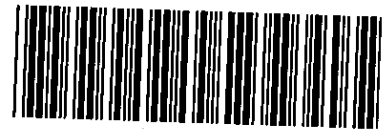


ELEMENTIS

Well positioned for sustainable growth

ANNUAL REPORT AND ACCOUNTS 2020

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For more information
<https://www.elementis.com/>

Well positioned for sustainable growth

Elementis is a global specialty chemicals company. We deliver Enhanced Performance Through Applied Innovation; our products make our customers' formulations look, feel and perform at their best.

OPERATIONAL HIGHLIGHTS

The COVID-19 pandemic has had a significant impact on many businesses around the world. In response we have focused on the safety of our workforce, maintaining a reliable supply to our customers, and optimising our financial performance through a clear self-help agenda focused on proactive cost and cash management.

STRATEGIC HIGHLIGHTS

While the demand environment was challenging in 2020, the implementation of our Innovation, Growth and Efficiency strategy has continued at pace. The launch of 12 new products, generation of \$30m of new business opportunities and delivery of \$15m (\$10m temporary) of cost savings demonstrates the Group has a robust foundation from which to grow and deliver on our medium term financial objectives.

REVENUE	ADJUSTED OPERATING PROFIT ¹	ADJUSTED OPERATING MARGIN ¹	OPERATING PROFIT/(LOSS)	PROFIT/(LOSS) BEFORE TAX	NET DEBT ³
2020 \$751m 2019: \$874m 2018: \$822m	2020 \$82m 2019: \$123m 2018: \$133m	2020 10.9% 2019: 14.1% 2018: 16.1%	2020 \$(28.2)m 2019: \$101m 2018: \$85m	2020 \$(68.8)m 2019: \$61m 2018: \$65m	2020 \$408m 2019: \$454m 2018: \$498m
DILUTED EARNINGS PER SHARE	ADJUSTED DILUTED EARNINGS PER SHARE ¹	ORDINARY DIVIDEND PER SHARE ²	TOTAL RECORDABLE INCIDENT RATE (TRIR)	LOST TIME ACCIDENTS (LTA)	ENVIRONMENTAL INCIDENTS
2020 (11.3)c 2019: 7.9c 2018: 9.5c	2020 6.5c 2019: 12.4c 2018: 16.9c	2020 0c 2019: 8.55c 2018: 8.40c	2020 0.68 2019: 0.48 2018: 0.22	2020 2 2019: 1 2018: 0	2020 0 2019: 0 2018: 0

1 After adjusting items – see Note 5

2 Rebased for the effects of the Rights Issue in 2018

3 Please see the Alternative Performance Measures section on page 183

Cautionary statement

The Annual Report and Accounts for the financial year ended 31 December 2020, as contained in this document ('Annual Report'), contains information which viewers or readers might consider to be forward looking statements relating to or in respect of the financial condition, results, operations or businesses of Elementis plc. Any such statements involve risk and uncertainty because they relate to future events and circumstances. There are many factors that could cause actual results or developments to differ materially from those expressed or implied by any such forward looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Working with our customers and their industries to solve product performance and sustainability challenges

WHO WE ARE

Elementis is a specialty chemicals company with over 1,300 employees and operating at 23 manufacturing sites across the globe.

Founded in 1844, we are listed on the London Stock Exchange and are a constituent of the FTSE 250.

WHAT WE DO

We create, make and sell specialty chemicals that deliver real benefits to a range of diverse products including cosmetics, coatings, long life plastics and many more. In all areas of our business our focus is on creating innovative ingredients that deliver performance improvements and enhanced sustainability credentials.

HOW WE DO IT

Combining our access to unique natural materials with our leading rheology and technological expertise, we deliver Enhanced Performance Through Applied Innovation to all our customers around the world in a timely and sustainable manner.

SALES

Personal Care—21%	Chromium—19%
Coatings—39%	Energy—3%
Talc—18%	

ADJUSTED OPERATING PROFIT

Personal Care—33%	Talc—16%
Coatings—45%	Chromium—6%

PERSONAL CARE

OVERVIEW

We are a leading global supplier of rheology modifiers, based on natural and synthetic ingredients, and antiperspirant actives to personal care manufacturers. Our products help make skin creams smooth and antiperspirants work.

\$161m

Sales

\$34m

Adjusted operating profit

[Read more on page 51](#)

COATINGS

OVERVIEW

We supply our rheology modifiers and additives to industrial and decorative coatings manufacturers. Our products help make industrial coatings last longer and decorative coatings apply evenly and with enhanced stain resistance.

\$296m

Sales

\$47m

Adjusted operating profit

[Read more on page 52](#)

Calculations adjusted for intersegmental sales, corporate costs and the Energy business

Manufacturing sites

Personal Care, Coatings & Energy

Chromium

Talc

WHERE WE OPERATE**AMERICAS**

Total number of sites:

127 Personal Care, Coatings and Energy
5 Chromium**EUROPE**

Total number of sites:

84 Personal Care, Coatings and Energy
4 Talc**ASIA**

Total number of sites:

3

3 Personal Care, Coatings and Energy

TALC**OVERVIEW**

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

\$133m

Sales

\$17m

Adjusted operating profit

Read more on page 53

CHROMIUM**OVERVIEW**

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

\$147m

Sales

\$6m

Adjusted operating profit

Read more on page 54

ENERGY**OVERVIEW**

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

\$24m

Sales

\$(6m)

Adjusted operating profit

Read more on page 55

The world of Elementis

Combining our access to unique natural resources with our market leading innovation expertise, we create performance driven additives that can be found in many products used in everyday life.

BATHROOM

1. **HAIR CONDITIONER** FANCOR® natural oils help condition and repair damaged hair
2. **SUNSCREEN** BENTONE GEL® and BENTONE HYDROCLAY™ help improve sunscreen application and boost SPF
3. **ANTIPERSPIRANT** High performance ANTIPERSPIRANT ACTIVES help keep you fresher for longer
4. **NAIL POLISH** BENTONE® organoclays make nail polish apply smoothly and evenly
5. **ANTACIDS** Elementis ANTACID ACTIVES help ease the discomfort of stomach indigestion
6. **FABRIC SOFTENER** RHEOCLEAN® rheology modifiers make towels softer for longer
7. **CERAMICS** BENTONE® hectorite clay provides excellent flow of ceramics to create mirror-like gloss and smoothness

8. **TILES** THIXATROL® helps bind large tiles to a surface faster and for longer
9. **TILE ADHESIVES** FINNTALC improves water resistance and lowers shrinkage of tile adhesives
10. **MIRROR** FINNTALC in the coating of your mirror protects the silver for longer
11. **TOILET PAPER** FINNTALC prevents formation of sticky impurities in paper making
12. **TOILET SEAT** Our PLUSTALC increases the durability of your toilet seat
13. **SHOWER HEAD** CHROMIC ACID provides metallic shine, corrosion and wear resistance
14. **TOWEL RACK** CHROMIC ACID provides metallic shine, corrosion and wear resistance
15. **GREEN TILES** CHROME OXIDE provides vivid colour pigmentation for green, brown and black tiles

KITCHEN

1. **KITCHEN FLOOR** BENTONE® thickeners create a smooth concrete levelling surface for tiles, carpets or parquet
2. **WALL PAINT** RHEOLATE® thickeners ensure premium paints apply evenly, smoothly and with complete cover
3. **TILES** BENAQUA® spray dried hectorite clay prevents sagging of wall tiles
4. **KITCHEN CABINET** RHEOLATE® thickeners create a uniform and high quality finish on kitchen cabinets
5. **WALL PAINT** FINNTALC ensures that your kitchen wall paint is washable and stains can be wiped off
6. **PAPER CUP** FINNTALC replaces plastic as a barrier coating, making paper cups environmentally friendly and biodegradable
7. **OLIVE OIL** MICROTALC improves the yield and clarity of extra virgin olive oil
8. **KITCHEN PAPER** FINNTALC prevents formation of sticky impurities in paper making

9. **KITCHEN FURNITURE** FINNTALC in the edge protection of your kitchen furniture supports durability
10. **WASHING MACHINE** TALC ensures that your washing machine parts can resist damage
11. **REFRIGERATOR** SODIUM DICHROMATE helps refrigerant coils withstand corrosion
12. **STEEL KETTLE** CHROME SULPHATE makes your kettle shine, provides corrosion resistance and eases cleaning procedures
13. **SINK TAP** CHROMIC ACID provides metallic shine, enhanced corrosion and wear resistance
14. **DETERGENT** SODIUM SULPHATE is used for enhancing performance of clothing detergents
15. **NATURAL GAS FOR COOKING** BENTONE® hectorite allows for more efficient discovery and extraction of natural gas

KEY

PERSONAL CARE

Colour cosmetics
Skin care
Haircare
Antiperspirants
Bath & Soap

COATINGS

Industrial finishes
Architectural
Construction

TALC

Automotive
Household uses
Electronics
Food & Pharma
Paper

CHROMIUM

Finishes
Leather

ENERGY

Oil
Gas

BEDROOM

- 1. FACEMASK** BENTONE HYDROCLAY™ keeps your skin healthy, silky and smooth
- 2. LIPSTICK** BENTONE GEL® makes lipsticks pop with colour
- 3. SKIN CREAM** BENTONE® LUXE delivers moisture to your daily skin care routine
- 4. FACIAL MAKEUP** BENTONE HYDROCLAY™ suspends colours evenly throughout makeup
- 5. LEATHER SEAT** RHEOLATE® thickeners provide the required flow to apply flexible and transparent leather coatings
- 6. WALL PAINT** DAPRO® defoamers remove trapped air and ensure a smooth paint film
- 7. MAGAZINES** BENTONE® provides excellent flow in publication inks for high gloss pictures and sharp letter printing
- 8. MOBILE PHONE** SUPREAD® wetting agents help protective coatings cling to difficult to coat plastics
- 9. VITAMINS** MICROTALC keeps your nutritional supplements dry and prevents tablets from sticking
- 10. WALL PAINT** FINNTALC adjusts gloss, binding and colour of decorative coatings
- 11. SMART SPEAKER** FINNTALC increases the strength of your smart speaker frame
- 12. CHROME HANDLES** CHROMIC ACID provides metallic shine, enhanced corrosion and wear resistance
- 13. LEATHER HEADBOARD** CHROME SULPHATE preserves and strengthens leather, making it softer for longer
- 14. CHROME LAMP** CHROMIC ACID provides metallic shine, enhanced corrosion and wear resistance

LIVING ROOM

- 1. MAGAZINES** BENTONE® provides excellent flow in publication inks for the high gloss pictures and sharp letter printing
- 2. LEATHER CUSHIONS** DAPRO® slip agents provide excellent scratch resistance
- 3. WALL PAINT** RHEOLATE® thickeners ensure premium paints apply evenly, smoothly and with complete cover
- 4. CABINET** RHEOLATE® thickeners ensure excellent paint coverage and durability for furniture cabinets
- 5. FLOORING** FINNTALC improves the printability of your laminate flooring so you can enjoy more designs
- 6. CLOCK FRAME** PLUSTALC increases the strength and durability of your clock frame
- 7. TELEPHONE** FINNTALC strengthens plastic parts so your telephone can be made lighter
- 8. CHEWING GUM** TALC helps make chewing gum soft
- 9. FLATSCREEN** FINNTALC ensures the dimensional stability of your large TV frame
- 10. WINE BOTTLE** CHROME OXIDE provides a vivid green colour and prevents product spoilage from UV rays
- 11. LEATHER SOFA** CHROME SULPHATE preserves and strengthens leather, making it softer for longer
- 12. WINDOW** SODIUM SULPHATE is used as a fining agent to remove small air bubbles from molten glass

A high quality business, well positioned for the future

Dear Shareholders

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.

"A resilient performance in challenging circumstances."

ANDREW DUFF

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. These are laid out in more detail on page 32. 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.

Brief biographies of John and Christine can be found on pages 66 and 67, and you can read more about our corporate governance activities on pages 70 to 78. 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.

You can read more on our engagement programme on pages 74 to 75.

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

Resilience in a challenging environment

"I am proud of the way our people responded to keep the business operating largely uninterrupted throughout the COVID-19 crisis and I would like to thank all our employees for their dedication and efforts during the year."

PAUL WATERMAN

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. You can read more detail about our COVID-19 response directly after my review, on pages 12 to 13.

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.

OUR APPROACH TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) PERFORMANCE

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.

Innovation is at the heart of what we do. As a specialty chemicals company, we are focused on developing distinctive additives that improve the performance of our customers' products.

While COVID-19 has reduced the time spent in laboratories with our customers, effectively making us reassess many of our ways of working, we have continued to support their needs. This year, we were able to launch 12 new products in areas such as preservative free premium decorative coatings and high efficacy anti-perspirant (AP) Actives, driving new products from 12% to 14% of our sales.

Today, over 90% of Elementis' earnings are generated by Personal Care, Coatings and Talc segments that benefit from fundamentally attractive high margins and GDP + growth. While 2020 presented market demand challenges for the Group, we have continued to execute against our growth objectives. The development of \$30m of new business opportunities during the year in areas such as waterborne industrial additives, skin care and long life plastics positions us well for medium term success.

NEW TARGETS

This year we introduced a new ESG strategy. This Group-wide strategy enables us to leverage the experience and scale of the organisation, to more effectively contribute to the communities in which we operate and the environment in which we live. By the year 2030, we aim to:

REDUCE GREENHOUSE GAS EMISSIONS BY 25%

INCREASE ENERGY EFFICIENCY BY 20%

REDUCE WATER USAGE BY 10%

REDUCE WASTE BY 10%

WHY ESG MATTERS

We recognise it is critical that we raise our standards through measurable objectives. Together – working with our employees, communities, partners and customers – we will achieve our sustainability goals through three key areas of focus: innovation in sustainable solutions and products, efficiency in our operations and the drive and passion of our people – all of which will be underpinned by the ambition and ingenuity that are a hallmark of our Elementis culture.

You can read more about our ESG credentials on page 32

"We are 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."

While we know how and where we want to grow, our Efficiency programme is focused on ensuring we do it at the best operating cost. In 2020 we delivered \$5m of headcount savings, \$10m of temporary cost avoidance from our COVID-19 response actions, and accelerated the delivery of \$10m of further supply chain efficiency savings in 2021. You can read more about our strategic progress on pages 24 to 29.

The Group has a robust foundation from which to capture future value and we remain confident of delivering our medium term financial objectives of a 17% adjusted operating profit margin; 90% plus operating cash conversion; and a reduction in leverage to <1.5x net debt/EBITDA in the mid term.

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

CEO Q&A

Q: HOW HAS THE COMPANY RESPONDED TO COVID-19?

A: As a team we responded immediately. The spread of COVID-19 and its impact on our communities and everyday lives has been a challenge of unprecedented scale. In response, our priority has been, and remains, the health and safety of our employees, customers, suppliers and the communities in which we operate. I have continued to be proud and appreciative of the dedication of our employees which has ensured that all of our 23 global manufacturing sites have continued to operate largely uninterrupted, providing reliable supply to our customers.

Q: HOW IMPORTANT ARE SUSTAINABILITY CONSIDERATIONS AT ELEMENTIS?

A: Sustainability is at the forefront of our decision making processes. Through our technical expertise and innovation focus, we deliver new products that help address some of the biggest environmental challenges that our customers face. For instance, using our talc to develop fully recyclable food packaging or developing industrial coatings that are water based and contain less volatile organic compounds (VOCs). We are also committed to improving the sustainability of our manufacturing operations. In 2020 we introduced 2030 sustainability targets that will materially reduce our environmental impact and bring us closer to our ultimate goal of carbon neutrality. These targets are built on a number of projects throughout our global supply chain that will support our progress and which we are pursuing at pace.

Q: HOW HAS INNOVATION PROGRESSED IN 2020?

A: In 2020, the pace of innovation at our customers has unquestionably slowed as they focused their immediate efforts on responding to COVID-19 and their employees were forced to spend less time in laboratories. Nonetheless, our innovation efforts have continued to progress and I am proud of what we have achieved. Starting with our established customer relationships and leveraging digital platforms, we have delivered virtual training and technical workshops to over 10,000 customer employees around the world. We also launched 12 new products in areas such as premium decorative coatings and executed two open innovation partnerships with AQDOT and NXTLEVVEL Biochem. Importantly, our portfolio quality has continued to improve – new products increased from 12% to 14% of total sales. In 2021, we plan to further accelerate our progress by launching over 20 new products, all of which will deliver enhanced product performance and sustainability credentials.

