.5m (2019: $57.7m) arising due to lower discount rates based on real corporate bond yields. Company contributions of $nil (2019: $nil) reflect the funding agreement reached with the UK Trustees following the 2017 triennial valuation which concluded in 2018. Under this agreement top up contributions are no longer required until at least 2021. The 2020 triennial review is ongoing and is expected to complete in 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 2020 of $11.8m (2019: $9.9m), and a post retirement medical plan with a liability of $6.5m (2019: $6.0m). The US pension plans are smaller than the UK plan and in 2020 the overall deficit value of the US plans increased by $2.4m as the financial cost of the liability of $4.0m (2019: $5.0m) and the actuarial increases in the liability of $12.8m (2019: $11.8m decrease) were partially offset by the return on plan assets of $15.8m (2019: $21.1m) and employer contributions of $0.5m (2019 $1.5m).

Other plans

Other liabilities at 31 December 2020 amounted to $9.8m (2019: $8.6m) and relate to pension arrangements for a relatively small number of employees in Germany, certain UK legacy benefits and one pension scheme acquired as part of the SummitReheis transaction in 2017.

FINANCIAL ASSETS AND LIABILITIES

Financial liabilities at 31 December 2020 include $13.4m of contingent consideration in respect of Mondo (2019: $13.0m). This balance is payable to the previous owners of Mondo should Elementis be successful in an historic, pre-acquisition interest deductibility tax case relating to Mondo. Should Elementis be unsuccessful the balance payable to the previous owners of Mondo will be nil. Also included are net derivative financial liabilities of $15.9m (2019: $2.0m) relating to the valuation of various risk management instruments. 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.

Brexit

Following the end of the Brexit transitional period on 31 December 2020 management have continued to monitor the status of the trading relationship between the EU and the UK and the impact on the Group in early 2021 has been immaterial.

Events after the balance sheet date

The ongoing EU state aid case is discussed in the taxation section of this finance report. There were no other significant events after the balance sheet date.

1 After adjusting items – see note 5.
* Adjusted for FX (where constant currency reflects prior year results translated at current year exchange rates) and the impact of M&A.
** See alternative performance measures information
*** See unaudited information.

Consolidated income statement for the year ended 31 December 2020

	2020 $m	2019 $m
Revenue	**751.3**	873.6
Cost of sales	**(494.0)**	(552.2)
Gross profit	**257.3**	321.4
Distribution costs	**(112.6)**	(127.3)
Administrative expenses	**(172.9)**	(93.2)
Operating (loss)/profit	**(28.2)**	100.9
Profit /(loss) on disposal	**0.3**	(9.0)
Other expenses[1]	**(1.6)**	(1.5)
Finance income	**0.3**	0.4
Finance costs	**(39.6)**	(29.8)
(Loss)/profit before income tax	**(68.8)**	61.0
Tax	**1.8**	(14.6)
(Loss)/profit for the year	**(67.0)**	46.4
Attributable to:		
Equity holders of the parent	**(67.0)**	46.4
Earnings per share		
Basic (loss)/earnings (cents)	**(11.5)**	8.0
Diluted (loss)/earnings (cents)	**(11.3)**	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 2020

	2020 $m	2019 $m
(Loss)/profit for the year	**(67.0)**	46.4
Other comprehensive income:		
Items that will not be reclassified subsequently to profit and loss:		
Remeasurements of retirement benefit obligations	**(0.3)**	(11.1)
Deferred tax associated with retirement benefit obligations	**(0.3)**	1.3
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	**25.0**	(23.9)
Effective portion of change in fair value of net investment hedge	**(3.6)**	27.5
Recycling of deferred foreign exchange (gains)/ losses on disposal	**(0.2)**	0.4
Effective portion of changes in fair value of cash flow hedges	**(1.4)**	(2.8)
Fair value of cash flow hedges transferred to income statement	**0.9**	–
Exchange differences on translation of share options reserves	**(2.7)**	2.7
Other comprehensive income/(loss)	**17.4**	(5.9)
Total comprehensive (loss)/income for the year	**(49.6)**	40.5
Attributable to:		
Equity holders of the parent	**(49.6)**	40.5
Total comprehensive (loss)/income for the year	**(49.6)**	40.5

