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Elementis plc
Preliminary results for the year ended 31 December 2023

Resilient financial performance, material deleveraging and dividend reinstated

- Revenue down 3% to $713 million with pricing and mix benefits offset by lower volumes due to underlying demand weakness and destocking.
- Adjusted[1] operating profit up 3% to $104 million, benefiting from pricing and cost reduction and material improvement in Talc profit. Statutory operating profit was $59 million.
- Adjusted operating margin improved from 13.6% to 14.6%.
- Net debt[2] of $202 million, was 45% lower than prior year, benefiting from the proceeds from the sale of Chromium business. Net debt to EBITDA[3] reduced to 1.4x from 2.2x.
- Dividend reinstated, with a final dividend of 2.1 cents per share.

New Capital Markets Day ("CMD") targets and strategic progress

- Record new business pipeline of $363 million, with 12 new products launched in the year.
- Announced $90 million of above market revenue growth by 2026, driven by seven growth platforms.
- New efficiency programmes initiated, targeting delivery of $30 million of annual savings by 2025.
- Talc business financial turnaround, with focus on further growth in the near term.

Outlook

- Good start to the year, demand environment remains uncertain.
- Growth underpinned by $360m of NBO pipeline and 15 new products in 2024.
- Continued focus on self-help.
- Efficiency programmes on track to deliver expected c.$12 million of savings in 2024.
- Focused on delivery of CMD objectives.

Financial Summary

	Statutory results (IFRS)			Adjusted results[1]			
$m	**2023**	2022	Change	**2023**	2022	Change	Change constant currency
Revenue ($m)	**713**	736	(3)%	**713**	736	(3)%	(4)%
Operating profit/(loss) ($m)	**59**	(42)	n/m	**104**	101	3%	2%
Diluted earnings/(loss) per share (c)	**4.7**	(10.7)	n/m	**10.8**	10.9	(1)%	(1)%
Net debt[2] ($m)	**202**	367	(45)%	**202**	367	(45)%	(45)%
Net debt to EBITDA[3]				**1.4x**	2.2x		
Ordinary dividend per share (c)	**2.1**	-	n/m	**2.1**	-	n/m	

Commenting on the results, Paul Waterman, CEO, said:

"In 2023 Elementis delivered a resilient profit performance and an improved operating margin in the face of challenging market conditions.

We have made excellent progress on deleveraging, with net debt to EBITDA falling from 2.2x to 1.4x at the end of the year.

In November, we announced new material growth and efficiency programmes, underpinned by our strategy of Innovation, Growth and Efficiency. Seven growth platforms targeting $90 million dollars of above market *growth by 2026 will be pursued across our Personal Care and Performance Specialties businesses. In addition, two efficiency programmes have been actioned, that will generate $30 million of annual cost reduction by 2025. These programmes will support delivery of 19%+ operating margins, operating cash conversion of over 90% and return on capital employed of above 20% by 2026.*

We are pleased to resume the dividend, highlighting our confidence in Elementis' future performance.

While market conditions remain uncertain, we believe that the combination of the growth and efficiency programmes will help us make material progress in 2024 against our 2026 financial targets."

Further information

A presentation for investors and analysts will be held at 09.00 am GMT on 7 March 2024 via a live webcast, and can be accessed via a link:https://www.investis-live.com/elementis/65a66e3f4f875712008ef0ff/wjgj.

Conference call dial in details:

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Notes:

1. Adjusted figures exclude the adjusting items set out in Note 5.
2. Pre IFRS 16 basis, refer to unaudited information on page 30 for further information.
3. Earnings before interest, tax, depreciation and amortization, refer to unaudited information on page 30 for further information.

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Chief Executive Officer's overview

Performance

Elementis delivered a resilient financial performance in 2023, with revenue of $713 million, down 3% on prior year (2022: $736 million). Adjusted operating profit increased 3% to $104 million (2022: $101 million), and adjusted operating margin improved by 100bps to 14.6% (2022: 13.6%). Growth in profit was driven by improved pricing and favourable product mix benefits, offsetting lower volumes in the year. Statutory operating profit increased to $59 million (2022: loss of $42 million).

Performance Specialties revenues were 4% lower than prior year at $504 million (2022: $525 million) while profit was even with prior year at $70 million. Talc performance recovery and $36 million of new business was offset by continued Coatings de-stocking throughout 2023.

Coatings performance, which represents approximately half of Elementis revenues, reflected a combination of customer destocking throughout the year and a weaker demand environment. In Asia, where over 80% of our sales come from industrial activity, we saw revenue up 2% on a constant currency basis, with a modest growth across several countries including China, helped by the easing of COVID restrictions in the second half of the year. The premium decorative sector in the Americas region was affected by a weaker housing market and customer destocking. European revenues were also lower, reflecting the continued weak macroeconomic environment, and ongoing inflationary pressure that impacted customer demand in both the decorative and industrial coatings sectors. We continued to leverage new product launches and in 2023 worked on 19 customer joint development projects. The operating profit margin of 15% (2022: 18%), demonstrates both the quality and resilience of this business in challenging market conditions.

Talc revenue remained broadly flat on the prior year, with pricing actions and better product mix offsetting lower volumes, due to weaker end market demand. Sales into automotive plastics customers were below the prior year, impacted by destocking. Despite the flat revenues, the self-help measures implemented over the year led to a material improvement in Talc profitability, with much improved operating margin of 10% (2022: negative 0.3%). Looking ahead, we see attractive growth opportunities in higher value talc applications and remain focused on driving improvement in this business.

Personal Care performed well during the year, with sales marginally lower compared to the strong prior year and profit higher at $50 million (2022: $49 million). Revenues were impacted by lower market related volumes and destocking in the second half of the year, and were partly offset by $15 million of new business, improved pricing and a higher value product mix. In Cosmetics, we saw growth across all regions, with a particularly strong growth in Asia, driven by continued investment in sales and marketing capabilities. We also saw continued growth in Skin Care revenues, supported by new product innovation. Antiperspirants ("AP") Actives sales were below the strong prior year, reflecting input driven price adjustment and lower volumes. Overall, in Personal Care, product mix improvements and price actions offset the weaker volumes resulting in an improved segment operating margin of 24% (2022: 23%).

In 2023, we made a significant progress on our deleveraging ambition, with net debt reducing to $202 million (2022: $367 million) benefitting from the $139 million of proceeds from the sale of Chromium earlier in the year and improved profitability. As a result, the net debt to EBITDA ratio reduced to 1.4x (2022: 2.2x), and we are pleased to reinstate dividend payments and propose a final dividend of 2.1 cents per share. Going forward, we plan to pay a sustainable progressive dividend, while further reducing leverage.

Strategic progress and new financial targets

We made good progress implementing our strategy, launching 12 new products, and delivering $51 million of new business. We delivered 14% of revenues from innovation sales and had a record new business opportunities pipeline of $363 million at the end of 2023. Through discipline and focus, we have managed both costs and pricing well, and the financial recovery of our Talc business is on track.

At the November CMD, we communicated the growth and efficiency initiatives that will underpin our performance through 2026 as well as our sustainability strategy. Going forward, we will focus on seven growth platforms across Personal Care and Performance Specialties, targeting $90 million of above market revenue growth by 2026. This will be driven by ongoing innovation, utilising our advantaged technologies, supported by key industry trends.