Q: WHAT ARE THE GROWTH AREAS FOR THE ELEMENTIS BUSINESS?

A: In our transformed portfolio, over 90% of earnings are generated by Personal Care, Coatings and Talc – businesses with enduring positions of strength in structural growth markets. The growth of premium cosmetics in Asia and natural skin care ingredients are clear opportunities for our unique hectorite clay based Personal Care products. In Talc, vehicle light weighting, emission regulations and reduced single use plastic consumption are expected to drive demand growth. And in Coatings, our differentiated technologies in applications such as waterborne industrial additives and adhesives & sealants have clear opportunities to grow. That said, I would be remiss not to mention that we also have a highly advantaged and highly cash generative Chromium business; an important attribute as we aim to reduce our financial leverage.

"Innovation has not stopped in 2020. We launched 12 new products, created two new innovation partnerships, our new products rose from 12% to 14% of sales and our new product pipeline for 2021 is encouraging"

Q: WHAT IS ELEMENTIS DOING TO ADDRESS THE QUESTIONS OF DIVERSITY AND INCLUSION WITHIN THE WORKPLACE?

A: We strongly believe that having a diverse workforce brings great benefits to the organisation, not only through creating a broader talent pool from which we can recruit and promote but also from the variety of perspectives and experiences that all employees bring. To make progress, it is critical that across Elementis our actual behaviours and actions are as strong as our beliefs. In 2020 we formed a Diversity, Equity & Inclusion Council that I chair. Its purpose is to implement initiatives that ensure every person is respected, valued and empowered to contribute their ideas and perspectives. This will be supported by improvements to our recruiting, training, talent development and mentoring systems.

Q: LOOKING FORWARD, WHAT ARE YOUR CAPITAL ALLOCATION PRIORITIES?

A: In recent years, through M&A activity we have focused Elementis on high quality, high margin activities in Personal Care, Coatings and Talc. As a result, we have a portfolio that is well positioned to deliver our medium term Group financial performance objectives and to generate significant shareholder value. Elementis has a strong track record of cash generation, and our immediate focus is to use this capital to fund organic growth and reduce our financial leverage. We also clearly recognise the importance of dividends to shareholders and will look to reinstate payments once material progress is made on reducing our financial leverage.

COVID-19: Rising to the challenge

The COVID-19 pandemic had a significant impact on our business. In January 2020 we put in place an executive team to manage our response to the pandemic, as the business reacted swiftly and efficiently.

We focused on three clear priorities: the safety of our workforce, maintaining reliable supply to our customers and optimising our financial performance.

The global measures taken to mitigate the pandemic's impact have resulted in significant change for our employees, customers and shareholders.

OUR PEOPLE

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 wellbeing 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.

TIMELINE OF ACTIVITIES

JANUARY

- Executive COVID-19 team established – focused on implementing proactive employee communications, preventative measures and guidance to reduce exposure and risk to our employees
- Government mandated two week closure of our two manufacturing sites in China. Remaining 21 sites operating as usual and delivering reliable customer service

MARCH

- Given macroeconomic uncertainties, the Group secures a relaxation of its banking covenants from 3.25x to 3.75x net debt/ EBITDA* for 2020 and suspends the FY 19 final dividend
- Global employee and site hygiene and health protocols and guidance issued
- Global travel restrictions and work from home mandate implemented where possible

APRIL

- Launch of COVID-19 website for employees focused on remote work, health and wellness support. Global commitment on employee benefits and medical leave
- Robust site-by-site contingency plans established to reduce the likelihood and severity of any potential disruption to our global supply chains
- Two week government mandated shutdown of Palmital, Brazil site. Remaining 22 plants operating as usual and delivering reliable customer service

JUNE

- Continued innovation support for customers with online innovation and training delivered to over 7,000 customer employees in 60 countries by the end of June

CUSTOMERS

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.

SHAREHOLDERS

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.

* On a pre IFRS 16 basis.

JULY

- At the interim results, the Group announces \$10m of in-year COVID-19 response savings, good progress on \$7m of working capital reductions and accelerated progress on \$15m medium term efficiency programme
- New 2030 sustainability targets for GHG emissions, energy efficiency, water usage and waste announced

SEPTEMBER

- Group achieves further relaxation of banking covenants to 3.75x net debt/EBITDA* for 2021 providing increased financial headroom

OCTOBER

- Essential business critical travel begins with further guidance and training on COVID-19 prevention

DECEMBER

- Taskforce continues to meet and assess

A sustainable future

DEMOGRAPHICS

MARKET TREND

The UN expect the world's population to increase by 2 billion in the next 30 years, to 9.7 billion people.

Most of this increase will be in the developing world, driving further urbanisation and investment in infrastructure.

Economic development, an expanding middle class and growing levels of western style consumerism will generate demand for products that improve living standards in these markets.

WHAT THIS MEANS FOR OUR INDUSTRY

- Increasing demand for construction and infrastructure related solutions (e.g. industrial coatings)
- Rising demand for personal care products such as colour cosmetics and skin creams
- Increasing demand for longer lasting and more technologically advanced products

OUR OPPORTUNITIES

- New geographic markets for consumer and industrial products that require premium performance additives
- Opportunities to innovate and serve local market needs

OUR RESPONSE

- Capital investment in manufacturing assets in India to enhance our efficiency and bring our products closer to our customers
- Investment in new laboratories in China and Brazil to enhance our regional innovation support and capture new business opportunities
- Enhancing our sales and marketing capabilities in Asia to support regional growth

PREMIUMISATION

MARKET TREND

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

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

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

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

WHAT THIS MEANS FOR OUR INDUSTRY

- Demand for products that make consumers' lives easier
- Demand for products with feelgood and premium characteristics
- Demand for natural or naturally derived additives

OUR OPPORTUNITIES

- Higher demand for additives focused on improving product performance
- Opportunities for natural or naturally derived ingredients such as hectorite and talc based additives

OUR RESPONSE

- Focused innovation targeting technologies that deliver improved product performance and enhanced sustainability claims
- Launch of 12 new products in 2020 in areas such as premium decorative coatings, natural skin care ingredients and high efficacy anti-perspirant actives

SUSTAINABILITY

MARKET TREND

The most often quoted definition of sustainability comes from the UN World Commission on Environment and Development: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

Sustainability presumes that resources are finite, and should be used conservatively and wisely with a view to long term priorities and consequences in the ways in which resources are used.

Simply put, sustainability is about our children and our grandchildren, and the world we will leave them.

WHAT THIS MEANS FOR OUR INDUSTRY

- Demand for innovative products that deliver sustainability benefits
- Movement towards natural or naturally derived ingredients
- Pressure to minimise social and environmental impact throughout supply chains

OUR OPPORTUNITIES

- Reduce the environmental footprint of our supply chain
- Demand for our technology solutions that lower our customers' environmental footprint

OUR RESPONSE

- Introduction of new 2030 targets for GHG emissions, energy efficiency, water usage and waste
- Launch of new products focused on recyclable food packaging, VOC emission reduction in coatings and natural personal care ingredients
- New partnership with NXTLEVVEL Biochem focused on biobased ingredients

TRANSPARENCY

MARKET TREND

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

Consumers and stakeholders want to know how goods and services are delivered to their door, how items are manufactured and what happens to their personal data.

A word on Twitter, right or wrong, and the world will know instantly. Organisations of all kinds must establish and maintain trust, as their licence to operate and the basis for successful collaboration and innovation.

WHAT THIS MEANS FOR OUR INDUSTRY

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

OUR OPPORTUNITIES

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

OUR RESPONSE

- Investment in digital capabilities including social media platforms and a further enhanced Company website
- Comprehensive employee engagement consultation
- Verification against demanding labelling standards (e.g. ISO, COSMOS) and sustainability ratings (e.g. EcoVadis) to highlight the sustainability of our products and operations.

Listening and responding to our stakeholders

CUSTOMERS

Keeping our customers at the forefront of their industries

WHAT MATTERS TO THEM

- High quality products with superior performance, efficiency and sustainability features
- Innovation and technical expertise aligned with consumer and industrial trends

HOW THE BOARD ENGAGES

- The Board received strategic updates from each of the global business segments during the year. These updates included key customer achievements, customer insight, competitive landscape and trends (including innovation)
- Customer engagement shapes our annual operating plan and 3 year plan

HOW WE ENGAGE ACROSS THE GROUP

- Global key account relationship management and technical support
- Technical seminars, workshops and collaboration opportunities

OUTCOME OF ENGAGEMENT

- 12 new products launched in 2020
- Online training delivered to over 10,000 customer employees
- New business opportunities

LINK TO STRATEGY AND THE BUSINESS MODEL

- Input – Relationships

INVESTORS

Continue to deliver sustainable returns

WHAT MATTERS TO THEM

- Robust balance sheet, disciplined capital allocation and a strong management team focused on strategic delivery
- Sustainable growth and returns

HOW THE BOARD ENGAGES

- Continued investor dialogue through the Director of Investor Relations and Company corporate brokers
- Chairman and SID governance meetings
- Regular investor relations reports at each Board meeting
- Investor presentations and roadshows
- Matters relating to strategy, ESG and remuneration policy
- Annual shareholder meeting

HOW WE ENGAGE ACROSS THE GROUP

- The Director of Investor Relations or the Group Company Secretary is available to deal with shareholder matters as a general point of contact

OUTCOME OF ENGAGEMENT

- 125 meetings during the year
- All AGM resolutions passed
- Shareholder feedback informs Board and Committee decision making

LINK TO STRATEGY AND THE BUSINESS MODEL

- Stakeholder Value – Shareholders

EMPLOYEES

Our employees drive our performance and success

WHAT MATTERS TO THEM

- Safe and proper working conditions and inclusive culture
- Ethical and sustainable working practices where each employee is empowered to make a difference
- Rewarding careers, investments in training and development and fair pay practices

HOW THE BOARD ENGAGES

- The Board receives regular updates from the CEO and CHRO on people, safety and organisation related matters including insight gained from the employee engagement survey
- Designated Non-Executive Director for workforce engagement

HOW WE ENGAGE ACROSS THE GROUP

- Employee engagement survey
- Internal communication programme, email updates, townhalls, line manager dialogue, talent and succession processes and performance reviews

OUTCOME OF ENGAGEMENT

- Engagement survey action plans
- A culture driven by strong values, accountability and high performance

LINK TO STRATEGY AND THE BUSINESS MODEL

- Input – People

SUPPLIERS

Sustainable supply chain built on trust and strong ethical standards

WHAT MATTERS TO THEM

- Fair business dealings including payment practices
- Long term partnerships and strategic alignment

HOW THE BOARD ENGAGES

- The Board receives regular updates on supply chain matters from the CEO and SVP Global Supply Chain and Manufacturing

HOW WE ENGAGE ACROSS THE GROUP

- Ongoing relationship management and strategic reviews
- Employee training on sustainable supply chain management
- Supplier conferences
- Supplier audits and compliance

OUTCOME OF ENGAGEMENT

- Suppliers are held to the same high ethical standards
- Reliability of supply/key raw materials – development of additional raw material supply sources
- EcoVadis Silver medal

LINK TO STRATEGY AND THE BUSINESS MODEL

- Input – Relationships
- Stakeholder Value – Suppliers

COMMUNITIES

Respect and care for our environment and the communities we serve

WHAT MATTERS TO THEM

- Employees and those representing the Company continue to act responsibly and ethically, and uphold our values
- Environmental impact of our operations

HOW THE BOARD ENGAGES

- The Board receives regular updates on environmental updates from the CEO and SVP Global Supply Chain and Manufacturing
- Compliance and litigation reports
- Oversight of performance on carbon emissions, waste, water and energy efficiency

HOW WE ENGAGE ACROSS THE GROUP

- Ethics and compliance programme
- We develop products with sustainability benefits resulting in less energy consumed in the production process
- Site efficiency targets and KPIs
- Local biodiversity initiatives

OUTCOME OF ENGAGEMENT

- Alignment with UN SDGs
- Certifications and accreditations build trust and transparency through operating as a responsible business

LINK TO STRATEGY AND THE BUSINESS MODEL

- Stakeholder Value – Environment

FURTHER INFORMATION

See more information on our approach to environmental, social and governance (ESG) on pages 32-43

See more information on employee engagement on page 40

See more information on how the Board engages with shareholders on page 75

See more information on our response to COVID-19 on pages 12-13

Creating long term value

OVERVIEW

Elementis is a geographically diversified business operating across 8 countries serving five core business segments. With strong competitive positions and a diverse customer base the Group has access to material growth opportunities and protection against cyclical swings in any one particular market.



INPUTS & COMPETITIVE ADVANTAGE

PEOPLE

Our engaged and skilled workforce are focused on innovation, customer service and delivery of our strategy. See also Social, pages 39-41.

- Commitment to protecting the safety of our 1,300+ people and to operating responsibly
- Adoption of our 5 core values which are embedded throughout the organisation

EXPERTISE

Our experts deliver unique and superior product formulations to a wide range of end markets. See also Innovation, pages 24 and 25.

- Over 90 scientists working at six locations, partnering with our customers to drive product innovation
- Market leading capabilities in rheology, surface chemistry and formulation

SUPPLY CHAIN

Our global manufacturing footprint allows us to deliver high value innovation solutions to customers in all geographies. See also Efficiency, page 29.

- 23 manufacturing sites in 8 countries around the world
- Quality controls, testing, certification and compliance with applicable regulations drive consistent product quality

RELATIONSHIPS

Close long term relationships with customers, suppliers and other stakeholders, centred on trust and collaboration.

- Enhanced global key account management systems to cooperate with customers on a local and global basis
- Updated digital systems to identify and develop new business pipeline

ASSETS

We combine competitively advantaged positions in hectorite, talc and chromium with our distinctive technology.

- The world's largest known source of high quality rheology grade hectorite clay; over 50 years estimated resource life
- Four high quality talc mines in Finland, one of two deposits of scale in Europe; over 90 years estimated resource life
- Only domestic producer of chromium chemicals in North America with advantaged customer delivery system

CAPITAL

A disciplined capital allocation framework that allows us to invest in growth, to support delivery of our strategy. See Finance report, pages 45-50.

- A cash generative business model (average three year operating cash conversion 105%) which funds investment for organic growth, debt reduction and, when possible, shareholder returns

CREATING VALUE FOR STAKEHOLDERS

SHAREHOLDERS

Elementis seeks to generate appreciable returns for shareholders over time through sustained earnings growth and, subject to capital constraints, progressive dividend payments.

\$245m

dividend payments
since 2016

EMPLOYEES

Elementis promotes equality and diversity throughout the organisation and has policies and procedures that allow its employees to meet their training needs and maximise their potential.

\$112m

employee pay in 2020

CUSTOMERS

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

12

new products launched in 2020

SUPPLIERS

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

700+

Number of raw material suppliers used in 2020

ENVIRONMENT

Through product innovation and operational improvements we are reducing the environmental impact of both our activities and our customers' products.

4

sustainability targets to be met by 2030
(see page 22)

WHY INVEST

TRANSFORMED PORTFOLIO

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

INNOVATION FOCUS

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

MATERIAL GROWTH OPPORTUNITIES

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

STRONG CASH GENERATION

Strong cash generation is a hallmark of Elementis. Looking forward, we target operating cash conversion of at least 90%, supported by working capital and capital expenditure discipline. The execution of our medium term Innovation, Growth and Efficiency priorities (see page 23) combined with strong cash generation will facilitate sustained reinvestment for organic growth and a clear deleveraging profile. Our medium term leverage objective is under 1.5x EBITDA, with further reduction thereafter, and is anticipated to drive significant shareholder returns.

Promoting the success of the Company

The Board acknowledges that there is a legal requirement for the Company to report on how the Board and its Committees have considered s.172 of the Companies Act 2006 in their decision making. This means that each Director must act in the way he or she considers, in good faith, would be likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the factors outlined in s.172.