Consolidated balance sheet as at 31 December 2020

	2020 31 December $m	2019 31 December $m
Non-current assets		
Goodwill and other intangible assets	**892.6**	958.1
Property, plant and equipment	**516.0**	513.6
ACT recoverable	**0.6**	4.8
Deferred tax assets	**26.3**	28.2
Net retirement benefit surplus	**7.9**	7.4
Total non-current assets	**1,443.4**	1,512.1
Current assets		
Inventories	**164.3**	168.7
Trade and other receivables	**108.3**	117.9
Derivatives	**1.4**	0.1
Current tax assets	**7.2**	2.5
Cash and cash equivalents	**111.0**	103.9
Total current assets	**392.2**	393.1
Total assets	**1,835.6**	1,905.2
Current liabilities		
Bank overdrafts and loans	**(3.7)**	(2.2)
Trade and other payables	**(132.6)**	(134.5)
Financial liabilities	**(17.3)**	(2.1)
Current tax liabilities	**(23.2)**	(23.2)
Lease liabilities	**(7.2)**	(7.1)
Provisions	**(9.6)**	(6.4)
Total current liabilities	**(193.6)**	(175.5)
Non-current liabilities		
Loans and borrowings	**(510.6)**	(550.8)
Retirement benefit obligations	**(28.1)**	(24.5)
Deferred tax liabilities	**(143.1)**	(150.2)
Lease liabilities	**(37.2)**	(39.8)
Provisions	**(49.2)**	(45.2)
Financial liabilities	**(13.4)**	(13.0)
Total non-current liabilities	**(781.6)**	(823.5)
Total liabilities	**(975.2)**	(999.0)
Net assets	**860.4**	906.2
Equity		
Share capital	**52.1**	52.1
Share premium	**237.7**	237.7
Other reserves	**108.6**	91.1
Retained earnings	**462.0**	525.3
Total equity attributable to equity holders of the parent	**860.4**	906.2
Total equity	**860.4**	906.2

Consolidated statement of changes in equity for the year ended 31 December 2020

	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 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**
Balance at 1 January 2020	**52.1**	**237.7**	**(69.0)**	**(8.4)**	**168.5**	**525.3**	**906.2**
Comprehensive income							
Loss for the year	–	–	–	–	–	(67.0)	(67.0)
Other comprehensive income							
Exchange differences	–	–	21.4	–	(2.7)	–	18.7
Recycling of deferred foreign exchange gains on disposal	–	–	(0.2)	–	–	–	(0.2)
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	–	–	–	(1.4)	–	–	(1.4)
Remeasurements of retirement benefit obligations	–	–	(1.1)	–	–	0.8	(0.3)
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	(0.3)	(0.3)
Transfer	–	–	–	–	(2.9)	2.9	–
Total other comprehensive income/(loss)	–	–	20.1	(0.5)	(5.6)	3.4	17.4
Total comprehensive income/(loss)	–	–	20.1	(0.5)	(5.6)	(63.6)	(49.6)
Transactions with owners:							
Issue of shares by the Company	–	–	–	–	–	0.2	0.2
Share based payments	–	–	–	–	3.5	–	3.5
Deferred tax on share based payments recognised within equity	–	–	–	–	–	0.1	0.1
Total transactions with owners	–	–	–	–	3.5	0.3	3.8
Balance at 31 December 2020	**52.1**	**237.7**	**(48.9)**	**(8.9)**	**166.4**	**462.0**	**860.4**