We also announced two efficiency programmes that will deliver $30 million of cost savings over the next two years. The Fit for the Future restructuring programme will deliver $20 million cost savings by 2025. This programme is well underway, with significant progress in the outsourcing and consultation processes. We announced the opening of a new support base and research and development laboratory in Porto, Portugal, with the build out and new hires in this location already underway. A further $10 million annual savings by 2025 will come from supply chain optimisation and procurement savings. To underpin this, we will further streamline our manufacturing footprint by consolidating our AP Actives plants from three to two locations in 2024.

We believe the combination of growth and efficiency programmes announced in November will deliver our ambitious 2026 performance objectives:

- Adjusted operating profit margin of 19%+
- Three-year average operating cash conversion above 90%
- Return on capital employed ("ROCE") (excluding goodwill) above 20%.

At the end of the year, we completed a multi-year project of transferring our enterprise resource planning systems into a single global system. We expect this to enable improved data standardisation and analytics, improving both efficiency and effectiveness.

Safety

Safety is fundamental to the success of Elementis and a core part of our culture. We made a good progress on our objective of becoming a zero-injury business, continuing to drive our TogetherSAFE campaign across all our sites. In 2023, we achieved a 50% reduction in work-related injuries, with 90% of our sites remaining injury free over the year. We continued to strengthen our processes in 2023 making good progress on our process safety management improvement plan and developing enhanced HSE standards. The number of environmental events increased over the year, with seven Tier 2 events reported in 2023. A thorough analysis of each incident was conducted with learnings communicated across our manufacturing sites to prevent future occurrences.

Sustainability

We place sustainability at the core of our strategy. Our aim is to develop high-performance additives that deliver positive, sustainable outcomes for the environment and for society. We seek to design products that use fewer resources and create less pollution. Our areas of focus include reducing greenhouse gas ("GHG") emissions with an ambition to reach Net Zero by 2050; improving water, waste and energy management; and leveraging improved product design to deliver better lifecycle impacts.

In 2019, we set our 2030 environmental targets, and this year we have met the waste and water emissions target reduction. We are working towards setting a science-based emissions target, which we plan to finalise in 2024. In 2023, we reduced Scope 1 and 2 (market based) GHG emissions by 7% compared to the prior year, with 77% of our purchased electricity coming from renewable or low carbon sources.

We focus our capabilities on finding unique solutions to emerging sustainability challenges. For example, our organoclay-based gels improve the water resistance of consumer sunscreens, increasing their effectiveness and lowering loss to the environment. We have a high natural material content in our product portfolio, and 68% of Group revenues (2022: 67%) were generated from natural or naturally-derived ingredients (as defined by ISO16128). Our products also help customers do more with less resources, such as additives that help adhesives instantly grip heavy ceramic tiles without slipping, thus saving materials, time and money.

We continue to improve our environmental, social and governance disclosure processes and had our Sope 3 emissions verified by a third party for the first time in 2023. We are also pleased to achieve a Gold rated score from EcoVadis for the third year, and a B rating from Climate Disclosure Project.

People and culture

The financial results achieved this year are a testament to the hard work and commitment of our people, who continue to be dedicated to the success of the company. This year we launched a biannual engagement survey with a new external provider, which will allow more regular employee engagement and provide better opportunities to support our people.

In 2023, we have announced changes that have impacted our global workforce. In January 2023 we sold our Chromium business and shortly after we started working on a restructuring programme, Fit for the Future, that will streamline and optimise our organisation. This restructuring programme, which will trigger c.190 redundancies, was announced in September 2023, followed by extensive consultations and support for employees impacted by these changes. Our people have demonstrated incredible resilience as we make the required, but difficult, changes that will position the company for future success. It is encouraging to see how teams have supported one another through this change, showcasing our values at their best.

I would like to thank the whole Elementis team for their fortitude, adaptability and commitment over the year and look forward to together creating a successful future for the Company.

Outlook

Elementis has seen a good start to the year, with sales ahead on the prior year. The global macroeconomic environment remains uncertain. Notwithstanding this, we are focused on executing our self-help efficiency and growth programmes as this will support ongoing performance improvement, regardless of the demand environment that we face.

We have a portfolio of high-quality businesses, and a clear and consistent strategy based on Innovation, Growth and Efficiency. We have a strong pipeline of new products that is driving new business, and we continue to invest in our business for long-term growth. Most importantly, we have a talented and dedicated team that is completely focused on delivering the 2026 objectives communicated at our November CMD.

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Finance report

Revenue

$m	2023	2022
Coatings	*367.6*	*389.1*
Talc	*136.5*	*135.8*
Performance Specialties	504.1	524.9
Personal Care	209.3	211.5
Revenue	713.4	736.4

Operating profit

$m	2023 Operating profit/(loss)	Adjusting items	2023 Adjusted operating profit/(loss) [1]	2022 Operating profit/(loss)	Adjusting items	2022 Adjusted operating profit/(loss)[1]
Coatings	55.2	0.9	56.1	66.2	4.1	70.3
Talc	8.6	5.4	14.0	(134.0)	133.6	(0.4)
Performance Specialties	63.8	6.3	70.1	(67.8)	137.7	69.9
Personal Care	43.2	7.1	50.3	40.6	8.4	49.0
Central costs	(48.1)	31.6	(16.5)	(14.6)	(3.8)	(18.4)
Operating profit/(loss)	58.9	45.0	103.9	(41.8)	142.3	100.5

1 After adjusting items, see Note 5 for detail.

Group results

In 2023 revenue decreased 3% on a reported basis to $713m (2022: $736m) with improved pricing and mix offset by lower volumes across all businesses. On a constant currency basis, revenue decreased 4%.

Reported operating profit increased to $59m (2022: loss of $42m) as a result of a reduction in one-off items during 2023. Adjusted operating profit increased 2% on a constant currency basis, 3% on reported basis to $104m (2022: $101m), with cost savings and improved price/mix more than offsetting the impact of lower volumes. Profit from continuing operations for the year was $28m (2022: loss of $63m).

Adjusting items

In addition to the statutory results the Group uses alternative performance measures, to provide additional 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 2023 resulted in a charge of $44.7m before tax (2022: $135.7m). The key categories of adjusting items are summarised below. For more information on adjusting items and the Group's policy for adjusting items, please see Note 5 and Note 1 to the financial statements respectively.

Credit/(charge) $m	*Coatings*	*Talc*	Performance Specialties	Personal Care	Central costs	Total
Business transformation	*(0.7)*	–	(0.7)	–	(25.4)	(26.1)
Environmental provisions	–	–	–	–	(6.2)	(6.2)
Amortisation of intangibles arising on acquisitions	*(0.2)*	*(5.4)*	(5.6)	(7.1)	–	(12.7)
Total charge to operating profit	*(0.9)*	*(5.4)*	(6.3)	(7.1)	(31.6)	(45.0)
Unrealised mark to market of derivatives	–	–	–	–	(1.1)	(1.1)
Interest on EU state aid receivables	–	–	–	–	1.4	1.4
Total	*(0.9)*	*(5.4)*	(6.3)	(7.1)	(31.3)	(44.7)

Business transformation

In November 2020, the closure of the Charleston plant was announced. Costs of $0.7m (2022: $2.9m) associated with the closure of the site are classified as an adjusting item and the site is planned to be disposed of in the future. Since November 2020, $23.4m has been incurred in relation to the closure of the site. In September 2023, the Fit for the Future organisation restructuring programme was announced, for which a restructuring provision of $25.4m was recognised in 2023, in line with the requirements of IAS 37. Total overall estimated costs for the programme are $31.3m, of which $5.4m was utilised in 2023. The programme is expected to be completed in 2025.