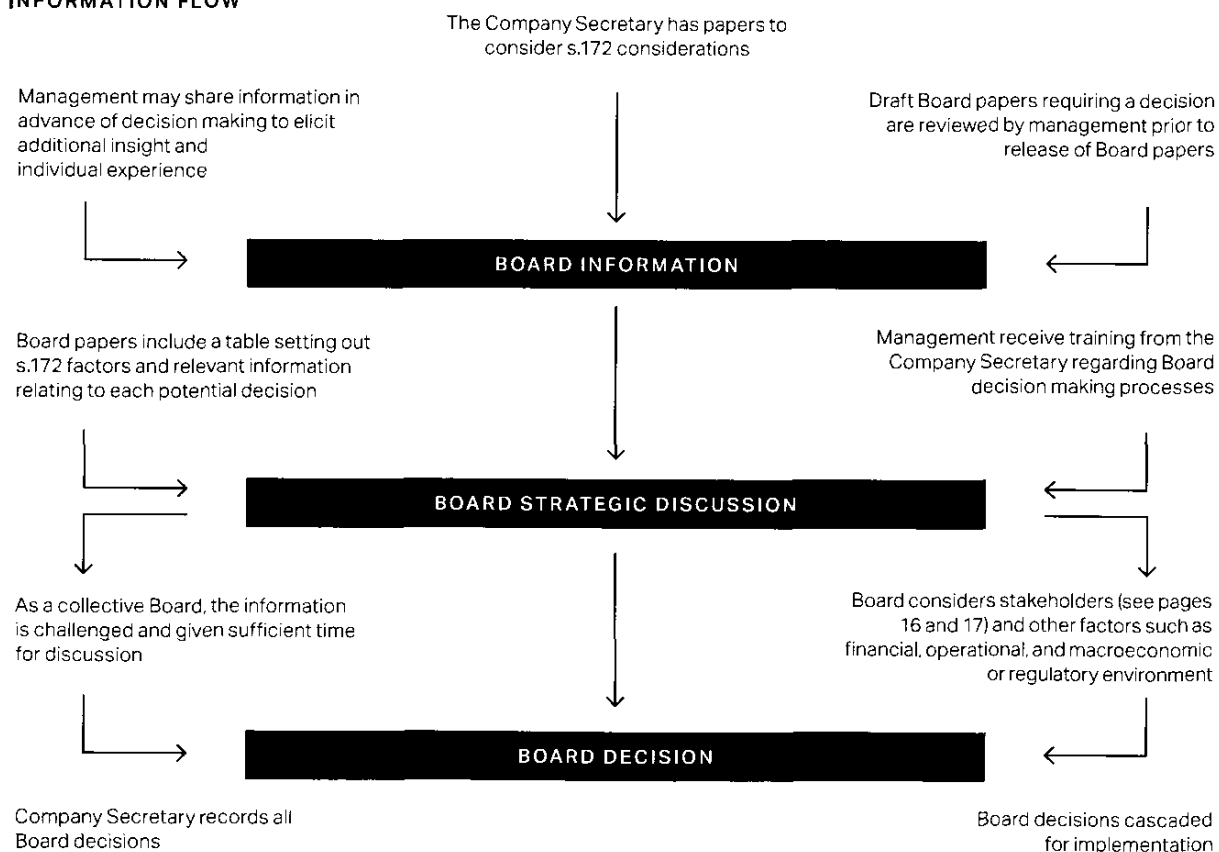
OUR APPROACH TO SECTION 172

The table on the next page provides examples of decisions taken by the Board, including how stakeholder views and inputs have been considered in its decision making.

The Board duly considers stakeholders' views and recognises that it is not always possible to provide positive outcomes for all stakeholders in the context of making important decisions for the long term success of the Company. In addition, the Board have regard to other factors which we consider relevant to the decision being made, for example, pension scheme members and relationship with regulatory or state authorities. The Board receives regular reports from management to enable it to monitor the quality and effectiveness of the arrangements for stakeholder engagement.

Please refer to pages 71 and 74 of the Corporate Governance report and how we listen and engage with our stakeholders on pages 16 and 17.

INFORMATION FLOW



KEY SECTION 172

Likely consequences of decisions in the long term

The interests of the Company's workforce

The need to foster relationships with suppliers, customers and others

Impact of operations on the community and environment

High standards of business conduct

The need to act fairly between members of the Company

CLOSURE OF
CHARLESTON SITE

Section 172 considerations:

Consideration of s.172 impacts by the
Board in its decision making

SECTION 172 LINK

- As a consequence of macroeconomic conditions affecting the performance and cost structure of the Energy business, the Board unanimously agreed the consolidation of our organoclay manufacturing in North America from Charleston, West Virginia to St Louis, Missouri
- In consideration of the long term success of the Company, whilst regrettable job losses were made, the future for Charleston was not considered sustainable over the long term and has enabled the Group to underpin operational and cost efficiencies

WHAT WE CONSIDERED

- Employees – process and timeline of communications with affected employees (c.30 employees) including retention, redeployment and severance packages
- Customer impact – formal communications with customers was considered. Additional buffer stock was built to ensure that customers would not be impacted by the transition or any potential construction delays. Demand planning and inventory alignment was also considered.
- Environmental and community impact – reduction of carbon emissions through site closure. Local permit obligations and environmental assessments continue to be met whilst vacant
- Other factors included technical process risks and condition of equipment being relocated

Read more on page 28

COVID-19 RESPONSE

Section 172 considerations:

Consideration of s.172 impacts by the
Board in its decision making

SECTION 172 LINK

- The health and safety of the workforce combined with reliability of operations and financial resilience were key priorities for the Board throughout the year
- Pay freezes or significant reduction of workforce and significant government support were not necessary. No bonuses are payable in respect of 2020 performance
- Taking into account the considerations below, it was agreed that financial prudence and balance sheet protections such as covenant relaxations, available financial banking facilities, working capital, capex phasing and suspension of the dividend were appropriate to promote the success of the Company

WHAT WE CONSIDERED

- Regular updates on operational reliability, site and employee status updates, supply chain updates on raw material supplies and shipping/transportation issues and customer and market insight
- COVID-19 risk impact assessment
- Customer/supplier demand status and monitoring of any potential distress or payment issues
- Regular financial modelling and scenario stress testing for banking covenants
- Investor sentiment and regular updates from corporate brokers and advisers
- Impact of COVID-19 on directors' remuneration, further information can be found on pages 87-113 in the Directors' Remuneration report

Read more on COVID-19 on pages 12-13

ENVIRONMENTAL,
SOCIAL AND
GOVERNANCE (ESG)
MATTERS

Section 172 considerations:

Consideration of s.172 impacts by the
Board in its decision making

SECTION 172 LINK

- The long term consequences of creating a sustainable business are dependent on strategic decisions based on our innovative products and pipeline, our dedication to reduce the effects of manufacturing on the environment and our core values to being a safe, ethical, environmentally and socially responsible company
- In consideration of the longer term environmental targets announced in 2020, the Board considered that these targets would promote the success of the Company

WHAT WE CONSIDERED

- Environmental climate related targets for carbon emissions, waste, water and energy efficiency to be achieved by 2030
- Climate related briefings
- Investor feedback on ESG matters
- Health and Safety performance and initiatives
- People strategy including talent and succession, organisational capability, employee engagement insight and new initiatives such as establishment of Diversity, Equity and Inclusion Council and volunteering programme
- Innovation pipeline with focus on sustainability benefits
- Capital expenditure plans with a clear focus on sustainability related projects
- Modern Slavery transparency statement

Read more on ESG on pages 32 to 43

Maximising value

OUR PURPOSE

To achieve sustainable progress across the world through innovative specialty chemicals products that deliver chemical, better and clean sustainable performance.

OUR VISION

We aim to be a high quality growth business that creates sustainable value for all stakeholders.

OUR VALUES

Safety, Solutions, Ambition, Respect and Team are core to our high performance culture and reflected in everything that we do.

OUR STRATEGY FOR THE FUTURE IS BUILT ON THREE KEY PILLARS

With strong positions in attractive markets, we see clear growth and margin improvement opportunities and expect to deliver strong, sustainable returns. The execution of our Innovation, Growth and Efficiency strategy will address our customers' most challenging problems whilst driving sustained value creation.

INNOVATION

We are a global leader in performance-driven additives that help create innovative solutions for our customers. Leveraging our capabilities in rheology, surface chemistry and formulation, we help our customers to create better products.

Read more on pages 24 and 25

GROWTH

Over 90% of our earnings are generated from Personal Care, Talc and Coatings – businesses with enduring competitive advantages and clear growth opportunities – supported by market megatrends, such as demand for natural ingredients in skin care and more environmentally friendly coatings.

Read more on pages 26 and 27

EFFICIENCY

We constantly seek to be a fit for purpose and more efficient business, agile and growing, with our impact on the environment and the communities in which we operate at the forefront of our minds.

Read more on pages 28 and 29

OUR ENVIRONMENTAL GOALS

We are a leading specialty chemicals company that enhances the performance of many products used by industry and consumers around the world. We deliver innovative solutions, through unique, effective and sustainable products. Our promise of applied innovation is at the heart of our commitment to doing better as a company for all our stakeholders – our employees, our customers, our partners, our investors and our communities.

GHG EMISSIONS

We are committed to reducing the GHG emissions from our operations by 25% by 2030*

* Vs 2019 baseline data.

25%

reduction in GHG emissions

ENERGY

We are committed to increasing the energy efficiency of our operations by 20% by 2030*

20%

increase in energy efficiency

WATER

We are committed to reducing the amount of water used by our operations and people by 10% by 2030*

10%

reduction in water usage

WASTE

We are committed to reducing the waste produced by our products, operations and people by 10% by 2030*

10%

reduction of waste

UNDERPINNED BY CULTURE

Together – working with our employees, communities, partners and customers – we will achieve our sustainability goals through three key areas of focus: our products, our operations and our people – all of which are underpinned by the ingenuity, values and new ways of thinking we always seek to deliver.

INNOVATION**2020 OVERVIEW**

- Launched 12 new products and increased new products from 12% to 14% of sales*
- Online technical workshops delivered to over 10,000 customer employees
- Investment in new Personal Care laboratories in Asia and South America
- Established open innovation partnerships with AQDOT and NXTLEVEL Biochem

PRIORITIES

- Start up of new laboratories in Asia & South America
- Progress towards 2025 target of 17% of sales coming from new products
- Continued focus on the significant innovation opportunities that deliver enhanced performance and improved sustainability credentials; over 20 new product launches in 2021

LINK TO KPIS

- Please refer to pages 30-31

LINK TO RISKS

- Please refer to pages 59-62

Read more on pages 24 and 25

* New products defined as products launched within the last 5 years, patented and protected products (excludes Chromium)

GROWTH**2020 OVERVIEW**

- Captured around \$30m of new business opportunities
- Coatings transformation complete and 6% volume increase across technology growth platforms
- Expansion of Talc in Asia; sales up 18% in China
- Successful roll out of new skin care ingredients; \$8m new business pipeline

PRIORITIES

- Double our cosmetics sales in Asia and grow our market share in AP Actives
- Drive \$10m of incremental sales from new hectorite based skin care products
- Achieve market share gains for Coatings and Talc ingredients through increased product and geographic penetration
- Deliver \$20-25m of Talc revenue synergies by 2023

LINK TO KPIS

- Please refer to pages 30-31

LINK TO RISKS

- Please refer to page 59-62

Read more on pages 26 and 27

EFFICIENCY**2020 OVERVIEW**

- Delivered \$5m of organisational cost savings
- \$10m of temporary COVID-19 response cost savings
- Working capital – \$7m delivered to reach \$30m target since 2017
- Announced the closure of our Charleston, West Virginia plant
- Launched new 2030 sustainability targets

PRIORITIES

- Consolidation of Charleston capacity at St Louis; delivery of \$10m of global supply chain savings in 2021
- Start up of AP Actives plant in Taloja, India in H1 2021; delivery \$10m of additional supply chain savings by 2023
- Further working capital reduction with \$10m of savings by 2023
- Progress towards our 2030 sustainability targets

LINK TO KPIS

- Please refer to page 30-31

LINK TO RISKS

- Please refer to pages 59-62

Read more on pages 28 and 29

Innovation

**SUSTAINABLE INITIATIVES
INTERWOVEN WITH INNOVATION**

PERSONAL CARE – REACH 9000

Worldwide, the demand for anti-perspirant actives is anticipated to grow 3-4% per annum over the next few years, led by faster growth in emerging markets and product innovation.

Product claims matter in anti-perspirants and are grounded in science. Consumers increasingly look for products that are differentiated, and globally the most widespread product claim is 'long lasting', whether it be 24 or 72 hour protection.

In 2020, we launched a new high performance product (Reach 9000). This active ingredient delivers market leading protection performance, enhanced formulation and it can be incorporated into sticks, aerosols and roll-ons.

Initial customer reaction has been very encouraging and we have a strong pipeline of further innovations to be launched in the coming months. Combined with our new AQDOT partnership for odour capture and smart fragrance release systems, and the start up our new, environmentally friendly production site in India, we are well positioned for growth in the anti-perspirant deodorant category.

Innovation is at the heart of what we do. As a specialty chemicals company, we leverage our capabilities in rheology, surface chemistry and formulation, to help our customers improve their products, responding to their biggest challenges through deep partnerships, ongoing technical support and consistent quality, service and delivery.

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.

Growth

POSITIONING OUR BUSINESS FOR THE FUTURE

COATINGS – PREMIUM SOLUTIONS

The premium decorative coatings (paint) segment is a growing market, where consumers want products that make their lives easier, while caring for the environment. It is a market that can be transformed by research and technology. We aim to double our market share in this area; and products such as our Rheolate® HX series deliver easier and quicker application, enhanced one coat hide and better stain resistance.

Market reaction to our technology has been positive. In 2020 we helped our customers create award winning paints, achieved 8% volume growth and launched a preservative free technology, the first of its kind to market. Our premium decorative coatings technology is becoming the industry standard and is currently being qualified at several other major paint manufacturers.

Our next product launch will see a powdered version, the first of its type, come to market in 2021. Compared with alternative liquid systems, this can be more efficiently incorporated into production lines, reduces transportation emissions and gives customers more freedom in the formulation of their paints.

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 \$30m of new business opportunities.

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.

Efficiency

**IMPROVING OUR COST TO SERVE
AND ENVIRONMENTAL IMPACT**

CHARLESTON PLANT CLOSURE

In North America, we have historically operated two organoclay plants, one in St Louis and one in Charleston. Alongside our plants in Europe and Asia, these assets have formed the backbone of our global organoclay operations. As the only organoclay producer with a global presence, this is a true source of differentiation, particularly in a year of challenged global supply chains.

Following a review of our manufacturing operations, the decision was taken in November 2020 to close our Charleston site and to consolidate activities in St Louis. While this regrettably resulted in the loss of approximately 30 jobs, moving to single site production will deliver material cost savings and restore future profitability of the Energy business even at the 2020 level of sales.

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.

\$15m
2020 cost savings

\$10m
2021 cost savings

Measuring our progress

TOTAL RECORDABLE INCIDENT RATE (TRIR)

DEFINITION

We use the US Occupational Safety and Health Administration (OSHA) definition for recordable injuries and illnesses.

TRIR is the total number of recordable incidents multiplied by 200,000 divided by total hours worked by all employees during the year.

PERFORMANCE

Further information can be found on page 39.

REMUNERATION LINKAGE

Non-financial targets within the Executive Directors' annual bonus structure typically include a component of individual objectives relating to safety performance.

Refer to pages 106-107

LINK TO STRATEGY



LOST TIME ACCIDENTS (LTA)

DEFINITION

LTA is an injury or illness that requires greater than three days away from work not including the day of incident.

PERFORMANCE

Further information can be found on page 39.

REMUNERATION LINKAGE

Non-financial targets within the Executive Directors' annual bonus structure typically include a component of individual objectives relating to safety performance.

Refer to pages 106-107

LINK TO STRATEGY



ENVIRONMENTAL IMPACT

DEFINITION

We record and categorise environmental incidents into tiers based on the severity or actions taken by regulatory authorities. Tier 3 incidents are those that have a significant impact on the environment and require reporting to an external authority and where enforcement action is likely. Tier 2 incidents have a minor impact and require notification but are likely to result in minimal action by the authorities.

PERFORMANCE

Further information can be found on pages 34-37.

REMUNERATION LINKAGE

Non-financial targets within the Executive Directors' annual bonus structure typically include a component of individual objectives relating to environmental performance.

Refer to pages 106-107

LINK TO STRATEGY



ROCE

DEFINITION

ROCE is defined as operating profit after adjusting items divided by operating capital employed, expressed as a percentage. Operating capital employed comprises fixed assets (excluding goodwill) working capital and operating provisions. Operating provisions include self-insurance and environmental provisions but exclude retirement benefit obligations.