Consolidated cash flow statement
for the year ended 31 December 2020

	2020 $m	2019 $m
Operating activities:		
(Loss)/profit for the year	**(67.0)**	46.4
Adjustments for:		
Other expenses	**1.6**	1.5
Finance income	**(0.3)**	(0.4)
Finance costs	**39.6**	29.8
Tax charge	**(1.8)**	14.6
Depreciation and amortisation	**66.7**	70.1
Impairment loss on property, plant and equipment	**11.7**	–
Increase/(decrease) in provisions and financial liabilities	**3.7**	(27.8)
Pension payments net of current service cost	**1.1**	(1.2)
Share based payments	**3.5**	3.0
Impairment of goodwill	**60.3**	–
(Profit)/loss on disposal of business	**(0.3)**	9.0
Operating cash flow before movement in working capital	**118.8**	145.0
Decrease in inventories	**7.8**	18.6
Decrease in trade and other receivables	**13.3**	15.5
Decrease in trade and other payables	**(0.6)**	(8.5)
Cash generated by operations	**139.3**	170.6
Income taxes paid	**(8.5)**	(2.2)
Interest paid	**(23.7)**	(25.0)
Net cash flow from operating activities	**107.1**	143.4
Investing activities:		
Interest received	**0.3**	0.4
Disposal of property, plant and equipment	**1.8**	0.8
Purchase of property, plant and equipment	**(41.5)**	(47.7)
Disposal of business	**0.5**	(2.1)
Acquisition of intangible assets	**(0.3)**	(0.4)
Net cash flow from investing activities	**(39.2)**	(49.0)
Financing activities:		
Issue of shares by the Company and the ESOT net of issue costs	**0.1**	0.1
Dividends paid	**–**	(49.3)
Outflow of cancelled dividend hedge	**(1.8)**	–
Net movement on existing debt	**(56.3)**	(30.4)
Payment of lease liabilities	**(6.7)**	(6.0)
Net cash used in financing activities	**(64.7)**	(85.6)
Net increase in cash and cash equivalents	**3.2**	8.8
Cash and cash equivalents at 1 January	**103.9**	96.1
Foreign exchange on cash and cash equivalents	**3.9**	(1.0)
Cash and cash equivalents at 31 December	**111.0**	103.9

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 2020 or 2019 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies, and those for 2020 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 23 March 2021.

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.

The Group's 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 accounting policies adopted are consistent with those of the previous financial year.

Going concern

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 2020 which will be made available to shareholders on 9 April 2021.

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

	2020 $m	2019 $m
Interest on bank deposits	**0.3**	0.4

4. Finance costs

	2020 $m	2019 $m
Interest on bank loans	**22.6**	23.7
Pension and other post retirement liabilities	**0.6**	0.5
Unwind of discount on provisions	**2.7**	2.4
Fair value movement on derivatives	**10.2**	1.4
Dividend currency hedge cancellation	**1.8**	–
Interest on lease liabilities	**1.7**	1.8
	39.6	29.8

5. Adjusting items and alternative performance measures

	2020 $m	2019 $m
Restructuring	**0.9**	5.1
Business transformation	**22.7**	2.5
Environmental provisions		
Increase in provisions due to additional remediation work identified	**5.6**	–
Increase in provisions due to change in discount rate	**1.1**	4.9
M&A and disposal costs	**3.7**	–
Impairment of goodwill	**60.3**	–
Amortisation of intangibles arising on acquisition	**15.5**	18.6
Release of contingent consideration	**–**	(9.0)
	109.8	22.1
Sale of Elementis Specialties (Changxing) Ltd	**(0.3)**	–
Sale of SRL Dental GmbH	**–**	9.0
Mark to market of derivative financial instruments	**10.2**	1.4
Currency hedge due to dividend cancellation	**1.8**	–
Tax credit in relation to adjusting items	**(16.0)**	(6.1)
	105.5	26.4

A number of items have been recorded under 'adjusting items' in 2020 by virtue of their size and/or one time nature, in line with our accounting policies, 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 $121.5m (2019: $32.5m). The items fall into a number of categories, as summarised below:

Restructuring – In 2020, restructuring costs relate predominantly to the organisational efficiency programme commenced in late 2019, which has eliminated duplicate roles, reduced management layers and increased spans of control in order to realise cost savings and efficiencies across the Group.

Business transformation – In November 2020 in line with Elementis' ongoing strategy to optimise its footprint the closure of the Charleston plant was announced resulting in a one-off charge of $15.6m. Further charges of $7.1m relates to the continuation of the programme to review and optimise the supply chain and manufacturing footprint across our Coatings, Personal Care, Energy and Chromium businesses.

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. The movement in provision relates to a change in discount rates that has increased the liability by $1.1m in the year, extra remediation work identified in the year which has resulted in a $6.1m increase to the liability offset by unused amounts reversed in the year of $0.5m. As these costs relate to non-operational facilities they are classed as adjusting items.

M&A and disposal costs – Charges of $3.7m represent costs relating to the disposal of small, non-core businesses in the Personal Care business segment and advisory fees incurred in response to an unsolicited takeover approach received in the year.