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 the provision relates to changes in discount rates which has resulted in the reduction of $0.4m to the liability (2022: $7.2m), and extra remediation work identified in the year which has resulted in a $6.6m increase to the liability (2022: $3.4m). As these costs relate to non-operational facilities they are classified as adjusting items.

Amortisation of intangibles arising on acquisitions

Amortisation of $12.7m (2022: $14.9m) represents the charge in respect of the Group's acquired intangible assets. As in previous years, these are included in adjusting items as they are a non-cash charge arising from historical investment activities.

Unrealised mark to market of derivatives

The unrealised movements in the mark to market valuation of financial instruments that are not in hedging relationships are treated as adjusting items as they are unrealised non-cash fair value adjustments that will not affect the cash flows of the Group.

Interest on EU state aid receivable

Finance income of $1.4m has been recognised in respect of interest due to the Group if the EU state aid case settles in favour of the Group. Refer to Note 8 for further details on the tax recoverable asset.

Hedging

The Group uses cash flow hedges to manage exposure to interest rate and commodity price risks, particularly those associated with US dollar and euro interest payments and aluminium and nickel pricing. In 2023 interest rate and commodity price movements resulted in a net gain from the hedge transactions of $6.3m (2022: loss of $1.6m) recycled to the income statement.

Central costs

Central costs are those costs that are not identifiable as expenses of a particular business segment and comprise expenditures of the Board of Directors and corporate head office. Adjusted central costs reduced to $16.5m (2022: $18.4m), reflecting continued focus on cost discipline.

Other expenses

Other expenses are administration costs incurred and paid by the Group's pension schemes that relate primarily to former employees of legacy businesses. These costs were $2.3m in 2023 (2022: $1.3m).

Net finance costs

$m	2023	2022
Finance income	0.5	0.2
Finance cost of borrowings	(17.5)	(19.5)
	(17.0)	(19.3)
Net pension finance income	1.0	0.6
Discount unwind on provisions	(1.4)	(0.7)
Fair value movement on derivatives	0.4	9.1
Interest on EU state aid receivable	1.4	–
Interest on lease liabilities	(1.3)	(1.4)
Net finance costs	(16.9)	(11.7)

Net finance costs increased to $16.9m (2022: $11.7m). Net 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, net pension interest income/expense, fair value movement on derivatives, interest receivable on the EU state aid receivable balance and interest charged on lease liabilities.

The increase in net finance costs is primarily due a lower fair value movement on derivatives of $0.5m (2022: $9.1m). Reduction in the fair value movement on derivatives, which are unrealised mark to market movements on derivatives that are not in hedging relationships, was driven by the contractual maturity of these derivative contracts in 2023. These benefits are not expected to recur in the next financial year.

Finance cost of borrowings have decreased by $2.0m, primarily due to a lower net debt level during 2023.

Net pension finance income of $1.0m (2022: $0.6m) is a function of discount rates under IAS 19, and the value of the schemes' deficit or surplus positions.

The Group's environmental provisions are calculated on a discounted basis, reflecting the time period over which the spending is estimated to take place. The discount unwind on provisions of $1.4m in 2023 was greater than prior year due to higher discount rates.

Interest receivable of $1.4m has been recognised in respect of interest due to the Group if the EU state aid case settles in favour of the Group. Refer to Note 8 for further details on the tax recoverable asset.

Both finance income and the interest on lease liabilities were broadly consistent with the prior year.

Taxation

	2023 $m	2023 Effective rate %	2022 $m	2022 Effective rate %
Reported tax charge/(credit)	11.5	29.0	7.8	(14.2)
Adjusting items tax credit	(8.4)	–	(8.3)	–
Adjusted tax charge	**19.9**	**23.5**	16.1	20.0

The Group incurred a tax charge of $19.9m (2022: $16.1m) on adjusted profit before tax, resulting in an effective tax rate of 23.6% (2022: 20.0%). The increase in the effective tax rate was largely due to the increase in the UK corporation tax rate to 25% from April 2023.

Tax on adjusting items relates primarily to the amortisation of intangible assets and the Fit for the Future restructuring programme.

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The medium-term expectation for the Group's adjusted effective tax rate is around 26%.

Earnings per share

To aid comparability of the underlying performance of the Group, earnings per share ("EPS") reported under IFRS is adjusted for items classified as adjusting.

	2023	2022
Profit after tax ($m)	28.2	(62.6)
Adjusting items net of tax ($m)	36.3	127.4
Adjusted profit after tax ($m)	64.5	64.8
Weighted average number of shares for the purposes of basic EPS (m)	585.7	582.6
Effect of dilutive shares options (m)	11.2	9.7
Weighted average number of shares for the purposes of diluted EPS (m)	596.9	592.3
Basic EPS before adjusting items (cents)	4.8	(10.7)
Diluted EPS before adjusting items (cents)	4.7	(10.7)
Adjusted basic EPS (cents)	11.0	11.1
Adjusted diluted EPS (cents)	10.8	10.9

Adjusted diluted EPS decreased 1% to 10.8 cents (2022: 10.9 cents), primarily due to a lower adjusted profit after tax. Basic EPS before adjusting items increased to 4.8 cents (2022: negative 10.7 cents) principally due to a higher profit after tax.

Note 7 provides disclosure of EPS calculations both including and excluding the effects of adjusting items and the potential dilutive effects of outstanding and exercisable options.

Distributions to shareholders

The Board has considered the strength of the balance sheet and the near-term prospects for the business and recommended the reinstatement of the ordinary dividend to an amount of 2.1 cents per share, which will be paid in pounds sterling. Dividend of 1.65 pence per share has been determined by converting the 2.1 cents into pounds sterling using the forward rate of £1.00:$1.2705, as determined on 4 March 2024. If approved at the AGM, the dividend will be paid on 31 May 2024 to shareholders included on the share register on 3 May 2024.

Cash flow

As per the statutory cash flow statement, net cash inflow from operating activities of $76.8m (2022: $77.0m) was in line with prior year. A net working capital inflow of $2.1m (2022: outflow of $37.2m) related to movements in inventories, debtors and creditors, offset by higher interest and tax payments, and net cash outflow from discontinued operations of $12.5m (2022: inflow of $5.6m).

Net cash inflow in relation to investing activities increased to $101.1m (2022: negative $46.9m) primarily due to the gross cash proceeds from the sale of the Chromium business of $139.2m.

Net cash outflow in relation to financing activities increased to $168.0m (2022: $57.8m) primarily due to the repayment of borrowings following the sale of the Chromium business.

The adjusted cash flow, which excludes the effect of adjusting items from operating cash flow and is therefore distinct from the statutory cash flow referenced above, is summarised below. A reconciliation between statutory operating profit to EBITDA is shown in the alternative performance measures ("APM") section.