PERFORMANCE

Further information can be found on page 182.

REMUNERATION LINKAGE

ROCE is an underpin for the long term incentive plan.

ROCE including goodwill was 5% (2019: 8%).

LINK TO STRATEGY



ADJUSTED OPERATING CASH FLOW

DEFINITION

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

PERFORMANCE

Further information can be found on page 49.

REMUNERATION LINKAGE

No direct linkage with remuneration.

LINK TO STRATEGY



➡ Other non-financial performance can be found in the environmental, social and governance section (ESG) on pages 32-43

ADJUSTED GROUP PROFIT BEFORE TAX	CONTRIBUTION MARGIN	ADJUSTED OPERATING PROFIT/ADJUSTED OPERATING MARGIN	AVERAGE TRADE WORKING CAPITAL TO SALES RATIO
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KEY TO STRATEGIC PRIORITIES

- 1 Innovation
- 2 Growth
- 3 Efficiency

DEFINITION

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

DEFINITION

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

DEFINITION

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

DEFINITION

The trade working capital to total revenue ratio is defined as the 12 month average trade working capital divided by total revenue, expressed as a percentage. Trade working capital comprises inventories, trade receivables and trade payables. It specifically excludes prepayments, capital or interest related receivables or payables, changes due to currency movements and items classified as other receivables and other payables.

PERFORMANCE

Further information can be found on pages 141-144.

PERFORMANCE

Further information can be found on page 181.

PERFORMANCE

Further information can be found on page 182.

PERFORMANCE

Further information can be found on page 182.

REMUNERATION LINKAGE

Adjusted Group profit before tax is a key element of the bonus plan for the Executive Directors.

Further information within the Directors' Remuneration report on page 106.

REMUNERATION LINKAGE

No direct linkage with remuneration.

REMUNERATION LINKAGE

No direct linkage with remuneration.

REMUNERATION LINKAGE

Average trade working capital is a key element of the bonus plan for the Executive Directors.

Further information within the Directors' Remuneration report on page 106.

LINK TO STRATEGY

1 2 3

LINK TO STRATEGY

2 3

LINK TO STRATEGY

1 3

LINK TO STRATEGY

1 2 3

A clear ESG strategy

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

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

See Company website for Code of Conduct and Values

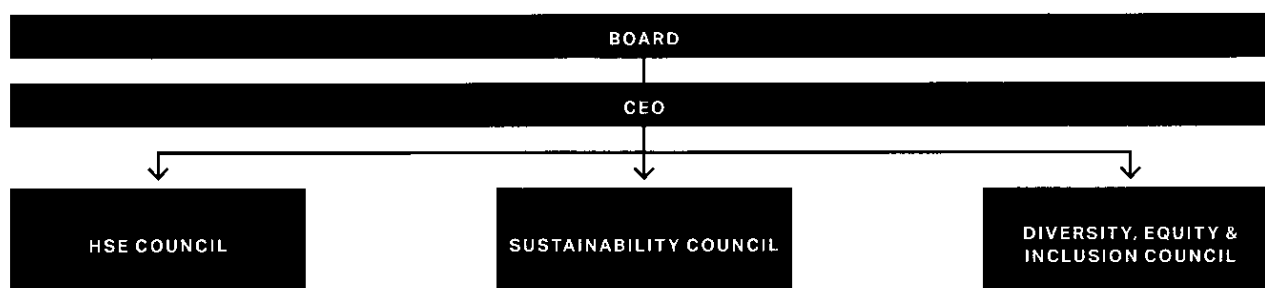
OUR 2030 GOALS AND ALIGNMENT WITH THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (UN SDGS)

The United Nations (UN) Sustainable Development Goals (SDGs), are a blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to inequality, climate change, and responsible consumption and production.

This is the first year Elementis has reported against these SDGs. We welcome the framework as it is committed to solving global issues, and our commitment to responsible business operations support these universal principles. During the year, we reviewed the SDGs and undertook a mapping exercise to establish our focus areas. We have linked the SDGs to our sustainability principles and operations.

Relevant SDG	How we measure our contribution	Relevant SDG	How we measure our contribution
<p>We have launched TogetherSAFE, to advance our ambition of safety excellence and zero injuries across our organisation to drive a stronger, safety culture as an extension of our Values.</p> <p>We have robust management systems in place to ensure safe handling protocols and environmental housekeeping protects our employees from any potential harm.</p>	<p>We monitor environmental and safety metrics.</p> <p>Further information on page 39.</p>	<p>We provide decent work and economic prosperity and growth for our employees and wider society.</p> <p>For further information on how we contribute to this SDG, please refer to pages 38-41.</p>	<p>We employ over 1,300 employees.</p> <p>Total wages for 2020 were \$125.3m.</p>
<p>We are committed to equality and recognise the value that can be created from a diverse and inclusive working environment.</p> <p>Our Diversity, Equity and Inclusion Council is responsible for implementing initiatives that embed diversity, equity and inclusion into our culture and ensure that we continue to attract, retain and develop our collective talents to respond to the business challenges of the future.</p>	<p>37.5% of Board members are female.</p> <p>27% of ELT and Direct reports are female.</p> <p>For further information on gender diversity, refer to pages 81.</p>	<p>We support industry, innovation and infrastructure through our innovation expertise in designing products that offer sustainability benefits.</p> <p>We continue to invest in our manufacturing sites and we aim to increase number of sites using renewable or alternate energy sources.</p>	<p>Energy efficiency target established.</p> <p>45% of revenue is from products that are natural or naturally derived.</p>
<p>Safeguarding water resources for future generations is vital and Elementis is committed to responsible water stewardship.</p> <p>A water stewardship policy has been adopted to establish our commitment and actions for positive water stewardship.</p>	<p>We aim to reduce water consumption by 10% by 2030.</p>	<p>We have set environmental targets to reduce carbon emissions, waste and water stewardship and improve energy efficiency, each of which will minimise our impact on the environment.</p>	<p>Further information on pages 34-36.</p>

ENVIRONMENTAL, SOCIAL AND GOVERNANCE FRAMEWORK – HOW WE MANAGE OUR ESG ACTIVITIES



The Board has oversight of ESG matters and the CEO has responsibility for the day-to-day management of health, safety, environmental and sustainability activities. Regular updates on these matters are provided to the Board during the year.

The Elementis Sustainability Council (ESC) provides leadership, oversight and coordination for all Elementis' sustainability and corporate social responsibility policies, programmes and goals.

The Group's health, safety and environmental (HSE) management programmes conform to international standards and include documented policies and procedures, internal and external auditing, risk assessments, management systems, training, incident investigation, management of change, emergency planning and risk mitigation. The effectiveness of these programmes, as well as overall performance, is continually evaluated through management reviews to ensure they are effective and aligned with regulatory requirements and industry best practices.

The Group's activities are closely regulated by robust environmental permits. We record and categorise environmental incidents into tiers based on the severity or actions taken by regulatory authorities. Tier 3 incidents are those that have an impact on the environment and require reporting to an external authority and where enforcement action is likely. Tier 2 incidents have a minor impact and require notification but are likely to result in minimal or no action by the authorities. Tier 1 incidents require no external reporting and are recorded internally and investigated so that continual improvements can be made to reduce the likelihood of future Tier 2 and Tier 3 incidents.

In 2020, Elementis had no Tier 3 or Tier 2 incidents (2019: zero Tier 3, zero Tier 2).

A new Diversity, Equity and Inclusion (DEI) Council was established in the year to develop and implement a 3 year roadmap designed to support and accelerate DEI goals and track progress for key focus areas such as; recruitment and retention, training, site reviews, updating of policies and job descriptions to eliminate bias and ensure equity in our processes. Further information can be found on page 40.

EXTERNAL VALIDATION

We participate in a number of external assessments and receive ratings and recognition for our sustainability efforts. These include EcoVadis (Silver medal) and Carbon Disclosure Project (ranked C in climate change) and we remain part of the FTSE4Good index.

We are certified under the Roundtable on Sustainable Palm Oil for our organoclay and bentone gels product range. We are an active signatory of the UN Global Compact and our latest progress report can be found on the Company's website.

CLIMATE CHANGE AND ENVIRONMENTAL ACTION

We are committed to a sustainability journey where operational efficiency and innovative solutions and products with lower carbon footprints can lead us to carbon neutrality. The environmental targets that we have set are focused on the areas of our business where we can make the most positive impact on the environment. These are energy efficiency, carbon reduction, water and waste management. Information on our climate focused innovation and efficiency projects can be found on pages 24 to 29.

Environmental

WHY THIS IS IMPORTANT TO OUR BUSINESS MODEL AND STRATEGY

The products we supply and how we manufacture them have an impact on everyday life. Our strategy of innovation, growth and efficiency is the foundation to achieve our longer term environmental targets. Together with our purpose to deliver cleaner and better performance solutions, we can minimise our environmental impact and help our customers to solve their sustainability challenges.

HIGHLIGHTS OF THE YEAR

- 2030 environmental goals announced – carbon emissions, energy efficiency, water stewardship and waste
- Independent external verification of our GHG emissions (2019 baseline)
- New water stewardship policy
- Milwaukee site transitioned to running on wind, solar, and bio-waste gas
- Milwaukee (LTP) site certification – Alliance of Water Stewardship

In July 2020, we set new environmental goals which we aim to achieve by 2030 and underscore our approach to minimising our impact on the environment.

GHG EMISSIONS

We are committed to reducing the GHG emissions from our operations by 25% by 2030*

* Vs 2019 baseline data.

ENERGY

We are committed to increasing the energy efficiency of our operations by 20% by 2030*

WATER

We are committed to reducing the amount of water used by our operations and people by 10% by 2030*

WASTE

We are committed to reducing the waste produced by our products, operations and people by 10% by 2030*

25%

reduction in GHG emissions

20%

increase in energy efficiency

10%

reduction in water usage

10%

reduction of waste

Our operational processes are one element of how we approach sustainability at Elementis. Our products provide a range of sustainability benefits to our customers, for example, recyclable food packaging or lower VOC industrial coatings. Our long term priorities are focused on reducing our environmental impact and leading with innovation to help solve our customers sustainability challenges in the transition to a lower carbon economy.

Elementis commissioned Avieco, a highly experienced independent verifier of GHG emissions data, to verify the GHG emissions for Elementis' 2019 baseline year in accordance with ISO 14064-3: 2019 'Greenhouse gases – Part 3: Specification with guidance for the verification and validation of greenhouse gas statements'. Avieco's full verification opinion statement, which includes a summary of the work performed and Avieco's findings, is available on the Company's website.

GREENHOUSE GAS EMISSIONS (GHG)

Our target is to achieve 25% reduction in GHG emissions by 2030 (from the 2019 baseline). 2020 has been a year overshadowed by the impact of COVID-19 which has impacted our emissions metrics.

We measure efficiency in terms of carbon emissions per tonne of production (intensity ratio) which in 2020 increased by 2.2%, rising to 0.362 from 0.354 (2019 baseline). Total Scope 1 and 2 emissions reduced by 8.7% on an absolute basis primarily due to lower production volumes caused by reduced demand.

The reduction in production volumes and raw material shortages led to several of our sites having to adjust production schedules resulting in operational inefficiencies. For example, whilst certain sites had to temporarily shut down, other sites had to shorten production runs more frequently which resulted in increased energy consumption to ensure that the equipment was operating at optimum temperature efficiency.

Our GHG report (in line with the UK government's new policy on Streamlined Energy and Carbon Reporting ('SECR')) includes our corporate CO₂ emissions by emission type (Scope 1 emissions generated by the direct combustion of gas; Scope 2 emissions from purchased electricity and steam and total energy used). Absolute emissions data is reported along with Scope 1 and 2 emissions per unit revenue and production volumes.

GLOBAL	2020	2019 (baseline)
Scope 1 Combustion of fuel and operation facilities (tonnes CO ₂ e)	163,876	181,345
Scope 2 Electricity, heat, steam and cooling purchased for own use (tonnes CO ₂ e)	104,005	112,189
Total Scope 1 and 2 (tonnes CO ₂ e)	267,881	293,534
Production volumes (tonnes)	740,768	828,156
Total turnover (£m)	584	664
Total carbon emissions by turnover from all sites (tCO ₂ e/£1m turnover)	458.7	442.34
Total intensity ratio (tonnes CO ₂ e/tonne production)	0.362	0.354
Supplementary intensity ratio (kg CO ₂ e/kWh energy consumed)	0.214	0.212
Global energy consumption (kWh)	895,054,660	973,619,657

METHODOLOGY

Carbon dioxide derived from natural gas combustion is the principal GHG attributed to our operations. Other GHG emissions arising from our operations include those from chemical reactions in production processes, wastewater treatment and carbon dioxide used for process cooling. Our data includes all operating sites and principal offices. Small office locations are excluded as the level of carbon dioxide equivalent (CO₂e) emissions from these offices do not make a material contribution. Emissions have been calculated based on the GHG Protocol Corporate Standard for data gathered to fulfil our requirements and emission factors from the UK Government's GHG Conversion Factors for our corporate reporting. Emissions reported correspond with our financial year.

UK	2020	2019 (baseline)
Scope 1 Combustion of fuel and operation facilities (tonnes CO ₂ e)	6,216	7,534
Scope 2 Electricity, heat, steam and cooling purchased for own use (tonnes CO ₂ e)	1,695	2,021
Total Scope 1 and 2 (tonnes CO₂e)	7,911	9,555
UK intensity ratio (tonnes CO ₂ e/tonne production)	0.48	0.50
UK energy consumption (kWh)	33,817,770	40,976,994

As a result of COVID-19, certain efficiency projects at our UK site (Livingston) have been deferred to 2021. Overall, total Scope 1 and 2 emissions for the UK decreased year on year by 17%; however, as noted above, the impact of COVID-19 had a significant impact on operational efficiency in terms of intensity ratio per tonne of production.

ENERGY CONSUMPTION

Our target is to increase energy efficiency in our operations by 20% by 2030 (by 2019 baseline). Our performance in 2020 is below:

	2020		2019 (baseline) ¹	
	Absolute ('000)	Per tonne of production	Absolute ('000)	Per tonne of production
Total energy consumption (GJ)	4,508	6.086	4,986	6.021
Scope 1 energy consumption (GJ)	3,222	4.350	3,553	4.291

In 2020, our energy efficiency measure per tonne of production remained broadly stable increasing slightly to 6.086 from 6.021 (2019 baseline), given the reduction in production and adjustments to production schedules. Energy usage reduced by 8% on an absolute basis.

We consume energy from several sources: electricity (wind and solar), steam, natural gas, LPG, biomass and oil, at manufacturing sites, offices and laboratories, whilst energy consumption varies with production volumes and product mix.

We have continued to focus on energy efficiency initiatives at our sites during 2020 which included:

- At our Castle Hayne site in North Carolina (US), a plant-wide lighting project was carried out reducing site electricity usage by 1,023,341 kWh (8% reduction and annual savings of \$86,000)
- By reducing natural gas usage during talc milling, our Vuonos (Finland) and Amsterdam (Netherlands) sites were able to make a total reduction of 9,600,409 kWh (30% reduction of total natural gas consumption, c.\$150,000 cost savings)
- At our Sotkamo site in Finland, a reduction of energy consumption during milling and reduction of oil consumption during drying, both contributing to a reduction of 669,353 kWh (1% reduction, \$30,000 cost savings)
- At St Louis, Missouri (US), flushing centrifuge separators were optimised, resulting in total energy reduction (gas and electricity) of 268,578 kWh (0.5% reduction, \$19,000 cost savings)
- At our Huguenot site in New York State (US), energy has been reclaimed by rerouting an air compressor to provide ambient heat during cold weather months.

We are investing in solar panels at our site in California and have started work to transition to alternate or renewable energy sources. Milwaukee purchases electricity sourced from wind and in 2021, Amsterdam, Sotkamo and Vuonos sites will run on green electricity purchases.

In addition, our climate focused innovation products are designed to reduce our customers' environmental impact. For example, developing products that reduce manufacturing process time, are highly valued by our customers. For further information on these innovations, please refer to page 23.

Our efficiency initiatives in 2021 are:

- Solar panel installation at Newberry Springs (US), estimated 1,800 MT CO₂e p.a.
- Kiln liner improvements at Castle Hayne (US), estimated 270 MT CO₂e p.a.
- Waste classification at Livingston (UK), estimated 3,600 MT waste p.a.