Impairment of goodwill – As a result of the low average oil price in 2020 and the expected ongoing challenging outlook for the Energy sector, in particular the North American shale market, a $26.9m impairment has been recognised in Energy. In Talc, while the business fundamentals are unchanged and the medium term growth outlook attractive, the significant impact of COVID-19 on wider industrial activity and the near term profitability of the business combined with an increase in the pre-tax discount rate has resulted in a $33.4m goodwill impairment charge.

Amortisation of intangibles arising on acquisition – Amortisation of $15.5m (2019: $18.6m) 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.

Sale of Elementis Specialties (Changxing) Ltd – The profit on the exit of a non-core plant (previously part of the Coatings business) has been treated as an adjusting item in 2020.

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.

Currency hedge due to dividend cancellation- The charge of $1.8m relates to the cancellation of currency hedges following the suspension of the 2019 final ordinary dividend that provided additional financial headroom in response to COVID-19.

Tax on adjusting items – this is the net impact of tax relating to the adjusting items listed above.

To support comparability with the financial statements as presented in 2020 the reconciliation to the adjusted consolidated income statement is shown below.

	2020 Profit and loss $m	2020 Adjusting items $m	2020 Profit and loss after adjusting items $m
Revenue	751.3	–	751.3
Cost of sales	(494.0)	–	(494.0)
Gross profit	257.3	–	257.3
Distribution costs	(112.6)	–	(112.6)
Administrative expenses	(172.9)	109.8	(63.1)
Operating (loss)/profit	(28.2)	109.8	81.6
Profit on disposal	0.3	(0.3)	–
Other expenses	(1.6)	–	(1.6)
Finance income	0.3	–	0.3
Finance costs	(39.6)	12.0	(27.6)
(Loss)/profit before income tax	(68.8)	121.5	52.7
Tax	1.8	(16.0)	(14.2)
(Loss)/profit for the year	(67.0)	105.5	38.5
Attributable to:			
Equity holders of the parent	(67.0)	105.5	38.5
Earnings per share			
Basic (loss)/earnings (cents)	(11.5)	18.1	6.6
Diluted (loss)/earnings (cents)	(11.3)	17.8	6.5

	2019 Profit and loss $m	2019 Adjusting items $m	2019 Profit and loss after adjusting items $m
Revenue	873.6	–	873.6
Cost of sales	(552.2)	–	(552.2)
Gross profit	321.4	–	321.4
Distribution costs	(127.3)	–	(127.3)
Administrative expenses	(93.2)	22.1	(71.1)
Operating profit	100.9	22.1	123.0
Loss on disposal	(9.0)	9.0	–
Other expenses	(1.5)	–	(1.5)
Finance income	0.4	–	0.4
Finance costs	(29.8)	1.4	(28.4)
Profit before income tax	61.0	32.5	93.5
Tax	(14.6)	(6.1)	(20.7)
Profit for the year	46.4	26.4	72.8
Attributable to:			
Equity holders of the parent	46.4	26.4	72.8

Earnings per share			
Basic (cents)	8.0	4.6	12.6
Diluted (cents)	7.9	4.5	12.4

To support comparability with the financial statements as presented in 2020, a reconciliation from reported profit/(loss) before interest to adjusted profit before income tax by segment is shown below for each year.

	2020							
	Personal Care $m	Coatings $m	Talc $m	Chromium $m	Energy $m	Segment totals $m	Central costs $m	Total $m
Reported operating profit/(loss)	**20.0**	**43.3**	**(22.4)**	**(3.6)**	**(48.2)**	**(10.9)**	**(17.3)**	**(28.2)**
Adjusting Items								
Restructuring	**–**	**0.9**	**–**	**–**	**–**	**0.9**	**–**	**0.9**
Business transformation	**3.0**	**1.8**	**–**	**2.3**	**15.6**	**22.7**	**–**	**22.7**
Increase in environmental provisions due to additional remediation work identified	**–**	**–**	**–**	**5.6**	**–**	**5.6**	**–**	**5.6**
Increase in environmental provisions due to change in discount rate	**–**	**–**	**–**	**1.1**	**–**	**1.1**	**–**	**1.1**
M&A and disposal costs	**2.0**	**–**	**–**	**–**	**–**	**2.0**	**1.7**	**3.7**
Impairment of goodwill	**–**	**–**	**33.4**	**–**	**26.9**	**60.3**	**–**	**60.3**
Amortisation of intangibles arising on acquisition	**8.6**	**1.1**	**5.6**	**0.2**	**–**	**15.5**	**–**	**15.5**
Adjusted operating profit /(loss)	**33.6**	**47.1**	**16.6**	**5.6**	**(5.7)**	**97.2**	**(15.6)**	**81.6**
Other expenses	**–**	**–**	**–**	**–**	**–**	**–**	**(1.6)**	**(1.6)**
Finance income	**–**	**–**	**–**	**–**	**–**	**–**	**0.3**	**0.3**
Finance costs	**–**	**–**	**–**	**–**	**–**	**–**	**(27.6)**	**(27.6)**
Adjusted profit /(loss) before income tax	**33.6**	**47.1**	**16.6**	**5.6**	**(5.7)**	**97.2**	**(44.5)**	**52.7**