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Adjusted cash flow

$m	2023	2022
EBITDA[1]	145.8	141.8
Change in working capital	2.1	(43.3)
Capital expenditure	(38.2)	(33.1)
Other	(4.4)	0.3
Adjusted operating cash flow	105.3	65.7
Pension payments	(3.3)	(0.7)
Interest	(17.8)	(14.4)
Tax	(27.3)	(13.3)
Adjusting items	(5.6)	(5.2)
Payment of lease liabilities	(6.3)	(7.1)
Free cash flow	45.0	25.0
Issue of shares, net of share repurchases by ESOT	(1.0)	0.9
Dividends paid	–	–
Acquisitions and disposals	139.2	–
Discontinued operations	(12.5)	(2.1)
Currency fluctuations	(5.9)	10.4
Movement in net debt	164.8	34.2
Net debt at start of year	(366.8)	(401.0)
Net debt at end of year	(202.0)	(366.8)

1 Earnings before interest, tax, adjusting items, depreciation and amortisation.

Adjusted operating cash flow increased to $105.3m (2022: $65.7m), primarily driven by a $2.1m working capital inflow compared to an outflow of $43.3m in the prior year.

Free cash flow increased to $45.0m (2022: $25.0m), primarily driven by improved operating cashflow, partly offset by higher tax payments as a result of higher corporation tax rates in the countries in which the Group operates, an increase in net interest paid and an increase in pension payments.

Net debt decreased to $202.0m (2022: $366.8m), a reduction of $164.8m. Net debt to adjusted EBITDA decreased to 1.4x in 2023 on a pre-IFRS 16 basis (2022: 2.2x). The decrease in leverage was largely driven by lower net debt as well as the improvement in adjusted EBITDA, reflective of the Group's higher earnings.

Balance sheet

$m	2023	2022
Intangible fixed assets	650.6	660.2
Tangible fixed assets	423.6	386.4
Working capital	147.2	141.5
Net tax liabilities	(101.5)	(102.2)
Provisions and retirement benefit obligations	(48.8)	(12.2)
Financial assets and liabilities	11.3	5.9
Lease liabilities	(36.2)	(36.3)
Unamortised syndicate fees	3.1	4.3
Net debt	(202.0)	(366.8)
Net assets held for sale	–	103.1
Total equity	847.3	783.9

Group equity increased to $847.3m (2022: $783.9m), principally driven by lower net debt. Intangible fixed assets decreased by $9.6m due to $13.3m of amortisation, offset by $4.1m of foreign exchange gain. Increase in tangible fixed assets was driven by gross additions of $66.6m, right-of-use asset capitalisation of $5.1m and exchange gains of $24.0m, offset by depreciation of $41.6m.

Working capital, which comprises inventories, trade and other receivables and trade and other payables, increased to $147.2m (2022: $141.5m). The increase was driven by lower payables and higher receivables, partially offset by lower inventories at the end of the year.

Net tax liabilities decreased to $101.5m (2022: $102.2m) primarily as a result of the amortisation of the intangible fixed assets leading to a reduction in the associated deferred tax liability.

Adjusted ROCE (excluding goodwill) increased to 15% (2022: 14%), with higher adjusted operating profit partially offsetting increased total operating capital employed (see the APM section for detail).

Foreign currency

The financial information is presented in US dollars. The main dollar exchange rates relevant to the Group are set out below.

	2023		2022	
	Year end	Average	Year end	Average
Pounds sterling	0.78	0.81	0.83	0.81
Euro	0.91	0.93	0.94	0.95

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 and the amount can be reliably estimated. The Group calculates provisions on a discounted basis. At the end of 2023, the Group held provisions of $81.9m (2022: $29.7m) consisting of environmental provisions of $60.5m (2022: $27.5m), self-insurance provisions of $0.5m (2022: $0.5m), restructuring provisions of $20.1m (2022: $0.6m) and other provisions of $0.8m (2022: $1.1m).

The increase in environmental provisions was largely driven by additional rehabilitation and closure costs of $28.4m in relation to the Group's Finnish talc mines, arising from increased rehabilitation standards imposed by the Finnish regulators. These costs will be incurred over the expected life of our talc mines and are not expected to have a material cash impact in the near term.

The remaining increase related to an expense of $6.6m relating to extra remediation work required primarily at the Eaglescliffe site, which was partially offset by a $0.4m credit relating to a change in the discount rate applied to the liabilities. The remaining movement in the environmental provisions relates to the unwind of the discount in the year of $1.5m, offset by currency translation of $1.3m and utilisation of $4.4m.

The self-insurance provision represents the Group's estimate of its liability arising from retained liabilities under the Group's insurance programme and remained flat during the period.

The restructuring provision reflects the adjustments to head count and other costs of restructuring where a need to do so has been identified by management. The restructuring provision increased by $25.4m as a result of the Fit for the Future restructuring programme, of which $5.4m was utilised in 2023.

Pensions and other post retirement benefits

$m	2023	2022
Net (surplus)/liability:		
UK	(38.7)	(26.4)
US	–	3.5
Other	5.6	5.4
	(33.1)	(17.5)

UK plan

The largest of the Group's retirement plans is the UK defined benefit pension scheme ("UK Scheme"), which at the end of 2023 had a surplus, under IAS 19, of $38.7m (2022: $26.4m). 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. The increase in net surplus was largely driven by returns on plan assets of $9.7m (2022: loss of $200.4m) which was offset by liability adjustments, primarily due to lower discount rates, of $0.3m (2022: $3.0m). Company contributions of $1.8m (2022: $0.5m) reflect the funding agreement reached with the UK trustees following the 2020 triennial valuation, which concluded in 2021. The 2023 triennial valuation will be concluded in 2024.

US plan

In the US, the Group reports two post retirement plans under IAS 19: a defined benefit pension plan with a net surplus at the end of 2023 of $3.4m (2022: $nil), and a post retirement medical plan with a liability of $3.4m (2022: $3.5m). The US pension plans are smaller than the UK plan and in 2023 the overall deficit on the US plans decreased by $3.5m, as a result of the return on plan assets of $4.3m (2022: loss of $26.1m) and employer contributions of $1.4m being offset by actuarial increases in the liability of $1.3m (2022: $28.7m).

Other plans

Other pension plans amounted to $5.6m (2022: $5.4m) 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

Net financial assets are represented by net derivative financial assets of $11.3m (2022: $5.9m) which relate to the valuation of various risk management instruments.

The movements in the mark to market valuation of cross-currency swaps that are not in hedging relationships are treated as adjusting items, as they are unrealised non-cash fair value adjustments and will not affect the cash flows of the Group. The cross-currency swaps matured in 2023.

Events after the balance sheet date

On 6th March 2024, Elementis entered into an agreement to sell its former Chromium manufacturing site at Eaglescliffe to Flacks Group for negative purchase price consideration of £11.5m ($14.5m). Completion of the transaction is conditional on regulatory approval.

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

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Business performance overview

$m	2023	Effect of exchange rates	Decrease 2023	2022
Coatings	*367.6*	*(1.5)*	*(20.0)*	*389.1*
Talc	*136.5*	*3.1*	*(2.4)*	*135.8*
Performance Specialties	504.1	1.6	(22.4)	524.9
Personal Care	209.3	1.3	(3.5)	211.5
Revenue	713.4	2.9	(25.9)	736.4

$m	Operating profit 2023[1]	Effect of exchange rates	Increase/ (decrease) 2023	Operating profit/(loss) 2022[1]
Coatings	*56.1*	*0.3*	*(14.5)*	*70.3*
Talc	*14.0*	*(0.3)*	*14.7*	*(0.4)*
Performance Specialties	70.1	–	0.2	69.9
Personal Care	50.3	1.2	0.1	49.0
Central costs	(16.5)	–	1.9	(18.4)
Adjusted operating profit	103.9	1.2	2.2	100.5

1 After adjusting items - see Note 5.

Personal Care

Personal Care revenue reduced 2% (or 1% excluding currency impact) to $209 million (2022: $212 million), reflecting strong growth in Cosmetics, which was offset by weaker revenues in AP Actives.