WATER STEWARDSHIP

Safeguarding water resources for future generations is vital and Elementis is committed to responsible water stewardship. A water stewardship policy has been adopted to establish our commitment and actions for positive water stewardship.

Our target is to reduce 10% of our water consumption by 2030 (by 2019 baseline). The reduction of water usage in 2020 reduced by 7.7%, however, this was a mix effect of water stewardship initiatives and COVID-19 related issues such as raw material supply, volume demand and operational inefficiency caused by running shorter production runs which contributed to an increase of 3.1% in water usage related to production.

	2020	2019 (baseline)
Water usage related to production (m³/1,000 te)	4.80	4.66
Water usage (m³)	3,559,501	3,858,189

During 2020, at Corpus Christi, Texas we reduced water consumption by 20,800m³, the equivalent of eight Olympic sized swimming pools and saving \$24,000 p.a. A range of projects are currently under evaluation for 2021 and beyond.

In Finland, we have started the installation of a water pumping station, water treatment process and water pipelines, to purify water used by Sotkamo and return it to the nearby river.

Our newest site, currently under construction in India, is being built with environmental sustainability features that will enable recycling and reuse of entire water consumption thereby not affecting public supplies.

Examples of our other water stewardship initiatives can be seen in the following examples:

- Where possible water is collected, cleaned and reused and rain is captured from roofs and outside secondary containment, cleaned and used to reduce water purchases. At our Brazil site, we have introduced processes where our rainwater and all clean water discharges are used to water banana fields, supporting farms in the area
- Our leather tanning plant (LTP) in Milwaukee, Wisconsin has been following water catchment and reuse procedures for many years and in August 2020 was awarded the Alliance of Water Stewardship (AWS) Core level certification. Further AWS certification will be sought for other LTPs in Texas and Nebraska in 2021 as we seek to optimise water consumption across our operations

WASTE

Our target is to reduce waste produced by our products, operations and people by 10% by 2030 (by 2019 baseline). Our performance in 2020 is below:

	2020	2019 (baseline)
Waste per unit of production (MT/MT)	0.045	0.036
Waste (MT)	33,712	29,991

In 2020, waste generated per unit of production was higher than prior year mainly attributable to a disposal of excess sodium sulphate as a result of a large customer shutting down its US plant.

We seek to reduce the quantity of all types of waste. Our first priority is to reduce the amount of waste that is classed as hazardous. Beyond that non-hazardous waste is minimised and recycled. Some of our manufacturing processes create by-products which are capable of being sold.

Initiatives in the year include:

- At our New Martinsville site, in West Virginia, toluene (a solvent) use decreased by over 50,000kg during 2020. By recycling toluene, there are significant benefits including less hazardous waste disposal, fewer drums of waste and reduced handling by employees to manually drum the waste.
- At our Anji site in China, as part of our manufacturing processes, methanol has been used as a carrier liquid. By eliminating methanol from the manufacturing process and replacing it with water, there is a significant reduction of risk for any potential process incident and complete reduction in any methanol that has been either evaporated to atmosphere at the drying step or dissolved in the waste water. As a direct result of not having to purchase methanol, there have been procurement savings of \$170,000.
- We have reduced the use of unrecyclable, single use paper products across our sites, including eliminating more than 150,000 coated coffee cups each year. Additionally, we have repurposed the waste of some of our portfolio ingredients into naturally derived by-products, effectively reducing operational waste.

We are evaluating potential to report effluent waste and waste (which is capable of being recycled or reused).

AIR QUALITY

Emissions of the oxides of sulphur and nitrogen and volatile organic compounds (VOCs) arising from the Group's operations are controlled to comply with regulatory permits. Any emission to air above regulatory permitted levels would be reported as an environmental incident. Our air quality initiatives include air scrubbers and regular housekeeping at our sites to minimise pollutants being released into the air. Air quality is regularly monitored.

PRODUCT STEWARDSHIP AND SAFETY

We are committed to making sure our products will not harm people or the environment during manufacture, use and disposal. To support the highest levels of product safety and regulatory compliance, we have comprehensive product safety and product stewardship processes in place to ensure that any hazards relating to our products are fully understood and communicated to our customers. We provide safety data sheets and labels in multiple local languages in order for our customers to safely use and dispose of our products. Our goal is to ensure that anyone handling our products can do so with full knowledge of the hazards and safe handling requirements regardless of country or language.

Safety data sheets for our products are available on the Company's website.

BIODIVERSITY

We believe that the variety of life, should be protected insofar as it is reasonably practicable by reducing or avoiding the impact on, and potential damage to sensitive species, habitats and ecosystems as a direct or indirect result of our operations and activities. Our biodiversity policy is available on the Company's website.

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

- Seedlings for native species trees have been planted at our Palmital, Brazil and our Taloja, India facilities
- A fence barrier, installed at our Hectorite mine in California, protects the habitat of the desert tortoise, which is a protected species. If a tortoise makes its way beyond the barrier, we work with a certified biologist to return them to their habitat

REPORTING FRAMEWORKS

Task Force on Climate-related Financial Disclosure (TCFD)

We support the aims of the recommendations of the TCFD and intend to report disclosure in line with the recommendations which will become a regulatory requirement from 2022.

As we prepare for TCFD disclosure, we have established a Climate Risk Governance charter and will allocate resource to oversee the implementation through four work streams which will be focused on governance, strategy, risk management; and metrics and targets.

Preliminary steps have been taken to:

- identify climate-related risks through our existing risk management systems and processes
- Board and Audit Committee briefing on TCFD implementation
- Environmental targets have been established and performance will be monitored and reported on a regular basis.

During 2021, we will carry out activities to:

- ensure that key internal stakeholders understand the regulatory requirements
- assess the Company's risk and opportunities in relation to climate change including exposure to physical risks (acute, chronic) and transition risk to a lower carbon economy (policy and legal, technology, markets, reputation)
- review our systems for collecting and reporting data
- seek external expertise where appropriate
- develop policies, systems and processes

CDP

We participate in the annual submission of climate related information as part of the Climate Change survey to the CDP and were scored a 'C' in 2020. In addition, we received a 'B' Supplier Engagement score demonstrating how we are engaging with our suppliers on climate change. In 2021, we intend to submit our first Water survey responses to CDP.

EcoVadis

We participate in the annual submission of supply chain related information to EcoVadis and in 2020 we were awarded a Silver medal in recognition of our sustainable procurement, business ethics, environmental performance and human rights practices.

Social

WHY THIS IS IMPORTANT TO OUR BUSINESS MODEL AND STRATEGY

We believe in a culture driven by strong Values and an environment that promotes safety, diversity, inclusion, accountability and high performance.

Our people drive the success of delivering value to customers, shareholders and the communities where we operate.

Safety is a core value at Elementis and our focus has been keeping our employees safe and continuing to keep our operations reliable during the pandemic.

HIGHLIGHTS OF THE YEAR

Diversity, Equity and Inclusion (DEI)

- DEI council established
- Volunteering programme launched
- Employee engagement survey insight and action planning
- UK Living Wage accreditation

Employee engagement

- Virtual employee townhalls – US, Europe and Asia
- Virtual senior leadership conference
- Employee workshops and Company performance updates
- Launch of LinkedIn learning

Health and safety

- TogetherSAFE launch
- Site manager certification

Supply chain

- Supply chain engagement throughout the pandemic
- EcoVadis Silver medal

COVID-19 response

- Global and regional specific taskforces established
- Limited site shutdowns
- COVID-19 employee tracking system
- Employee commitment on pay, benefits, medical and furlough
- Regular Board and Executive Leadership Team (ELT) updates

OUR PERFORMANCE

TOTAL RATE OF RECORDABLE INJURIES	LOST TIME ACCIDENTS (>3 DAYS)	INVESTMENT IN HEALTH AND SAFETY (INC. MAINTENANCE)	HUMAN RIGHTS RELATED COMPLIANCE TRAINING COMPLETION RATES (%)
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NUMBER OF EMPLOYEES	VOLUNTARY EMPLOYEE TURNOVER (%)	EMPLOYEE LOCATIONS (%)	NUMBER OF INTERNAL PROMOTIONS
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OVERVIEW

We recognise that our people are critical for the delivery of our strategy. We are committed to creating an environment that promotes safety, diversity, inclusion, accountability and high performance that is underpinned by our Values.

HEALTH AND SAFETY

We place great emphasis on protecting people and operating responsibly. Our Health and Safety programmes provide the basis of how we develop, manufacture and distribute our products around the world. Our objective is to maintain a world class HSE programme that delivers excellence in HSE performance and drives continuous improvement. A copy of our HSE policy is available on our website.

Accountability for health and safety sits at the top of the business and is led by our Chief Executive Officer supported by the SVP Global Supply Chain and Manufacturing and the Global Director for HSE.

Our Board receive a detailed update on our health and safety performance at each meeting and the ELT receive updates on a monthly basis as part of overall Group performance. Safety is a core value at Elementis and providing a safe working environment in which our employees return home safely is a key priority for the Board and the Group as a whole.

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

In 2020, our TogetherSAFE initiative was launched as a new initiative that will help us advance our ambition of safety excellence and zero injuries across every corner of our organisation to drive a stronger, more committed safety culture throughout the organisation as an extension of our Safety and Teams values.

COVID-19 – OUR APPROACH

In February 2020, we established a global taskforce led by ELT members with support from HSE and our internal communications team. This taskforce met three times per week for the first three months to review employee status and emerging developments relating to COVID-19, developing employee communications, preventative measures and guidance to reduce exposure and risk. In addition, specific pandemic status levels were defined to provide a consistent system to compare facilities globally.

Our manufacturing sites were considered 'critical' and as such remained open with the exception of temporary shutdowns in China and Brazil. At our Newberry Springs site, a temporary shutdown was mandated for 10 days due to the number of supervisory employees self-isolating.

In February 2020, an Asia specific taskforce was established followed by taskforces for the Americas and Europe as COVID-19 spread. Bi-weekly meetings were held with site leaders focusing on status updates and sharing of best practices. Each site developed pandemic action plans to ensure operability and policies and procedures have been updated to reflect local guidance and hygiene practices.

All taskforces continue to meet regularly to develop responses associated with the pandemic. Further resources have been put in place such as receiving medical input to develop policies and ongoing case management.

COMMUNITY VIRTUAL WALK – OCTOBER 2020

For Breast Cancer Awareness Month (October 2020), 121 employees from our management headquarters in East Windsor, NJ participated in the local annual Susan G. Komen Virtual Race for the Cure Walk and Elementis matched employee donations to the Susan G. Komen non-profit organization.

SAFETY PERFORMANCE

Our safety journey in 2020 was challenging. Whilst there were no fatalities, we know that we can improve our performance as we continue to drive and embed safety practices with employees and contractors. We had a challenging first quarter in 2020 with five injuries, then made noticeable improvement as the year progressed, but ended up with a total of nine recordable injuries to our employees in 2020. Overall, this was a disappointing result for the year since we did not meet our continuous improvement goal. We have started to see that our investments in capital improvements, training, TogetherSAFE roll out and management system upgrades are starting to have a positive impact on our safety performance.

Tragically, we lost one employee to a COVID-19 related illness in February 2021.

During the pandemic, our priorities have been employee wellbeing and to provide guaranteed income and social benefits in line with local regulations to demonstrate our commitment to employees by committing to:

- Pay – guaranteed 100% of gross weekly pay for up to two weeks due to COVID-19 related absence
- Benefits – employee health benefits such as medical, disability and life/death insurances maintained during furlough/ temporary unemployment
- Furlough mandatory leave/temporary unemployment or reduced hours – guaranteed minimum of two weeks at 100% gross weekly base pay and up to 80% gross weekly pay for a further four weeks in the event of temporary worksite closures, temporary curtailment of operations and where home office working is not possible

EMPLOYEE ENGAGEMENT AND WELLBEING

Elementis is committed to employee engagement throughout the business. Employees are kept informed of the performance and strategy of the Group, HSE matters and other initiatives through regular email bulletins and townhalls.

All employees have the opportunity to participate in an employee engagement survey on the anniversary date of joining the Company and the insight from the first complete year has been reviewed by the Board, ELT and in local teams. Action plans have been developed in response. The response rate for employees participating in the survey was 56%.

Whilst certain employees have been operating in a home working environment, global employee townhalls have continued through the year in a virtual setting and our senior leadership team participated in a virtual leadership conference.

The CEO has also initiated informal sessions such as 'Coffee with the CEO' to further connect with employees. A dedicated intranet site was developed to serve as a central access point for up to date reference materials and information including for example; information on how to set up a home working station in a safe manner; and specific information on COVID-19 symptoms and hygiene practices.

Despite certain employees working from home, the Company successfully migrated to cloud based tools strengthening cyber security protocols and rise of potential increase in cyber security threats. There were no significant data or privacy breaches in the year.

The Company continues to bring awareness to the topic of mental health and resources such as; ways of working flexibly to balance work and domestic priorities; the employee assistance helpline; and informal check-ins with employees. As employees continue to work through the challenges associated with COVID-19, ongoing focus and support will remain a key priority in 2021 and beyond.

DIVERSITY, EQUITY AND INCLUSION

Elementis strives to create a culture where all employees belong, feel safe, respected, valued, and feel empowered to contribute ideas and perspectives. We recognise that the diversity of our people and the inclusive nature of our culture are intrinsic to better business decisions. Diversity, equity and inclusion is fundamental to the success of our strategy, culture and values.

In 2020, we established a Diversity, Equity and Inclusion (DEI) Leadership Council which is co-chaired by the CEO and CHRO and is represented by senior leaders who have a passion to implement strategic initiatives that embed DEI into our collective talents to respond to the business challenges of the future.

The remit of this Council is to develop and implement a 3 year roadmap designed to support and accelerate DEI goals, create meaningful metrics and track performance in areas such as recruitment and retention, training, elimination of barriers at our facilities, updating of policies and job descriptions to eliminate bias and ensure equity in our processes. Employee resource group initiatives, mentoring and women in leadership activities are planned for 2021.

The Board has received updates on DEI matters during the year and has performed in line with the Board diversity policy and objectives during the year. We are proud to maintain a Board composition of 37.5% female Board members. Further information on progress can be found on pages 81 and 82.

Our HR policies underscore our commitment to providing equal opportunities in employment, striving to ensure that the work environment is free of harassment and bullying and that everyone is treated with dignity and respect. Training is provided to employees during the course of their employment and during the year, certain employees completed training in anti-harassment in the workplace with completion rates of 90%.

The Group is an equal opportunities employer and considers applications for employment from disabled persons. We provide facilities, equipment and training to assist disabled employees and should an employee become disabled during their employment, efforts would be made to retain them in their current role or to explore opportunities for redeployment in the Group.

GENDER PAY

Whilst the Company has less than 250 employees in the UK and is therefore not required to report under the gender pay gap regulations, a comprehensive global review of gender pay was completed towards the end of 2020. The outcome was reviewed by the Board in December. Whilst a small number of minor changes were implemented, no material issues were identified either with the pay process or individual pay. Further information on page 90.

UK LIVING WAGE ACCREDITATION

In June 2020, we received accreditation from the UK Living Wage Foundation in respect of our commitment to direct and third party employees at all UK locations. We are proud to be 1 of nearly 7,000 companies that have committed to using the Living Wage for UK employees.

TRAINING AND DEVELOPMENT

We are committed to inspiring, growing and investing in our people, building an ethically led and high performing business culture. Assessment of individual training needs is an important feature of the annual performance process and employees agree a learning and development goal with their manager each year. Examples of our commitment to invest in our people include:

- Launch of LinkedIn learning platform
- 2,000 hours of training completed (via our compliance training portal)
- External leadership development programmes and coaching
- 125 site supervisors and global leaders participated in an eight week lecture/lab virtual safety leadership training course

We suspended our US internship programme in 2020 as a result of COVID-19 and we look forward to restarting this in 2021 when safe to do so.

The recent launch of the volunteering programme enables employees to receive an additional day of paid time-off to volunteer in the communities where they work and live.

Employees in the UK and US are able to save and invest through the annual share saving scheme where employees are able to choose a fixed amount to save over 3 or 5 year terms and can either receive all their savings back as cash or buy Elementis shares at a discounted price.

HUMAN RIGHTS

Our approach is guided by international conventions and standards, including the UN Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights as well as the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, the latter being freedom of association and the effective recognition of the right to collective bargaining, the elimination of forced or compulsory labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation.