	2019							
	Personal Care $m	Coatings $m	Talc $m	Chromium $m	Energy $m	Segment totals $m	Central costs $m	Total $m
Reported operating profit/(loss)	**29.1**	**43.7**	**19.9**	**12.6**	**3.8**	**109.1**	**(8.2)**	**100.9**
Adjusting Items								
Restructuring	**0.7**	**2.6**	**0.2**	**0.1**	**–**	**3.6**	**1.5**	**5.1**
Business transformation	**1.6**	**0.5**	**–**	**0.4**	**–**	**2.5**	**–**	**2.5**
Increase in environmental provisions due change in discount rate	**–**	**–**	**–**	**4.9**	**–**	**4.9**	**–**	**4.9**
Amortisation of intangibles arising on acquisition	**11.3**	**1.5**	**5.6**	**0.2**	**–**	**18.6**	**–**	**18.6**
Release of contingent consideration	**–**	**–**	**–**	**–**	**–**	**–**	**(9.0)**	**(9.0)**
Adjusted operating profit/(loss)	**42.7**	**48.3**	**25.7**	**18.2**	**3.8**	**138.7**	**(15.7)**	**123.0**
Other expenses	**–**	**–**	**–**	**–**	**–**	**–**	**(1.5)**	**(1.5)**
Finance income	**–**	**–**	**–**	**–**	**–**	**–**	**0.4**	**0.4**
Finance costs	**–**	**–**	**–**	**–**	**–**	**–**	**(28.4)**	**(28.4)**
Adjusted profit/(loss) before income tax	**42.7**	**48.3**	**25.7**	**18.2**	**3.8**	**138.7**	**(45.2)**	**93.5**

6. Income tax expense

	2020 $m	2019 $m
Current tax on continuing operations:		
UK corporation tax	**6.5**	5.7
Overseas corporation tax on continuing operations	**8.6**	6.6
Adjustments in respect of prior years:		
United Kingdom	**0.1**	–
Overseas	**(8.3)**	1.1
Total current tax	**6.9**	13.4
Deferred tax:		
United Kingdom	**(1.0)**	(0.1)
Overseas	**(11.1)**	1.4
Adjustment in respect of prior years:		
United Kingdom	**–**	–
Overseas	**3.4**	(0.1)
Total deferred tax	**(8.7)**	1.2
Income tax (credit)/expense for the year	**(1.8)**	14.6
Comprising:		
Income tax (credit)/expense for the year	**(1.8)**	14.6
Adjusting items [1]		
Overseas taxation on adjusting items	**(12.4)**	5.1
UK taxation on adjusting items	**(3.6)**	1.0
Taxation on adjusting items	**(16.0)**	6.1
Income tax expense for the year after adjusting items	**14.2**	20.7

[1] See Note 5 for details of adjusting items.

The tax charge on profits represents an effective rate of 2.6% (2019: 23.9%) and an effective tax rate after adjusting items of 26.9% (2019: 22.1%). 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 Group's effective tax rate in 2020 is slightly above its usual range due to withholding tax incurred on the repatriation of profits from Asia and the derecognition of a deferred tax asset in the US. The medium term expectation for the Group's adjusted effective tax rate is around 22-23% until 2023, after which it is anticipated to rise to 25-26% due to the recently announced increase in UK corporation tax rates from April 2023.