Adjusted operating profit was slightly higher at $50.3 million (2022: $49.0 million), or flat on a constant currency basis. The adjusted operating margin improved to 24.2% (2022: 23.2%), benefiting from pricing actions and a higher value product mix.

Performance Specialties

Performance Specialties was created at the beginning of 2023, by combining Talc and Coatings businesses. As the two businesses share many distribution channels and end markets, the combined segment will enable a stronger end market focus on attractive growth opportunities, under a single leadership team. We will continue to report Coatings' and Talc's performance separately for transparency.

Coatings

Overall revenue decreased 6% on a reported basis (5% excluding currency impact) to $367.6 million (2022: $389.1 million) due to continued destocking and weak customer demand throughout the year.

Coatings also includes our specialised Energy business, which accounts for just over 10% of total Coatings sales.

Adjusted operating profit decreased 20% on both, the reported and constant currency basis, to $56.1 million (2022: $70.3 million), reflecting lower volumes and higher costs, offsetting price and mix benefits. Adjusted operating margin of 15.3% (2022: 18.1%) demonstrates resilience in the challenging market conditions.

Talc

Talc revenue remained broadly flat at $136.5 million (2022: $135.8 million) or 2% down excluding currency impact. Pricing actions and a better product mix successfully offset lower volumes, due to weaker demands in many end markets.

Despite the flat revenues, we saw material improvement in Talc profitability, with adjusted operating profit growing to $14.0 million (2022: loss $0.4 million). Profit growth was driven by improved pricing and product mix, which offset the lower volumes. As a result, we delivered much improved adjusted operating margin of 10.2% (2022: negative 0.3%).

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Consolidated income statement

for the year ended 31 December 2023

$m	2023	2022
Revenue	713.4	736.4
Cost of sales	(429.1)	(437.5)
Gross profit	284.3	298.9
Distribution costs	(108.7)	(125.0)
Administrative expenses	(116.7)	(215.7)
Operating profit/(loss)	58.9	(41.8)
Other expenses[1]	(2.3)	(1.3)
Finance income	4.4	9.9
Finance costs	(21.3)	(21.6)
Profit/(loss) before income tax	39.7	(54.8)
Tax	(11.5)	(7.8)
Profit/(loss) from continuing operations	28.2	(62.6)
Profit from discontinued operations	(1.7)	11.5
Profit/(loss)for the year	26.5	(51.1)
Attributable to:		
Equity holders of the parent	26.5	(51.1)
Earnings per share		
From continuing operations		
Basic earnings/(loss) (cents)	4.8	(10.7)
Diluted earnings/(loss) (cents)	4.7	(10.7)
From continuing and discontinued operations		
Basic earnings/(loss) (cents)	4.5	(8.8)
Diluted earnings/(loss) (cents)	4.4	(8.8)

1 Other expenses comprise administration expenses for the Group's pension schemes.

Consolidated statement of comprehensive income

for the year ended 31 December 2023

$m	2023	2022
Profit/(loss) for the year	26.5	(51.1)
Other comprehensive income:		
Items that will not be reclassified subsequently to profit and loss:		
Remeasurements of retirement benefit obligations	12.3	(18.5)
Deferred tax associated with retirement benefit obligations	(2.8)	5.3
Items relating to discontinued operations, net of tax	–	0.3
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	(5.1)	(100.9)
Effective portion of change in fair value of net investment hedge	14.8	46.2
Tax associated with change in fair value of net investment hedge	(0.1)	(2.8)
Tax associated with changes in cashflow hedges	(0.6)	0.8
Recycling of deferred foreign exchange gains on disposal	9.3	–
Effective portion of changes in fair value of cash flow hedges	12.7	(2.6)
Fair value of cash flow hedges transferred to income statement	(6.3)	1.6
Exchange differences on translation of share options reserves	0.2	(0.9)
Other comprehensive income/(loss)	34.4	(71.5)
Total comprehensive income/(loss) for the year	60.9	(122.6)
Attributable to:		
Equity holders of the parent	60.9	(122.6)

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Consolidated balance sheet

as at 31 December 2023

$m	2023 31 December	2022 31 December
Non-current assets		
Goodwill and other intangible assets	650.6	660.2
Property, plant, and equipment	423.6	386.4
Tax recoverable	20.0	17.5
Financial assets	6.0	1.3
Deferred tax assets	19.6	24.8
Net retirement benefit surplus	42.1	26.4
Total non-current assets	1,161.9	1,116.6
Current assets		
Inventories	163.3	182.0
Trade and other receivables	101.8	94.9
Financial assets	7.4	10.7
Current tax assets	11.2	7.0
Cash and cash equivalents	65.8	54.9
Total current assets	349.5	349.5
Assets classified as held for sale	–	160.9
Total assets	1,511.4	1,627.0
Current liabilities		
Bank overdrafts and loans	–	(2.7)
Trade and other payables	(117.9)	(135.4)
Financial liabilities	–	(3.3)
Current tax liabilities	(13.6)	(20.2)
Lease liabilities	(5.9)	(6.1)
Provisions	(21.5)	(5.8)
Total current liabilities	(158.9)	(173.5)
Non-current liabilities		
Loans and borrowings	(264.7)	(414.7)
Retirement benefit obligations	(9.0)	(8.9)
Deferred tax liabilities	(138.7)	(131.3)
Lease liabilities	(30.3)	(30.2)
Provisions	(60.4)	(23.9)
Financial liabilities	(2.1)	(2.8)
Total non-current liabilities	(505.2)	(611.8)
Liabilities classified as held for sale	–	(57.8)
Total liabilities	(664.1)	(843.1)
Net assets	847.3	783.9
Equity		
Share capital	52.5	52.3
Share premium	239.2	238.7
Other reserves	70.1	42.1
Retained earnings	485.5	450.8
Total equity attributable to equity holders of the parent	847.3	783.9
Total equity	847.3	783.9