We prohibit the use of child and forced labour and are committed to the principles of freedom of association, equality of treatment and non-discrimination. 9.5% of our employees are union members and 24% are subject to collective bargaining agreements. The total voluntary attrition rate in 2020 was 7.9%.

There were no human rights grievances made against the Company during the year.

As part of our ongoing commitment to support the UN Global Compact, our latest communication on progress report details the steps we have taken in 2020 relating to human rights, labour, environment and anti-bribery and corruption. A copy of this report and our anti-bribery and corruption policy are available on our website.

SUPPLIERS AND SUPPLY CHAIN MANAGEMENT

Our Code of Conduct upholds our commitment to high ethical standard of fairness and respect in all business dealings including with customers, suppliers and distributors. In turn, we expect the people in our supply chain to be treated fairly and their human rights respected. We strive for the highest ethical standards and hold our suppliers and partners to the same criteria.

Our Purchasing Code of Practice reflects the requirements of the US California Transparency in Supply Chains Act of 2010 and the UK Modern Slavery Act 2015. A copy of our Modern Slavery transparency statement is available on our website.

Training is provided to employees on sustainable supply chain management which includes prevention of modern slavery and fair business dealings with customers, suppliers and distributors.

During the pandemic, Elementis has taken proactive actions to reduce risk to its supply chain and in turn, ensuring that our customer commitments can be met. These actions included working with suppliers regarding raw materials, reviewing contingency plans to reduce the likelihood of disruption in our supply chain and engaging our supply chain partners, including railroads and trucking companies, to confirm adequate plans are in place to mitigate any impact to services.

DUE DILIGENCE

Our suppliers range in size from small and medium sized enterprises to large multinationals, each of which has its own supply chain. We assess and audit our key suppliers to ensure conformity and consistency with our policies, including compliance with international labour laws and the absence of slavery and human trafficking. We use questionnaires which are assessed by our procurement team. If a supplier is found to be in breach of international labour laws and standards that seek to prohibit slavery and human trafficking we will terminate our agreement with them immediately.

Our purchase order terms and conditions, provided to all our suppliers, require compliance with international labour laws that seek to prohibit slavery and human trafficking. We expect our suppliers and distributors to comply with all applicable legislation.

PAYMENT PRACTICES

We work collaboratively with our suppliers to enable us to deliver value to the business and are committed to paying our suppliers on time. Our standard payment terms for suppliers are net 60 days from receipt of goods and services. In the UK, we report our payment practices to the UK Government's reporting portal, consistently demonstrating that more than 90% of invoices are paid within 60 days.

PRODUCT QUALITY AND SAFETY

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

TAX TRANSPARENCY

On an annual basis, we develop and publish our tax transparency statement. This statement is approved by the Board and is available on the Company's website. We aim for a proactive, open and transparent relationship with all relevant tax authorities in order to facilitate meeting our statutory and legislative obligations.

Governance

WHY THIS IS IMPORTANT TO OUR BUSINESS MODEL AND STRATEGY

Maintaining high standards of ethical business conduct and compliance with local, national and international legislation are fundamental hallmarks of being a responsible business. Our behaviours, values, policies and governance frameworks serve as the cornerstone of how we do business and enable us to protect our reputation and underpin delivery of sustainable value for our stakeholders.

HIGHLIGHTS OF THE YEAR

- 203 new employees received training on our Code of Conduct
- Board and Audit Committee oversight of compliance reports
- Board and Audit Committee received regular COVID-19 status updates (including employees, raw materials, logistics, operational reliability and financial response)
- 5th Modern Slavery transparency statement approved
- Tax transparency statement approved
- Environmental sustainability targets approved
- Water stewardship policy established
- Capital expenditure projects focused on sustainability and efficiencies – \$19m

OVERVIEW

The right governance structures, accountability processes and transparency are essential components of delivering sustainable value for our stakeholders. Embedding environmental and social sustainability within our business is expressed through our strategy, purpose, culture and values.

GOVERNANCE FRAMEWORKS

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

As stewards of the Company, the Board leads an ongoing programme to ensure the highest standards of corporate governance and integrity right across Elementis.

The Board is supported by an effective corporate governance structure, including the Audit Committee, which continuously reviews the effectiveness of the Group's internal control mechanisms, financial reporting, internal audit and risk management processes. For further information, please refer to pages 83 to 86. Each Board Committee has terms of reference which are available on the Company's website. In addition, there are certain decisions that can only be made by the Board and are clearly defined in the schedule of matters reserved by the Board which is available on the Company's website.

OUR PERFORMANCE

BOARD GENDER
DIVERSITY (M:F)

INDEPENDENT BOARD
MEMBERS

SPEAKING UP/
WHISTLEBLOWING
REPORTS

TOTAL COMPLIANCE
TRAINING (HOURS)

ANTI-BRIBERY
COMPLIANCE TRAINING
COMPLETION RATES (%)

SUSTAINABILITY LEADERSHIP

The Elementis Sustainability Council (ESC) was established in 2019 to provide leadership, oversight and coordination for all Elementis' sustainability and social responsibility policies, programmes and goals. The ESC reports directly to the CEO who reports on ESG and sustainability matters to the Board.

CODE OF CONDUCT

Our Code of Conduct sets the standards of conduct expected from everyone who works for the Company. Our Code is aligned with applicable laws and regulations, as well as our Values. To help our employees understand and adopt these values, principles and standards in their daily work life, information and training are provided and are supported by comprehensive whistleblowing procedures and an anti-retaliation policy. The Code is available in 7 languages representing the diversity of employees who work for the Company: Brazilian Portuguese, Dutch, English, Finnish, German, Chinese Simplified and Chinese traditional). The Code of Conduct is available on the Company's website. The Code of Conduct is supported by a range of policies which include: anti-bribery policy; data protection; anti-harassment; anti-retaliation; and share dealing.

All new employees are required to undertake training on the Code and refresher training every two years.

ANTI-BRIBERY AND CORRUPTION

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

WHISTLEBLOWING

The Group's whistleblowing facility is provided by Alertline and is accessible on a 24/7 basis, 365 days of the year. This confidential reporting service is available for employees to report any potential violation of our Code of Conduct either by telephone or via a dedicated website. Reports are duly investigated promptly and actions are taken. The Audit Committee and the Board have oversight of whistleblowing matters. In 2020 there were 6 reports (2019: 4). All reports were investigated fully and closed during the year.

CONTROLS ASSURANCE

The controls assurance framework in place at Elementis is based on:

- Board leadership supported by an open and transparent culture of 'no surprises', good governance and compliance
- Internal and external audit programmes, regular litigation and compliance reports
- Compliance audits, regulatory inspections, environmental reviews and property surveys
- Code of Business Conduct and Ethics, on which all employees are given training and are required to self-certify compliance with, supplemented by an online compliance training programme, an anti-bribery and corruption policy which contractors are also required to adhere to, whistleblowing arrangements and an anti-retaliation policy
- Cross-functional Ethics and Compliance team comprised of senior leaders within the organisation, which reports to the General Counsel and Compliance Officer

COMPLIANCE PROGRAMME

During the year, the following training modules were provided to employees with participation rates of more than 90% for each module:

- Preventing sexual harassment and anti-harassment training (California and New York employees)
- Competitive intelligence/trade secrets
- Creating a harassment free workplace (US and ELT members)
- Slavery and human trafficking in supply chains
- Anti-bribery and corruption
- Data protection/GDPR/CCPA
- Records retention
- Giving and receiving gifts

For employees at our manufacturing facilities, classroom learning is facilitated.

Non-financial information statement

Reporting requirement	Policies and standards which govern our approach	Information necessary to understand our business and its impact, policies due diligence and outcomes
Environmental matters	<ul style="list-style-type: none"> • Code of Conduct • Health, safety and environmental policy • <i>Environmental management systems</i> 	<ul style="list-style-type: none"> • Environmental, social and governance, pages 32 to 43
Employees	<ul style="list-style-type: none"> • Code of Conduct • Health, safety and environmental policy • Life saving rules • Data protection and privacy policies • Equality and diversity policies • Whistleblowing policies 	<ul style="list-style-type: none"> • Environmental, social and governance, pages 32 to 43 • Diversity policy and initiatives page 82 • Whistleblowing, page 43
Human rights	<ul style="list-style-type: none"> • Code of Conduct • Equality and diversity policies • Data protection and privacy policies • Purchasing Code of Practice • Modern Slavery statement 	<ul style="list-style-type: none"> • Environmental, social and governance, pages 32 to 43 • Diversity policy, page 82
Social matters	<ul style="list-style-type: none"> • Code of Conduct • Volunteering policy • Where we do not have specific policies on social/ community matters, we engage directly with our communities wherever we operate 	<ul style="list-style-type: none"> • Environmental, social and governance, pages 32 to 43
Anti-corruption and anti-bribery	<ul style="list-style-type: none"> • Code of Conduct • Anti-corruption policy • Anti-trust policy (global competition) • Purchasing Code of Practice 	<ul style="list-style-type: none"> • Environmental, social and governance, pages 32 to 43

1 Certain Group Policies, internal standards and guidelines are not published externally

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

Reference to our policies, due diligence processes and information on how we are performing on these areas are contained throughout the Strategic report. Information on our principal risks can be found on pages 59 to 62, information on our non-financial key performance indicators can be found on page 30 and a description of our business model can be found on page 18.

Strong cash conversion drives debt reduction

"COVID-19 impacted volumes across both industrial and consumer end markets."

In a challenging market backdrop we delivered a \$46m reduction in net debt, driven by working capital reductions, capital expenditure discipline and suspension of the dividend.

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 \$67.0m compared to a profit of \$46.4m in 2019.

RALPH HEWINS
CHIEF FINANCIAL OFFICER

Finance report

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 and Note 1 to the financial statements respectively.

Credit/(charge)	Personal Care \$m	Coatings \$m	Talc \$m	Chromium \$m	Energy \$m	Central costs \$m	Total \$m
Restructuring	–	(0.9)	–	–	–	–	(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)
<i>Amortisation of intangibles arising on acquisition</i>	(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.

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%
Revenue	751.3	873.6	-14%

OPERATING PROFIT

	2020			2019		
	Operating profit/(loss) \$m	Adjusting items \$m	Adjusted operating profit/(loss) \$m ^Δ	Operating profit/(loss) \$m	Adjusting items \$m	Adjusted operating profit/(loss) \$m ^Δ
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)
Operating (loss)/profit	(28.2)	109.8	81.6	100.9	22.1	123.0

Δ After adjusting items – see Note 5

GROUP PERFORMANCE – 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

GROUP PERFORMANCE – ADJUSTED OPERATING PROFIT

	Operating profit 2019 ^Δ \$m	Effect of exchange rates \$m	Impact of M&A [‡] \$m	Decrease 2020 \$m	Operating profit 2020 ^Δ \$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

Δ After adjusting items – see Note 5

‡ M&A impact includes the sale of a non core gypsum plant (previously part of the Dental business).

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 Effective rate %	2019 Effective rate %
	\$m	\$m
Reported tax (credit)/charge	(1.8)	14.6
Adjusting items tax credit	16.0	6.1
Underlying tax charge	14.2	20.7
	26.9	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

Note 9 to the consolidated financial statements sets out a number of calculations of 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^a for 2020 compared with 12.4 cents^a 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^a compared to a profit per share of 8.0 cents^a in 2019.

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

DISTRIBUTIONS TO SHAREHOLDERS

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 section on page 183.

	2020 \$m	2019 \$m
EBITDA ¹	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)

1 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 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 (see Alternative Performance Measures on page 182).

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 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. Further information on our ongoing approach to Brexit is provided on page 58.

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.

RALPH HEWINS

CHIEF FINANCIAL OFFICER

23 March 2021

Δ 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 calculation within the unaudited information on page 184

PERSONAL CARE

Demand impacted by COVID-19 social and travel restrictions

STIJN DEJONCKHEERE
SVP GLOBAL PERSONAL CARE

\$161m

2020 revenue (2019: \$195m)

\$34m

2020 adjusted operating profit (2019: \$43m)

In Personal Care, the social and travel restrictions widely imposed in response to COVID-19 presented significant headwinds to our financial performance.

Nonetheless, our strategic priorities remain clear and we are well placed to return to, and exceed, previous levels of financial performance once working and living conditions begin to normalise.

FINANCIAL PERFORMANCE

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.

STRATEGY

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

"Consumers are increasingly looking for products that contain natural ingredients."

In Cosmetics, consumers are increasingly looking for products that contain clean and natural ingredients, providing a positive long term outlook for our hectorite based Cosmetics business. Our Cosmetics track record is strong and incremental investment will further increase our ability to develop new customers, and enter new geographies and markets.

We have performed well in Asia over recent years, but with the region representing under 20% of our sales we have more to do. In 2020, we continued to invest in our capabilities and in the first half of 2021 we will open a new technical service laboratory in China dedicated to servicing our Personal Care customers in the region. This investment, combined with innovation focused on local market needs, will drive our medium term aim of doubling our cosmetics sales in Asia.

Skin care is a large and growing part of the personal care market, and an area where we have historically had little participation. In 2019, we launched two new hectorite based products for this market, and while customer new product launches have been impacted by COVID-19, we have made encouraging early progress towards our medium term goal of \$10m incremental sales.

In AP Actives, population growth and rising incomes will support a growing market for anti-perspirants in most South American and Asian countries. To help cost effectively serve this growth we are investing approximately \$20m in a new manufacturing facility in India which will commence production in 2021.

As the market evolves to demand premium products with claims supported by science, customers increasingly value our differentiated ingredients and technical support. In 2020 we launched Reach 9000, a high efficacy active ingredient and a good example of the innovation we will continue to deliver to drive our growth ambitions.

While COVID-19 has clearly had a near term impact, we believe that our strategy will enable us to deliver organic revenue growth above GDP growth, with high and stable margins over the medium term.

* Adjusted for FX and the impact of M&A. See page 46.

COATINGS

Increased margins in a challenging market environment

LUC VAN RAVENSTEIN
SVP GLOBAL COATINGS
AND ENERGY

\$296m

2020 revenue (2019: \$320m)

\$47m

2020 adjusted operating
profit (2019: \$48m)

It is encouraging that our financial performance showed resilience, with adjusted operating margins increasing on the prior year despite a sharp slowdown in global macroeconomic activity.

This performance is a clear indication that we are in a strong position to deliver on our medium term aspirations of revenue growth in excess of GDP growth and improving margins.

FINANCIAL PERFORMANCE

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.

"We have a solid foundation from which to grow."

STRATEGY

In recent years we have focused on transforming our Coatings business to create a simpler and higher value product portfolio, and a more efficient operating model. As a result, we have a solid foundation from which to grow. In 2020, we have focused on executing our growth strategies, centred on differentiated technologies that deliver solutions to key industry challenges.

Consumers want decorative coatings that make their lives easier and deliver sustainability benefits. Our Rheolate® HX series delivers award winning single coat performance, a step change in stain resistance and enables VOC free coatings. In 2020, customer adoption of this technology has been strong. To further drive growth we have continued to innovate, delivering a preservative free solution, the first of its kind to market. In addition, in 2021 we are working towards the launch of a new powdered alternative that brings clear sustainability advantages.

In industrial coatings, we have broad and complementary technology solutions that enable the transition from solvent to waterborne technologies, thus delivering significant environmental benefits without sacrificing performance. Products such as Thixatrol® 5020W, critical in waterborne metallic flake effect coatings, are in strong demand and we have a significant number of customer trials in progress, promising further growth.

Hybrid adhesives and sealants are another high growth segment supported by megatrends including light weighting and energy efficiency regulations. Here, our range of Thixatrol® additives deliver enhanced adhesion, up to 30% lower energy processing costs and genuine sustainability benefits as they are derived from natural castor wax. Our customer base in this sector doubled in 2020 and we have an encouraging new business pipeline.

* Adjusted for FX and the impact of M&A. See page 46

TALC

A much improved second half performance

CHRISTIAN KATHER
SVP GLOBAL TALC

\$133m

2020 revenue (2019: \$151m)

\$17m

2020 adjusted operating profit (2019: \$26m)

Despite a strong second half recovery, Talc performance declined on the prior year, impacted by weak Q2 demand as automotive production plants closed in response to COVID-19.

Looking past short term demand weakness, our fundamentals are strong and we remain well positioned to capture market share in new and existing geographies and applications.

FINANCIAL PERFORMANCE

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.

"We have continued to execute against our strategic priorities and are fit for the future."