In the UK Budget on 3 March 2021, the Chancellor of the Exchequer announced an increase in the UK corporation tax rate from 19% to 25%, which is due to be effective from 1 April 2023. This change was not substantively enacted at the balance sheet date and hence has not been reflected in the measurement of deferred tax balances at the period end. This change is not expected to have a material impact on the Group's deferred tax balances.

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

	2020 $m	**2020 %**	2019 $m	2019 %
(Loss)/profit before tax	**(68.8)**		61.0	
Tax at 19.0% (2019: 19.0%)	**(13.1)**	**19.0**	11.6	19.0
Difference in overseas effective tax rates	**4.0**	**(5.8)**	1.7	2.8
Income not taxable and impact of tax efficient financing	**(4.7)**	**6.8**	(15.2)	(24.9)
Expenses not deductible for tax purposes	**11.5**	**(16.7)**	13.6	22.3
Adjustments in respect of prior years	**(4.8)**	**7.0**	1.0	1.6
Tax rate changes	**1.3**	**(1.9)**	0.9	1.5
Movement in unrecognised deferred tax	**4.0**	**(5.8)**	1.0	1.6
Tax (credit)/charge and effective tax rate for the year	**(1.8)**	**2.6**	14.6	23.9

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:

	2020 $m	2019 $m
Earnings:		
(Loss)/earnings for the purpose of basic earnings per share	**(67.0)**	46.4
Adjusting items net of tax	**105.5**	26.4
Adjusted earnings	**38.5**	72.8

	2020 m	2019 m
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	**580.1**	579.6
Effect of dilutive share options	**13.6**	8.9
Weighted average number of shares for the purposes of diluted earnings per share	**593.7**	588.5

	2020 cents	2019 cents
Earnings per share:		
Basic (loss) / earnings	**(11.5)**	8.0
Diluted (loss) / earnings	**(11.3)**	7.9
Basic after adjusting items	**6.6**	12.6
Diluted after adjusting items	**6.5**	12.4

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.

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 and other UK-based international companies, including Elementis, appealed to the General Court of the European Union against the decision in 2019.

In Spring 2020 HMRC requested that affected Groups submit their UK significant people function analysis. The deadline for submission of these analyses was delayed due to the impact of COVID-19 and Elementis submitted its analysis to HMRC in July 2020. In December 2020 the UK government introduced legislation to commence collection proceedings.

Elementis received a charging notice from HMRC on 5 February 2021 which assessed for the maximum exposure of $19m (excluding interest). This was paid to HMRC on 5 March 2021. Whilst Elementis has lodged an appeal against the charging notice this does not defer the payment of the tax assessed. As Elementis considers that the appeal will ultimately be successful, an asset will be recorded in the 2021 accounts on the expectation that the charge will be repaid in due course.

9. Events after the balance sheet date

The ongoing EU state aid case is discussed in note 8. There were no other significant events after the balance sheet date.

Alternative performance measures and unaudited 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.

	2020 Profit and loss $m	2019 Profit and loss $m
(Loss)/profit for the year	**(67.0)**	46.4
Adjustments for		
Finance income	**(0.3)**	(0.4)
Finance costs and other expenses after adjusting items	**41.2**	31.3
Tax (credit)/charge	**(1.8)**	14.6
Depreciation and amortisation	**66.7**	70.1
Excluding intangibles arising on acquisition	**(15.5)**	(18.6)
Adjusting items before interest	**109.5**	31.1
EBITDA	**132.8**	174.5

There are also a number of key performance indicators (KPIs) used in this report. 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.

	2020 $m	2019 $m
Net cash flow from operating activities	**107.1**	143.4
Less: Capital expenditure	**(40.0)**	(47.3)
Add:		
Income tax paid or received	**8.5**	2.2
Interest paid or received	**23.7**	25.0
Pension contributions net of current service cost	**0.1**	1.2
Adjusting items – non cash	**(1.8)**	–
Adjusting items - cash	**12.2**	30.3
Operating cash flow	**109.8**	154.8

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.

	2020 $m	2019 $m
Operating profit after adjusting items	**81.6**	123.0
Operating cash flow	**109.8**	154.8
Add:		
Provision and share based pay	**1.7**	5.4
	111.5	160.2
Operating cash flow conversion	**137%**	130%

Contribution margin
The Group's contribution margin, which is defined as sales less all variable costs, divided by sales and expressed as a percentage.