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Consolidated statement of changes in equity

for the year ended 31 December 2023

$m	Share capital	Share premium	Translation reserve	Hedging reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2022	52.2	240.8	(67.7)	(8.6)	167.0	517.3	901.0
Comprehensive income:							
Loss for the year	–	–	–	–	–	(51.1)	(51.1)
Other comprehensive loss:							
Exchange differences	–	–	(54.7)	–	(0.9)	–	(55.6)
Fair value of cash flow hedges transferred to the income statement	–	–	–	1.6	–	–	1.6
Effective portion of changes in fair value of cash flow hedges	–	–	–	(2.6)	–	–	(2.6)
Tax associated with changes in cash flow hedges	–	–	–	–	–	0.8	0.8
Tax associated with changes in fair value of net investment hedge	–	–	–	–	–	(2.8)	(2.8)
Remeasurements of retirement benefit obligations	–	–	–	–	–	(18.2)	(18.2)
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	5.3	5.3
Transfer	–	–	–	7.8	(4.0)	(3.8)	–
Total other comprehensive (loss)/income	–	–	(54.7)	6.8	(4.9)	(18.7)	(71.5)
Total comprehensive (loss)/income	–	–	(54.7)	6.8	(4.9)	(69.8)	(122.6)
Transactions with owners:							
Issue of shares by the Company	0.1	0.8	–	–	–	–	0.9
Deferred tax on share based payments recognised within equity	–	–	–	–	–	0.4	0.4
Share based payments	–	–	–	–	3.4	–	3.4
Fair value of cash flow hedges transferred to net assets	–	–	–	0.8	–	–	0.8
Reserve reclassification	–	(2.9)	–	–	–	2.9	–
Total transactions with owners	0.1	(2.1)	–	0.8	3.4	3.3	5.5
Balance at 31 December 2022	52.3	238.7	(122.4)	(1.0)	165.5	450.8	783.9
Comprehensive income:							
Profit for the year	–	–	–	–	–	26.5	26.5
Other comprehensive income:							
Exchange differences	–	–	9.7	–	0.2	–	9.9
Fair value of cash flow hedges transferred to the income statement	–	–	–	(6.3)	–	–	(6.3)
Effective portion of changes in fair value of cash flow hedges	–	–	–	12.7	–	–	12.7
Tax associated with changes in cashflow hedges	–	–	–	–	–	(0.6)	(0.6)
Tax associated with change in fair value of net investment hedge	–	–	–	–	–	(0.1)	(0.1)
Remeasurements of retirement benefit obligations	–	–	–	–	–	12.3	12.3
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	(2.8)	(2.8)
Recycling of deferred foreign exchange losses on disposal	–	–	9.3	–	–	–	9.3
Transfer	–	–	–	–	(2.3)	2.3	–
Total other comprehensive income/(loss)	–	–	19.0	6.4	(2.1)	11.1	34.4
Total comprehensive income/(loss)	–	–	19.0	6.4	(2.1)	37.6	60.9
Transactions with owners:							
Issue of shares by the Company	0.2	0.5	–	–	–	–	0.7
Purchase of shares by Employee Share Options Trust	–	–	–	–	–	(1.6)	(1.6)
Deferred tax on share based payments recognised within equity	–	–	–	–	–	(1.3)	(1.3)
Share based payments	–	–	–	–	4.2	–	4.2
Fair value of cash flow hedges transferred to net assets	–	–	–	0.5	–	–	0.5
Total transactions with owners	0.2	0.5	–	0.5	4.2	(2.9)	2.5
Balance at 31 December 2023	52.5	239.2	(103.4)	5.9	167.6	485.5	847.3

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Consolidated cash flow statement

for the year ended 31 December 2023

$m	2023	2022
Operating activities:		
Profit/(loss) from continuing operations	28.2	(62.6)
Adjustments for:		
Other expenses	2.3	1.3
Finance income	(4.4)	(9.9)
Finance costs	21.3	21.6
Tax charge	11.5	7.8
Depreciation and amortisation	55.7	56.9
Impairment loss on property, plant, and equipment	–	23.0
Increase/(decrease) in provisions and financial liabilities	16.7	(7.7)
Pension payments net of current service cost	(3.1)	(0.7)
Share based payments expense	4.4	3.4
Impairment of goodwill	–	103.4
Operating cash flow before movement in working capital	132.6	136.5
Decrease/(increase) in inventories	22.5	(57.5)
(Increase)/decrease in trade and other receivables	(0.3)	6.5
(Decrease)/increase in trade and other payables	(20.1)	13.8
Cash generated by operations	134.7	99.3
Income taxes paid	(27.3)	(13.3)
Interest paid	(18.1)	(14.6)
Net cash flow used in operating activities from discontinued operations	(12.5)	5.6
Net cash flow from operating activities	76.8	77.0
Investing activities:		
Interest received	0.4	0.2
Disposal of property, plant and equipment	–	(0.4)
Purchase of property, plant and equipment	(38.1)	(33.1)
Disposal of business	139.2	–
Acquisition of intangible assets	(0.1)	(0.2)
Net cash flow used in investing activities from discontinued operations	(0.3)	(13.4)
Net cash flow from investing activities	101.1	(46.9)
Financing activities:		
Issue of shares by the Company and the ESOT net of issue costs	(1.0)	0.9
Net movement on existing debt	(160.5)	(51.6)
Payment of interest on lease liabilities	(1.3)	(1.4)
Payment of gross lease liabilities	(5.2)	(5.7)
Net cash used in financing activities	(168.0)	(57.8)
Net decrease in cash and cash equivalents	9.9	(27.7)
Cash and cash equivalents at 1 January	54.9	84.6
Foreign exchange on cash and cash equivalents	1.0	(2.0)
Less: cash and cash equivalents classified as held for sale	–	–
Cash and cash equivalents at 31 December	65.8	54.9

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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 2023 or 2022 but is derived from those accounts. Statutory accounts for 2022 have been delivered to the Registrar of Companies, and those for 2023 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 6 March 2024.

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 UK (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 2023 which will be made available to shareholders on 26 March 2024.

Reporting currency

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

3. Finance income

$m	2023	2022
Interest on bank deposits	0.5	0.2
Pension and other post retirement liabilities	1.0	0.6
Fair value movement on derivatives	1.5	9.1
Interest on EU state aid receivable	1.4	–
	4.4	9.9

4. Finance costs

$m	2023	2022
Interest on bank loans	17.5	19.5
Unwind of discount on provisions	1.4	0.7
Interest on lease liabilities	1.3	1.4
Fair value movements on derivatives	1.1	–
	21.3	21.6

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5. Adjusting items and alternative performance measures

$m	2023	2022
Business transformation	26.1	4.8
Environmental provisions		
Increase in provisions due to additional remediation work identified	6.6	3.4
(Decrease)/Increase in provisions due to change in discount rate	(0.4)	(7.2)
Impairment of property, plant and equipment	–	23.0
Impairment of goodwill	–	103.4
Amortisation of intangibles arising on acquisition	12.7	14.9
	45.0	142.3
Unrealised mark to market of derivative financial instruments	1.1	(6.6)
Interest on EU state aid receivable	(1.4)	–
Tax credit in relation to adjusting items	(8.4)	(8.3)
	36.3	127.4

A number of items have been recorded under adjusting items by virtue of their size and/or one time nature, in line with our accounting policy in Note 1 to the consolidated financial statements, in order to provide additional useful analysis of the Group's results. The Group considers the adjusted results to be an important measure used to monitor how the businesses are performing as they achieve consistency and comparability between reporting periods. The net impact of these items on the Group profit before tax for the year is a debit of $44.7m (2022: $135.7m). The items fall into a number of categories, as summarised below:

Business transformation – In November 2020, the closure of the Charleston plant was announced. Costs of $0.7m ($2.9m in 2022) associated with the closure of the site are classified as an adjusting item and the site is planned to be disposed of in the future. Since November 2020, $23.4m has been incurred in relation to the closure of the site.

In September 2023, the Fit for Future organisation restructuring programme was announced, for which a restructuring provision of $25.4m was recognised in 2023; reflecting the discounted future expected cash outflows for the programme. Total estimated costs for the programme are $31.3m, of which $5.4m was utilised in 2023. The programme is expected to be completed in 2025.