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.

STRATEGY

While 2020 presented clear demand headwinds, with industrial production down across all geographies, we have continued to implement our strategic priorities to ensure we are fit for the future.

European paper markets have been the historical focus of our business, reflective of the location of our talc deposits in Finland. In recent years we have successfully increased our ability to serve higher value industrial applications on a global basis. There are material opportunities to further globalise and accelerate growth by leveraging the Group's asset base, marketing and distribution capabilities and technical expertise. In 2020, we won \$10m of new business opportunities and gained market share in China where we achieved 18% growth. Looking forward, recent key hires in sales and technical support will continue to drive our global expansion.

In coatings and personal care applications we aim to generate \$20-25m of revenue synergies by 2023. In 2020 we expanded our Talc sales to 60 new coatings customers in 13 new geographies, leveraging the Elementis brand and coatings knowledge. As a result, we have captured over \$7m of revenue synergies to date and have an encouraging pipeline of new business opportunities representing over \$15m of revenue.

We are also focused on growing and increasing our market share in applications such as long life plastics and catalytic converters. Demand for these products is supported by consumer and regulatory needs to reduce vehicle weights and emissions. Likewise, in emerging technologies such as barrier coatings for recyclable food packaging we are making encouraging early progress. With over 30 customer projects in progress we expect to generate our first material sales in 2021.

* Adjusted for FX and the impact of M&A. See page 46

CHROMIUM

Weaker global industrial demand and pricing

ERIC WALDMANN
SVP GLOBAL CHROMIUM

\$147m

2020 revenue (2019: \$171m)

\$6m

2020 adjusted operating profit (2019: \$18m)

Chromium performance materially declined on the prior year, impacted by weaker global industrial demand and lower pricing.

Our priority for Chromium is to run our operations in a safe and reliable manner, whilst focusing on performance improvement initiatives to drive earnings and cash returns.

FINANCIAL PERFORMANCE

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.

"Pricing in North America was relatively robust compared with the rest of our global business."

STRATEGY

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

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

ENERGY

Restructured to restore future profitability

LUC VAN RAVENSTEIN
SVP GLOBAL COATINGS
AND ENERGY

\$24m

2020 revenue (2019: \$47m)

\$(6)m

2020 adjusted operating
loss (2019: \$4m profit)

2020 performance in our Energy business was impacted by lower oil prices and a decline in drilling activity, particularly in North America.

Looking forward the business has an improved cost position and is well placed to deliver our advantaged rheology solutions to customers all around the world.

FINANCIAL PERFORMANCE

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.

"In North America the rig count fell by approximately 50%."

STRATEGY

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

Following the closure our Charleston production facility we are well positioned for profitable growth. Deeper market penetration of key oil producing regions in the Middle East, Russia, Africa and Asia is a priority. This strategy, executed in tandem with the Group's global key account programme, will ensure that our advantaged rheology solutions and technical support help solve the most demanding production challenges all around the world.

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

Managing our risks and opportunities

RISK MANAGEMENT

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

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

RISK MANAGEMENT FRAMEWORK

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

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

RISK CULTURE

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

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

TOP DOWN

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



BOTTOM UP

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

BOARD

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

AUDIT COMMITTEE

Supports the Board and has specific responsibility for monitoring financial reporting as well as the internal and external audit programmes, one of the primary purposes of which is to provide assurance on financial, operational and compliance controls.

CEO (SUPPORTED BY THE ELT)

The CEO is responsible for implementing Group policies, risk management performance, identifying principal risks and ensuring resources are allocated for effective risk management and mitigation.

ELT

Individual ELT members have responsibility for managing and monitoring risks relevant to their business or function on an ongoing basis.

OPERATIONAL AND SUPPORTING FUNCTIONS

Data Protection Steering Committee, HSE Council, Manufacturing Council, ECT (Ethics & Compliance), Sustainability Council, Diversity, Equity and Inclusion Council, Internal audit and Investment Commitment forum (Capital expenditure & allocation)

RISK APPETITE AND TOLERANCE

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

RISK REVIEW PROCESS

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

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

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

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

- Renewal of insurance programme
- BU and function risk registers reviewed and updated
- New risk registers for COVID-19 and physical climate risk
- Property risk survey programme
- Board briefings on climate change reporting frameworks, risks and implementation

Priorities for 2021 include:

- Review of risk management policies and procedures
- Completion of site risk survey programme and renewal of insurance programme
- Develop dashboard format for principal risk reporting
- ESG risk register and human rights risk impact assessment
- TCFD implementation in order to fully report in 2021

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 on page 63. These risks, if they materialise, could have a significant impact on the Group's ability to meet its strategic objectives over the medium term.

RISK HEAT MAP (GROSS IMPACT)

OUR PRINCIPAL RISKS

1. Global economic conditions and competitive market pressures
2. Business interruption as a result of a major event or a natural catastrophe
3. Business interruption as a result of supply chain failure of key raw materials and/or 3rd party service provision
4. Regulatory compliance and product stewardship challenges
5. Major regulatory enforcement action, litigation and/or other claims arising from products and/or historical and ongoing operations
6. Intellectual property and know-how
7. Portfolio innovation and technology
8. People, talent management and succession
9. IT networks, data security and privacy
10. COVID-19 pandemic

CORONAVIRUS (COVID-19)

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. The dynamic nature of COVID-19 and scale of response had a significant impact on the Company's profitability during 2020 as noted on pages 8-10. We continue to monitor post-COVID-19 risks and opportunities as global economies recover and vaccination programmes gain traction.

As noted on page 62, the Company responded swiftly to risk identification and mitigation activities. A risk impact assessment was carried out and each of the following risk areas were categorised in respect of level of preparedness:

- Workforce protection
- Supply chain stabilisation
- Customer engagement/market behaviour
- Financial stress testing/response, and
- Strategy

COVID-19 has a number of interdependencies with several principal risks and has therefore increased the risk profiles in respect of Risk numbers 3 (Business interruption as a result of supply chain failure of key raw materials and/or 3rd party service provision) and 8 (People).

Risk number 3 has increased in risk profile as a result of heightened focus on supply chain risk mitigation for key raw materials, logistics and operational reliability throughout 2020, as a consequence of operating in a pandemic. The ongoing efforts by our supply chain during the year ensured that the Group was able to maintain operational reliability, changes in demand planning, logistics and cargo shipments.

Risk number 8 has increased in risk profile as infection rates spread on a global basis. Management established regional taskforces as part of its response plan with the key objective of ensuring employees continued to operate in a safe manner and in accordance with local and national guidance and emergency regulation. For further information on how we responded, please refer to page 12.

There have been no significant changes to the risk profiles for the remaining principal risks although we continue to monitor and review as appropriate.

EMERGING RISKS

Emerging risks and opportunities are identified and documented through the existing risk management framework and in addition through the following activities:

- Monthly performance calls with each business unit and functions including deeper dives on new business opportunities
- Annual and 3 year financial plans and budgets and processes
- Board, ELT and other internal governance forums
- Customer/market insight

BREXIT

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.

CLIMATE CHANGE

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, for further information on the activities in each of these areas, please refer to page 34.

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. Further information on TCFD can be found on page 37.

INTERNAL CONTROLS

The key elements of the Group's internal control framework are monitored throughout the year and the Audit Committee has conducted a review of the effectiveness of the Group's risk management and internal control systems on behalf of the Board.

To support the Board's annual assessment, a report is prepared on the Group's principal risks and internal controls. This describes the risk management systems and key internal controls, as well as the work conducted in the year to improve the risk and control environment including the level of assurance undertaken.

The internal control framework is intended to effectively manage rather than eliminate the risk of failure to achieve business objectives. It can only provide reasonable, but not absolute, assurance against the risk of material misstatement or financial loss. For further information on internal controls, please refer to page 85.

Principal risks and uncertainties

GLOBAL ECONOMIC CONDITIONS AND COMPETITIVE MARKET PRESSURES

LINK TO STRATEGIC OBJECTIVE



LINK TO KPIS

Read more on page 30-31

MOVEMENT IN YEAR



DESCRIPTION OF RISKS

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

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

CONTROLS AND MITIGATING ACTIVITIES

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

DEVELOPMENTS IN YEAR

- Closure of Charleston site, see page 28 for further information
- Cost reductions, capex reviewed, working capital and discretionary spend, see page 8 for further information
- New business opportunities delivered \$30m
- Balance sheet protections including bank covenant relaxations and suspension of dividends
- Refer to business summaries on pages 51-55

BUSINESS INTERRUPTION AS A RESULT OF A MAJOR EVENT OR A NATURAL CATASTROPHE

LINK TO STRATEGIC OBJECTIVE



LINK TO KPIS

Read more on page 30-31

MOVEMENT IN YEAR



DESCRIPTION OF RISKS

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

A major event is categorised as an operational or HSE incident, transport related, workplace incident caused by system failure and/or human error or by fire, storm, flood or pandemic.

CONTROLS AND MITIGATING ACTIVITIES

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

DEVELOPMENTS IN YEAR

- Launch of TogetherSafe
- Site hygiene protocols, cleaning, PPE and contingency plans in place
- Newberry Springs and Livingston internal audits carried out in year
- See our COVID-19 response on page 12 and in our social section on page 38

LINK TO STRATEGY

- 1 Innovation 2 Growth 3 Efficiency

Read more on pages 24-29

CHANGE IN RISK

- ↑ Increasing risk profile ↓ Decreasing risk profile → No change in risk profile

→ Read more on our Business Model on page 18 to 19

BUSINESS INTERRUPTION AS A RESULT OF SUPPLY CHAIN FAILURE OF KEY RAW MATERIALS AND/OR THIRD PARTY SERVICE PROVISION

LINK TO STRATEGIC OBJECTIVE **2 3**

LINK TO KPIS Read more on page 30-31

MOVEMENT IN YEAR **↑**

DESCRIPTION OF RISKS

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

CONTROLS AND MITIGATING ACTIVITIES

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

DEVELOPMENTS IN YEAR

- Supply chain contingency planning to mitigate Brexit and/or other trade related risks continually assessed and updated to address dynamic planning environment
- Review of strategic supplier relationships for raw materials resulting in cost efficiencies
- Improved planning process ensured appropriate inventory and safety stock levels
- Continued focus on qualification of new sources of supply

REGULATORY COMPLIANCE AND PRODUCT STEWARDSHIP CHALLENGES

LINK TO STRATEGIC OBJECTIVE **1 2 3**

LINK TO KPIS Read more on page 30-31

MOVEMENT IN YEAR **→**

DESCRIPTION OF RISKS

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

CONTROLS AND MITIGATING ACTIVITIES

- Global Product Stewardship team oversees, manages, and monitors regulatory developments in various jurisdictions
- Coordination with R&D team to enable a faster speed-to-market of new technologies and applications
- Safety Data Sheets, labels, and regulatory information is provided for global customers specific to the requirements in their jurisdiction. Multiple languages are used to communicate these requirements
- Active compliance and risk management programmes in place (including policies, procedures and training)
- Horizon scanning for evolving regulatory landscape in new markets

DEVELOPMENTS

- Brexit implementation executed to ensure uninterrupted supply. UK REACH planning and assessment are underway
- Successful implementation of Turkey REACH.
- Monitoring new regulatory developments in upcoming markets and structured to support sales
- Adding regulatory expertise to growth regions to support expanding market segments

MAJOR REGULATORY ENFORCEMENT ACTION, LITIGATION AND/OR OTHER CLAIMS ARISING FROM PRODUCTS AND/OR HISTORICAL AND ONGOING OPERATIONS

LINK TO STRATEGIC OBJECTIVE **2**

LINK TO KPIS Read more on page 30-31

MOVEMENT IN YEAR **→**

DESCRIPTION OF RISKS

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

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

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

CONTROLS AND MITIGATING ACTIVITIES

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

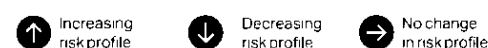
DEVELOPMENTS

- See page 30 for KPI's on ethics and compliance
- Internal audit programme and activities continued in 2020, see page 85 for further information
- Renewal of Group insurance programme in year

LINK TO STRATEGY



CHANGE IN RISK



➔ Read more on our Business Model on page 18 to 19

INTELLECTUAL PROPERTY AND KNOW-HOW

PORTFOLIO INNOVATION AND TECHNOLOGY

PEOPLE, TALENT MANAGEMENT AND SUCCESSION

LINK TO STRATEGIC OBJECTIVE

1

LINK TO KPIS

Read more on
page 30-31

MOVEMENT IN YEAR

➔

DESCRIPTION OF RISKS

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

LINK TO STRATEGIC OBJECTIVE

1 2

LINK TO KPIS

Read more on
page 30-31

MOVEMENT IN YEAR

➔

DESCRIPTION OF RISKS

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

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

LINK TO STRATEGIC OBJECTIVE

1 3

LINK TO KPIS

Read more on
page 30-31

MOVEMENT IN YEAR

↑

DESCRIPTION OF RISKS

The Group operates in highly competitive labour markets and relies upon the expertise and services of talented individuals and teams to succeed.

Loss of key people or disruption to teams without timely action could result in a disruption to business operations.

CONTROLS AND MITIGATING ACTIVITIES

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

CONTROLS AND MITIGATING ACTIVITIES

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

CONTROLS AND MITIGATING ACTIVITIES

- Formal talent, succession management and retention risk programmes in place with individual development goals reviewed
- Succession to the ELT reviewed with the Board
- Regional HR Directors and Global Talent Director supports the CHRO with focus on Talent
- HR systems functionality for performance management, goal setting, career profile and compensation planning
- Formal system for job grading and compensation benchmarking in place supported by external expertise

DEVELOPMENTS

- Freedom to operate practices for all new product innovations
- Patent and Intellectual Property disclosures to keep distinction in our new launches
- Use of confidentiality agreements for partnerships with key technology leaders
- Active monitoring of competitive Intellectual Property landscape for each business segment
- Enforcement of proprietary advantage

DEVELOPMENTS IN YEAR

- 12 new products launched in 2020 (with over 25 planned for 2021)
- Innovation from new products increased from 12 to 14% in 2020
- New innovation management tool will increase speed to market
- Sustainability remains a key driver for Innovation: backward integration into natural raw materials (ie. Hectorite, Talc) support this
- Open Innovation with strategic partners

DEVELOPMENTS IN YEAR

- Orderly transition to new SVP Personal Care and Head of Procurement completed through internal succession
- Recruitment process for new General Counsel and Chief Compliance Officer following a smooth transition via interim resource
- Talent and Succession process updated to include: retention risk and impact analysis; and career profiles
- Employee experience survey reviewed on 6 monthly basis and action plans development
- COVID-19

IT NETWORKS, DATA SECURITY AND PRIVACY

LINK TO STRATEGIC OBJECTIVE

3

LINK TO KPIS

Read more on page 30-31

MOVEMENT IN YEAR

→

DESCRIPTION OF RISKS

The Group is expected to increasingly rely on IT systems for its internal communications, controls, reporting and relationships with customers and suppliers.

A significant disruption could cause delays to key operations and inability to meet customers' requirements and result in increased operating costs, legal liability and reputational damage. In addition, GDPR has created a range of compliance obligations with increased financial penalties for non-compliance.

CONTROLS AND MITIGATING ACTIVITIES

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

DEVELOPMENTS IN YEAR

- Global cloud email migration and other cloud tools to further our digital transformation, functionality and security
- Enhanced internal structures to control and mitigate risk and manage potential data breach events arising from GDPR, California Consumer Privacy Act (CCPA) and The Lei Geral de Proteção de Dados (LGPD) (Brazil)
- Data privacy horizon scanning and privacy testing & assurance framework

COVID-19 PANDEMIC

LINK TO STRATEGIC OBJECTIVE

1 2 3

LINK TO KPIS

Read more on page 30-31

MOVEMENT IN YEAR

NEW

DESCRIPTION OF RISKS

The global spread of COVID-19 may continue to have a significant and prolonged impact on global economic conditions, disrupt our supply chain including employee absenteeism and adversely impact our operations. The range of restrictions imposed by local and national governments introduced temporary emergency public measures such as travel restrictions, quarantines and public lockdowns. Whilst vaccine immunisation programmes are beginning to gain traction (at the time of writing), further restrictions and uncertainties remain and should these continue for an extended period of time, our strategic and financial progress would be impacted.