	2020 $m	2019 $m
Revenue	**751.3**	873.6
Variable costs	**(410.8)**	(473.1)
Non variable costs	**(83.2)**	(79.1)
Cost of sales	**(494.0)**	(552.2)

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.

	2020 $m	2019 $m
Operating profit from total operations after adjusting items	**81.6**	123.0
Fixed assets excluding goodwill	**740.7**	746.0
Working capital	**141.4**	152.1
Operating provisions	**(58.8)**	(51.6)
Operating capital employed	**823.3**	846.5
Return on capital employed	**10%**	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 support a full understanding of the performance of the Group, the information below provides the calculation of Net Debt/EBITDA as per our banking covenants.

	2020 $m	2019 $m
Revenue	**751.3**	873.6
Adjusted operating profit	**81.6**	123.0
Adjusted operating margin	**10.9%**	14.1%
Adjusted EBITDA	**132.8**	174.5
IFRS 16 adjustment	**(6.4)**	(7.9)
Adjusted EBITDA pre IFRS 16	**126.4**	166.6
Net Debt	**408.1**	454.2
Net Debt/EBITDA*	**3.23**	2.73

* Net Debt/EBITDA, where EBITDA is the Adjusted EBITDA on continuing operations of the Group on a pre IFRS16 basis, is the definition of Net Debt/EBITDA for Elementis' core banking covenants.

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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 2020 Annual report and accounts that is to be published on 9 April 2021, 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 2020 Annual report and accounts.

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.

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 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 CEO, supported by the Executive Leadership Team (ELT), 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. On an annual basis, the ELT reviews operational risks and the Board carries out a review of the principal risks and uncertainties.

Principal risks and uncertainties

The following is a summary of the principal risks agreed by the Board: global economic conditions and competitive market pressures; business interruption as a result of a major or a natural catastrophe; business interruption as a result of supply chain failure of key raw materials and/or third party service provision; regulatory compliance and product stewardship challenges; major regulatory enforcement action, litigation and/or other claims arising from products and/or historical and ongoing operations; intellectual property and know-how; portfolio innovation and technology; people, talent management and succession; IT networks, data security and privacy; COVID-19 Pandemic. A full description of these risks and the mitigating actions taken by the Company will appear in the 2020 Annual Report and Accounts.

Key areas of focus during the year

During 2020, the Board carried out a robust assessment of the key risks which we believe could threaten the Group's business model, future performance, solvency or liquidity or long term viability of the Company. These risks, if they materialise, could have a significant impact on the Group's ability to meet its strategic objectives over the medium term.

<u>Coronavirus (COVID-19)</u>

The COVID-19 outbreak has become a global pandemic moving from an emerging risk in the earlier part of 2020 to a principal risk by the end of 2020. COVID-19 has been assessed and is included as a principal risk for 2020. The dynamic nature of COVID-19 and scale of response had a significant impact on the Company's profitability during 2020 and is discussed in detail within the Chief Executive Officer's overview on page 7.

<u>Brexit</u>

On 31 December 2020, the transition period for the UK's withdrawal from the EU ended. Our most significant risk was potential supply chain delays and a new customs regime. Our cross-functional Brexit team secured Importer of Record status to ensure synchronised goods flowing between the UK and the EU and we continue to monitor changes to customs clearances, duties and exports as part of our ongoing supply chain processes.

<u>Climate change</u>

Awareness and engagement of climate change and the transition to a low carbon economy, sustainability and ESG matters are gaining intensity amongst a number of stakeholder groups. In 2020, we set challenging environmental climate-related targets. 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 each of our principal risk categories as we conduct our assessment of reporting frameworks and allocate resources as appropriate to report in line the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD). A charter for climate risk governance has been adopted by the Sustainability Committee which includes oversight of climate risk, climate-related external reporting disclosures. It is envisaged that we will undertake a materiality assessment during 2021 as part of our preparation for TCFD implementation. 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. Our purpose is at the heart of enabling the transition to a lower carbon economy.

Emerging risks

Emerging risks and opportunities are identified and documented through the existing risk management framework.

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 2020. The full text of the Directors' responsibility statement will appear in the 2020 Annual Report and Accounts.

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

- The financial statements, which have been 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.