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 the provision relates to a change in discount rates that has decreased the liability by $0.4m in the year (2022: $7.2m) and extra remediation work identified in the year which has resulted in a $6.6m increase to the liability (2022: $3.4m). As these costs relate to non-operational facilities they are classified as adjusting items.

Impairment of property, plant and equipment – In 2022 the Group recognised a non-cash $23.0m impairment in respect of non-operational bioleaching property, plant and equipment in the Talc business. The Group determined that the operational, health and safety and financial commitments required to operate the equipment were not the best use of the Group's resources.

Impairment of goodwill – In 2022, the performance of the Talc business was adversely impacted by a lower demand environment, global inflationary pressures, higher energy costs and the Russia/Ukraine conflict. These factors, as well as a reduction in the near term forecasted profitability of the Talc business and a rise in the pre-tax discount rate resulted in an impairment charge of $103.4m being recognised in 2022.

Amortisation of intangibles arising on acquisition – Amortisation of $12.7m (2022: $14.9m) represents the charge in respect of the Group's acquired intangible assets. As in previous years, these are included in adjusting items as they are a non-cash charge arising from historical investment activities.

Unrealised mark to market of derivatives – The unrealised movements in the mark to market valuation of financial instruments that are not in hedging relationships are treated as adjusting items as they are unrealised non-cash fair value adjustments that will not affect the cash flows of the Group.

Interest on EU state aid receivables – Finance income of $1.4m has been recognised in respect of interest due to the Group if the EU state aid case settles in favour of the Group. Refer to Note 8 for further details on the tax recoverable asset.

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 2023 the reconciliation to the adjusted consolidated income statement is shown below.

			2023			2022
$m	Profit and loss	Adjusting items	Profit and loss after adjusting items	Profit and loss	Adjusting items	Profit and loss after adjusting items
Revenue	713.4	–	713.4	736.4	–	736.4
Cost of sales	(429.1)	–	(429.1)	(437.5)	–	(437.5)
Gross profit	284.3	–	284.3	298.9	–	298.9
Distribution costs	(108.7)	–	(108.7)	(125.0)	–	(125.0)
Administrative expenses	(116.7)	45.0	(71.7)	(215.7)	142.3	(73.4)
Operating profit/(loss)	58.9	45.0	103.9	(41.8)	142.3	100.5
Other expenses	(2.3)	–	(2.3)	(1.3)	–	(1.3)
Finance income	4.4	(1.4)	3.0	9.9	(6.6)	3.3
Finance costs	(21.3)	1.1	(20.2)	(21.6)	–	(21.6)
Profit/(loss) before income tax	39.7	44.7	84.4	(54.8)	135.7	80.9
Tax	(11.5)	(8.4)	(19.9)	(7.8)	(8.3)	(16.1)
Profit/(loss) from continuing operations	28.2	36.3	64.5	(62.6)	127.4	64.8
Earnings per share						
From continuing operations						
Basic earnings/(loss) (cents)	4.8	6.2	11.0	(10.7)	21.8	11.1
Diluted earnings/(loss) (cents)	4.7	6.1	10.8	(10.7)	21.6	10.9

To support comparability with the financial statements as presented in 2023, a reconciliation from reported profit/(loss) before interest to adjusted operating profit/(loss) by segment is shown below for each year.

2023 $m	*Coatings*	*Talc*	Performance Specialties totals	Personal Care	Segment totals	Central costs	Total
Reported operating profit/(loss)	*55.2*	*8.6*	63.8	43.2	107.0	(48.1)	58.9
Adjusting Items							
Business transformation	*0.7*	–	0.7	–	0.7	25.4	26.1
Increase in environmental provisions due to additional remediation work identified	–	–	–	–	–	6.6	6.6
Decrease in environmental provisions due to change in discount rate	–	–	–	–	–	(0.4)	(0.4)
Amortisation of intangibles arising on acquisition	*0.2*	*5.4*	5.6	7.1	12.7	–	12.7
Adjusted operating profit /(loss)	*56.1*	*14.0*	70.1	50.3	120.4	(16.5)	103.9

2022 $m	*Coatings*	*Talc*	Performance Specialties totals	Personal Care	Segment totals	Central costs	Total
Reported operating profit/(loss)	69.2	(134.0)	(64.8)	44.4	(20.4)	(21.4)	(41.8)
Adjusting Items							
Business transformation	2.9	1.9	4.8	–	4.8	–	4.8
Increase in environmental provisions due to additional remediation work identified	–	–	–	–	–	3.4	3.4
Decrease in environmental provisions due to change in discount rate	–	–	–	–	–	(7.2)	(7.2)
Impairment of property, plant and equipment	–	23.0	23.0	–	23.0	–	23.0
Impairment of goodwill	–	103.4	103.4	–	103.4	–	103.4
Amortisation of intangibles arising on acquisition	1.2	5.3	6.5	8.4	14.9	–	14.9
Adjusted operating profit /(loss)	73.3	(0.4)	72.9	52.8	125.7	(25.2)	100.5

6. Income tax expense

$m	2023	2022
Current tax:		
UK corporation tax	6.2	11.2
Overseas corporation tax on continuing operations	8.7	6.5
Adjustments in respect of prior years:		
United Kingdom	(0.7)	(0.6)
Overseas	(3.0)	(3.8)
Total current tax	11.2	13.3
Deferred tax:		
United Kingdom	(0.2)	3.1
Overseas	(1.6)	(8.4)
Adjustment in respect of prior years:		
United Kingdom	–	–
Overseas	2.1	(0.2)
Total deferred tax	0.3	(5.5)
Income tax expense for the year	11.5	7.8
Comprising:		
Income tax expense for the year	11.5	7.8
Adjusting items [1]		
Overseas taxation on adjusting items	(4.0)	(6.3)
UK taxation on adjusting items	(4.4)	(2.0)
Taxation on adjusting items	(8.4)	(8.3)
Income tax expense for the year after adjusting items	19.9	16.1

1 See Note 5 for details of adjusting items.

The tax charge on profits represents an effective rate of 29.0% (2022: 14.2%) and an effective tax rate after adjusting items of 23.5% (2022: 20.0%).

The tax impact of the adjusting items outlined within note 5 and within the consolidated income statement relates to the following:

	2023		2022	
$m	Gross	Tax impact	Gross	Tax impact
Business transformation	26.1	5.2	4.8	1.1
Environmental provisions	6.2	1.3	(3.8)	(0.7)
Impairment of property, plant and equipment	–	–	23.0	4.9
Impairment of goodwill	–	–	103.4	–
Mark to market of derivative financial instruments	1.1	0.2	(6.6)	(1.3)
Interest on EU state aid receivable	(1.4)	(0.4)	–	–
Amortisation of intangibles arising on acquisition	12.7	2.1	14.9	2.9
Reversal of uncertain tax provision	–	–	–	1.4
Total	44.7	8.4	135.7	8.3

The Group is international and has operations across a range of jurisdictions. Accordingly, tax charges of the Group in future periods will be affected by the profitability of operations in different jurisdictions and changes to tax rates and regulations in the jurisdictions within which the Group has operations. The Group's adjusted effective tax rate in 2023 is higher than the prior year due to an increase in the UK corporation tax rate to 25% from April 2023.The medium-term expectation for the Group's adjusted effective tax rate is around 26%.

On 20 December 2021 the OECD published its Global Anti-Base Erosion Model Rules (Pillar Two). The report provides a model for a coordinated system of taxation that imposes a top-up tax on profits arising in a jurisdiction whenever the effective tax rate, determined on a jurisdictional basis, is below the minimum tax rate of 15%. The UK enacted legislation to enshrine this into domestic law in July 2023. The Group is below the revenue threshold for the legislation to apply and therefore there is no impact on the financial statements.

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

	2023		2022	
	$m	%	$m	%
Profit/(loss) before tax	39.7		(54.8)	
Tax at 23.5% (2022: 19.0%)	9.4	23.5	(10.4)	(19.0)
Difference in overseas effective tax rates	1.9	4.9	2.3	4.2
Income not taxable and impact of tax efficient financing	–	–	(0.4)	(0.7)
Expenses not deductible for tax purposes	7.1	17.9	21.8	39.7
Adjustments in respect of prior years	(1.5)	(3.7)	(4.6)	(8.4)
Tax rate changes	–	–	0.2	0.4
Tax associated with disposal of discontinued operations	(12.8)	(32.2)	–	–
Movement in unrecognised deferred tax	7.4	18.6	(1.1)	(2.0)
Total charge and effective tax rate for the year	11.5	29.0	7.8	14.2

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:

$m	2023	2022
Earnings:		
Adjusted earnings	64.5	64.8
Adjusting items net of tax	(36.3)	(127.4)
Earnings/(loss) for the purpose of basic earnings per share	28.2	(62.6)
(Loss)/earnings from discontinued operations	(1.7)	11.5
Earnings from continuing and discontinued operations	26.5	(51.1)

m	2023	2022
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	585.7	582.6
Effect of dilutive share options	11.2	9.7
Weighted average number of shares for the purposes of diluted earnings per share	596.9	592.3

The dilutive (loss)/earnings per share calculation for 2022 in the table below, does not include the impact of the 9.7m dilutive share options, as the inclusion of these potential shares would have an anti-dilutive impact on the diluted loss per share from continuing operations; it would decrease the diluted loss per share from continuing operations.

cents	2023	2022
Earnings per share from continuing operations:		
Basic earnings/(loss)	4.8	(10.7)
Diluted earnings/(loss)	4.7	(10.7)
Basic after adjusting items	11.0	11.1
Diluted after adjusting items	10.8	10.9
Earnings per share from discontinued operations:		
Basic (loss)/earnings	(0.3)	2.0
Diluted (loss)/earnings	(0.3)	2.0
Earnings per share from continuing and discontinued operations:		
Basic earnings/(loss)	4.5	(8.8)
Diluted earnings/(loss)	4.4	(8.8)

8. Contingent liabilities

As is the case with other chemical companies, the Group occasionally receives notice 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.

The Group has not received any notice of litigation relating to events arising prior to the balance sheet date that is expected to lead to a material exposure.

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. A charging notice for associated interest of $1m was received on 24 June 2021 and paid on 7 July 2021. Whilst Elementis lodged an appeal against the charging notices that did not defer the payment of the tax assessed. The UK Government's appeal against the European Commission's decision was heard by the General Court of the European Union during October 2021 and on 8 June 2022 the General Court of the European Union ruled against the UK Government. The UK Government lodged a further appeal to the European Court of Justice during Q3 2022 and the case was heard during January 2024, with a decision expected during Q2 2024. As Elementis continues to consider that the appeal process will ultimately be successful, at 31 December 2023 an asset has been recorded within non-current assets in the expectation that the charge will be repaid in due course.

In August 2022 the Brazilian tax authorities opened a tax audit into the Group's Brazilian entity. The audit is focused on the customs classification code used since 2017 for one of the entity's imported raw materials. The potential exposure is $7.6m. Management have appealed the decision of the tax authorities and based on legal advice obtained have concluded that as at 31 December 2023 it is not probable that an outflow of economic resources will be required to settle the matter.

During 2022 the Group terminated a distribution agreement with one of its distributors. The distributor has brought a claim for compensation as a result of the termination. This matter has now proceeded to arbitration and management have concluded at this stage that the obligation cannot be measured with sufficient reliability.

9. 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.

10. Events after the balance sheet date

On 6th March 2024, Elementis entered into an agreement to sell its former Chromium manufacturing site at Eaglescliffe to Flacks Group for negative purchase price consideration of £11.5m ($14.5m). Completion of the transaction is conditional on regulatory approval.

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.

Profit and loss $m	2023	2022
Profit/(loss) for the year	26.5	(51.1)
Adjustments for		
(Loss)/profit from discontinued operations	1.7	(11.5)
Finance income	(4.4)	(9.9)
Finance costs and other expenses	23.5	22.9
Tax charge	11.5	7.8
Depreciation and amortisation	54.7	56.6
Excluding intangibles arising on acquisition	(12.7)	(14.9)
Loss on disposal	–	–
Adjusting items before finance costs and depreciation	45.0	141.9
Adjusted EBITDA	145.8	141.8

There are also a number of key performance indicators (KPIs) used in this report. The reconciliations to these are given below.

Adjusted operating cash flow

Adjusted 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.

$m	2023	2022
Net cash flow from operating activities	76.8	77.0
Less:		
Net cash flow used in operating activities from discontinued operations	12.4	(5.6)
Capital expenditure	(38.2)	(33.7)
Add:		
Income tax paid or received	27.3	13.3
Interest paid or received	18.1	14.6
Pension contributions net of current service cost	3.1	0.7
Adjusting items – non cash	0.2	(2.6)
Adjusting items – cash	5.6	2.0
Adjusted operating cash flow	105.3	65.7

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Adjusted operating cash conversion

Adjusted operating cash conversion is defined as adjusted operating profit divided by adjusted operating cash flow plus provisions and share based payments.

$m	2023	2022[1]
Adjusted operating profit	103.9	123.7
Adjusted operating cash flow	105.3	64.2
Add:		
Provisions and share based payments	4.4	3.6
	109.7	67.8
Adjusted operating cash flow conversion	106%	55%

1 2022 includes discontinued operations.

Contribution margin

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

$m	2023	2022
Revenue	713.4	736.4
Variable costs	(361.2)	(388.3)
Non variable costs	(67.9)	(49.2)
Cost of sales	(429.1)	(437.5)

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.

Adjusted return on operating capital employed

The adjusted 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.

$m	2023	2022
Operating profit from total operations after adjusting items	103.9	100.5
Fixed assets excluding goodwill	612.0	503.2
Working capital	147.2	141.5
Operating provisions	(81.9)	(28.6)
Operating capital employed	677.3	695.0
Adjusted return on capital employed	15%	14%

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 on a pre-IFRS 16 basis.

$m	2023	2022 $m
Revenue	727.8	921.4
Adjusted operating profit from total operations	104.1	123.7
Adjusted operating margin from total operations	14.3%	13.4%
Adjusted EBITDA from total operations	146.8	173.1
IFRS 16 adjustment	(6.5)	(7.1)
Adjusted EBITDA pre-IFRS 16	140.3	166.0
Net Debt [1]	202.0	366.8
Net Debt/EBITDA [2]	1.4	2.2

1 Net debt excludes lease liabilities.

2 Net Debt/EBITDA, where EBITDA is the adjusted EBITDA on total operations of the Group on a pre IFRS16 basis.