CONTROLS AND MITIGATING ACTIVITIES

- We acted quickly to respond to the challenges posed by Covid-19 with the safety and well-being of our employees
- Risk impact assessment carried out in respect of workforce, supply chain stabilisation, customer engagement/market insight, financial stress testing/response and strategy
- Global employee and site hygiene and health protocols and guidance issued
- Employee COVID-19 status updates
- Site by site contingency plans
- Transition to online innovation support for customers
- Prudent financial response and measures taken including two banking covenant relaxations, suspension of dividends, working capital reductions and other efficiencies to protect the balance sheet

DEVELOPMENTS IN YEAR

- See page 12 for our COVID-19 response

LINK TO STRATEGY

1 Innovation 2 Growth 3 Efficiency

Read more on pages 24-29

CHANGE IN RISK

↑ Increasing risk profile ↓ Decreasing risk profile → No change in risk profile

→ Read more on our Business Model on page 18 to 19

Viability and going concern statement

GOING CONCERN

The Directors are satisfied that it is appropriate for the Group and the Company to adopt the going concern basis of accounting in preparing these Group and parent company financial statements, and that there are no material uncertainties impacting the ability of the Group and Company to continue to operate over a period of at least 18 months from the date of approval of the financial statements.

Following the material uncertainty relating to going concern reported at the half year the Directors applied the following consideration to their assessment at 31 December 2020.

The Directors produced three models covering a future period of three years from the date of these accounts demonstrating the position of the Group regarding its two financial covenants, Net Debt/EBITDA and Interest Cover at each measurement period for the 18 months following the date of signing of these accounts and annually thereafter. These models comprised:

- A base case scenario, aligned to the latest Group annual operating plan for 2021 as well as the Group's three year plan for 2022 and 2023;
- A severe but plausible downside scenario that assumes that the global economic environment is severely depressed over the assessment period; and
- A reverse stress test flexing sales to determine what circumstance would be required to breach borrowing covenants.

Having agreed covenant relaxations with our lenders in March and September 2020, the revised provision in our banking arrangements is for the net debt/EBITDA covenant to step down from 3.75x at present to 3.25x in June 2022. No breaches in the required covenant tests were reported during the year and under both the base, and severe but plausible downside, scenario the Group is expected to remain within its financial covenants throughout the going concern period and the conditions necessary for the reverse stress scenario to be applicable were deemed remote.

The Directors also considered factors likely to affect its future performance and development, the Group's financial position, current excess liquidity position, high level of cash conversion and the principal risks and uncertainties facing the Group, including the Group's exposure to credit, liquidity and market risk and the mechanisms for dealing with these risks.

The Group's net debt position at the 2020 year end was \$408.1m. It has access to a syndicated revolving credit facility of \$375m with an expiry date of September 2024 and long term loan facilities of \$200m and €172m which have an expiry date of September 2023. The Group had further borrowings available to it of over \$350m at the year end.

In conclusion, after reviewing the base case, the severe but plausible downside scenario and considering the remote likelihood of the scenario in the reverse stress test occurring as well as having considered the uncertainty relating to COVID-19 and the mitigating actions available, the Directors

have formed the judgement that, at the time of approving the consolidated financial statements, there are no material uncertainties that cast doubt on the Group's going concern status and that it is appropriate to prepare the consolidated accounts on the going concern basis.

BUSINESS VIABILITY ASSESSMENT

The basis of the assessment includes a detailed review of strategic and operating plans, underpinned by one- and three-year financial forecasts including profit and loss and cash flows. Consideration is therefore given to capital expenditures, investment plans, returns to shareholders and other financial commitments, as well as the Company's debt bearing capacity, its financial resources, borrowings and the availability of finance. No review of business plans and financial forecasts is complete without a robust assessment of the risks and opportunities in such planning models and the assumptions used. These reviews include consideration and discussion of the materials prepared and presented to the Board by management and its advisers (where appropriate), as well as additional information requested by the Board. The Board's programme of monitoring major risks is therefore an important component of the business viability assessment and the financial impact of the principal risks is modelled over the three-year period. Business and segment growth scenarios, rate of return on investments, assumptions on global GDP growth rates, relevant currency rates, commodity prices in business plans and financial forecasts are all considered, with stress testing on financial models where appropriate. Finally, a review of litigation and tax reports, legal and compliance risks throughout the year and at a formal year end risk review ensures that the viability statement is made with a reasonable degree of confidence.

PRINCIPAL RISKS

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

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

BUSINESS VIABILITY STATEMENT

In accordance with the UK Corporate Governance Code provision 31, the Directors

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

A period of three years was chosen as being consistent with the Group's business and financial planning models, R&D plans, a number of key supply contracts and external borrowing facilities. In addition, three years is the period used for mid-term business planning purposes. Regarding accessibility to financing, whilst the RCF currently has an expiry of Sept 2024, the Term Loan expires in Sept 2023, within the three year period, and so will require renegotiation or replacement before this. Elementis has to date had a very supportive banking syndicate (as indicated by their willingness to extend the RCF facility in 2019 and to relax the banking covenants in March and September 2020) as such the Directors do not believe there will be any issues in renegotiating a further Term Loan when necessary.

Whilst the Directors have no reason to believe that the Group will not be viable over a longer period, a three year period allows the Directors to make the viability statement with a reasonable degree of confidence whilst providing shareholders with an appropriate longer term outlook. The Directors' viability assessment of the Group's prospects is based on reviews of annual operating and three year business plans, bank covenant compliance forecasts, including sensitivities, the Group's strategy and strategic priorities, principal risks and how these are managed and mitigated. How these reviews were carried out, the principal risks and how they are being managed are more fully described and explained in the Principal Risks and Uncertainties section on pages 58 to 62, together with relevant assumptions and qualifications.

STRATEGIC REPORT

The Strategic report was approved by the Board of Directors on 23 March 2021 and is signed on its behalf by:



PAUL WATERMAN
CEO



RALPH HEWINS
CFO

Chairman's Corporate Governance Statement

ANDREW DUFF
CHAIRMAN

DEAR SHAREHOLDERS,

I am pleased to present our Governance report for the year ended 31 December 2020. This report sets out our approach to governance, our key areas of focus during the year, our ways of working and how we, as your Board, remain effective as stewards of your Company.

BOARD MEETINGS AND NEW WAYS OF WORKING

As a direct consequence of 'stay at home' government guidance, the Board transitioned into remote ways of working with all Board and Committee meetings held in a virtual format for the majority of meetings in 2020. The IT investments made by the Company over the past few years have enabled us to work seamlessly and securely although it is widely recognised by all Board members that the discursive nature of virtual Board dialogue has at times felt artificial as a result of virtual meeting protocols. Board members have been highly responsive and flexible to changes in schedules to accommodate the geographic location of Board members and meetings have been over a couple of sessions to mitigate against screen fatigue. As a Board, we have continued with our formal programme of business for all Board and Committee meetings with additional meetings held as appropriate. I am impressed with the levels of commitment, enthusiasm and responsiveness that each Board member has demonstrated throughout this challenging year. All of that being said, Board members are anxious to meet and connect more personally with management and employees. This is an important mechanism for ensuring that members of the Board are well connected to the business, employees and stakeholders. It is very much hoped that 2021 will bring the opportunity to re-establish personal meetings.

BOARD SUCCESSION AND DIVERSITY

During the year, as part of the Board's ongoing succession planning processes, John O'Higgins was appointed as a Non-Executive Director in February 2020 and assumed the role as Senior Independent Director in April 2020. Sandra Boss retired from the Board in April 2020 to take up a full time executive role and a recruitment process was initiated to search for Sandra's successor. Following a thorough recruitment process, we were delighted that Christine Soden joined the Board on 1 November 2020 and has assumed the role of Designated Non-Executive Director for workforce engagement. For further information on the recruitment process, please refer to page 80. We are proud to maintain our gender balance of 37.5% of female Board members and we continue to ensure that Board diversity is reflected in our ongoing succession planning activities. We are fully supportive of the tenets of the Parker Review and will continue to ensure that diversity in its broadest terms is fully considered in the context of future Board composition.

As mentioned in my Chairman's letter on pages 6 and 7, I have informed the Board of my intention to retire as non-executive Chairman of the Company during 2021 once a successor has been appointed. The Nomination Committee has initiated a process to identify and appoint a new Chair and a successor which will be announced in due course.

WORKFORCE ENGAGEMENT AND COVID-19

It has not been possible to physically meet with our employees during 2020 as our plans to visit sites were not possible. We look forward to resuming those activities as soon as it is safe to do so. We continue to explore ways of connecting with employees who have worked tirelessly to maintain the reliability of our operations. The CEO, CHRO and other members of the Executive Leadership Team (ELT) have provided frequent reports on workforce matters including employee engagement insight, leadership activities, townhalls, diversity and inclusion initiatives, organisational capability, health and safety and the impact of the pandemic on employees in each of the countries in which we operate. For further information on employee engagement, please refer to pages 73 and 74.

BOARD EFFECTIVENESS

During the year an internal effectiveness review of the Board and its Committees was conducted with support from the Company Secretary. We expect to carry out an external effectiveness review in 2021 in line with the requirements of the UK Corporate Governance Code. As an extension of the process for this year, we invited insight from those who have had the most interaction with the Board and its Committees during the year, for example, the ELT and layer below. This insight helps us to understand whether our perception of the boardroom environment is shared by others. I am delighted to share that all respondents felt welcomed, listened to and that their expertise was valued and the interaction was a positive experience. For further information on the outcomes of the effectiveness review, please refer to page 78.

POTENTIAL CASH OFFER BY MINERALS TECHNOLOGIES INC.

In the final quarter of the year, the Board received three conditional proposals from Minerals Technologies Inc. As part of the Company's robust governance processes, the Board, together with its management and advisers, conducted a thorough review to assess the fundamental value of Elementis as well as the likely value to be created by the continued delivery of its strategy. This valuation framework was tested at every stage by the Board and its advisers, including taking into account shareholder feedback since the approach from Minerals Technologies became public information. The Board was unanimous that each of the proposals significantly undervalued the Company and its future prospects. I would like to take this opportunity to emphasise that the Board remains focused on maximising value for shareholders and delivering their performance expectations.

REMUNERATION POLICY

In light of our focus on managing the impact of COVID-19, the Remuneration Committee consulted with our top shareholders to seek a one year 'roll over' of current Remuneration Policy so that the existing policy be renewed on its current terms for a further year before undertaking a review in 2021. The Company's top shareholders were supportive of this approach. Further information can be found in the Directors' Remuneration report on pages 87 to 113.

AGM

As ever I am grateful to you, our shareholders for your continued support and I look forward to welcoming you at our AGM on Thursday, 13 May 2021. The Notice of AGM, which will confirm the time, location and arrangements for the meeting, will be sent to shareholders in due course.

ANDREW DUFF
CHAIRMAN

UK CORPORATE GOVERNANCE CODE – PRINCIPLES AND HOW THE COMPANY ADDRESSES THEM

BOARD LEADERSHIP AND COMPANY PURPOSE

Activities of the Board	Read more on page 71
Board of Directors	Read more on page 66
Culture	Read more on page 73
Shareholder engagement	Read more on page 75
Stakeholder engagement	Read more on page 16
Workforce engagement	Read more on page 74

DIVISION OF RESPONSIBILITIES

Governance framework	Read more on page 70
Roles and responsibilities	Read more on page 76

COMPOSITION, SUCCESSION AND EVALUATION

Board evaluation process	Read more on page 78
Board skills and attributes	Read more on page 81
Diversity policy	Read more on page 82
Nomination Committee report	Read more on page 79

AUDIT, RISK AND INTERNAL CONTROL

Audit Committee report	Read more on page 83
Internal controls and risk and risk management	Read more on page 85

REMUNERATION

Directors' Remuneration report	Read more on page 87
Directors' Remuneration Policy	Read more on page 94
Directors' Annual Report on Remuneration	Read more on page 105

COMPLIANCE STATEMENT

The UK Corporate Governance Code 2018 (the Code) sets standards of good practice in relation to all areas of corporate governance the UK. The Code has applied to the Company since 1 January 2019.

In this annual report we report on how we applied the main principles of the Code and complied with its relevant provisions.

The Company was not in compliance with Provisions 36 and 38 during the year, however in relation to provision 36 there is a commitment to consider an Executive Director policy for post cessation of employment share ownership during the forthcoming 2021 Remuneration policy review (as noted on page 103 in the Directors' Remuneration report and that in relation to provision 38 the Executive Directors are currently on a phased glidepath reduction in pension towards the workforce rate (as noted in page 89 in the Directors' Remuneration report and as noted in the 2019 Directors' Remuneration report).

Elementis has complied with all other relevant provisions throughout the year ended 31 December 2020 and from that date up to the date of approval of this annual report. The Code is currently available www.frc.org.uk

Read more on page 114

The right skills to deliver our strategy

KEY TO COMMITTEE MEMBERSHIP

A Audit Committee **N** Nomination Committee **R** Remuneration Committee ***** Chairman of the Committee

ANDREW DUFF CHAIRMAN

Tenure on Board

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

Committee membership

N*

External appointments

- Non-executive director of UK Government Investments Ltd (UKGI) (from July 2019). UKGI is responsible for the portfolio of over 20 arm's length bodies and for delivering a range of corporate finance advice to the UK Government.
- Non-executive director and chair designate of The Sage Group plc (effective 1 May 2021)

EXPERIENCE AND ROLE

Andrew has significant boardroom experience gained from serving as a director and chairman of a number of UK and international companies. This, combined with experience in the manufacturing, energy and utilities sectors, enables Andrew to effectively lead the Board and deliver value to shareholders and other stakeholders. From 2003 until 2009, Andrew was chief executive officer of npower, the successor entity to Innogy plc which in 2000 was demerged from National Power, restructured and then sold to RWE, the German electricity and gas company. He was also a member of the RWE's executive committee. Before this, he spent 16 years at BP in downstream international markets. Andrew was a non-executive director of Wolseley plc, the international plumbing and building materials company, between 2004 and 2013, where he was also the senior independent director and chairman of the remuneration committee. Most recently, Andrew was non-executive chairman of Severn Trent plc, between 2010 and 2020, and was also chairman of the nominations committee and member of the corporate responsibility committee and remuneration committee.

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

PAUL WATERMAN CHIEF EXECUTIVE OFFICER

Tenure on Board

Paul was appointed CEO on 8 February 2016

Committee membership

–

External appointments

None

EXPERIENCE AND ROLE

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

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

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

RALPH HEWINS CHIEF FINANCIAL OFFICER

Tenure on Board

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

Committee membership

–

External appointments

None

EXPERIENCE AND ROLE

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

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

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

JOHN O'HIGGINS INDEPENDENT NON- EXECUTIVE DIRECTOR

Tenure on Board

John was appointed a Non-Executive Director on 4 February 2020 and became the Senior Independent Director on 29 April 2020.

Committee membership

A, N, R

External appointments

- Trustee of the Wincott Foundation
- Non-executive director of Oxford Nanopore Technologies
- Senior independent director of Johnson Matthey plc and a member of the audit, nomination and remuneration committees
- Adviser to Envea Global, a market leader in environmental air and emissions measurement and majority owned by The Carlyle Group.

EXPERIENCE AND ROLE

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

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

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

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

STEVE GOOD INDEPENDENT NON-EXECUTIVE DIRECTOR

Tenure on Board

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

Committee membership R*, N

External appointments

- Non-executive chairman of ZoteFoams plc (non-executive director from October 2014 and chairman from April 2016) and chairman of the nomination committee and member of the remuneration committee
- Non-executive chairman of Devro plc (from June 2019)
- Director of Low & Bonar Pension Trustee Ltd (from July 2018)

EXPERIENCE AND ROLE

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

Steve was chief executive of Low & Bonar plc between September 2009 and September 2014.

Prior to that role, he was managing director of its technical textiles division (2006-2009), director of new business (2005-2006), and managing director of its plastics division (2004-2005). Prior to Low & Bonar, he spent ten years with BTP plc (now part of Clariant) in a variety of leadership positions managing international specialty chemicals businesses. Steve has previously served as non-executive director and chairman of the remuneration committee of Cape plc (2015-2017), non-executive director of Anglian Water Services and member of the audit committee, nomination committee and remuneration committee (2015-2018) and non-executive director of Diaight plc (2018-2020).

ANNE HYLAND INDEPENDENT NON-EXECUTIVE DIRECTOR

Tenure on Board

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

Committee membership A*, N

External appointments

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

EXPERIENCE AND ROLE

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

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

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

DOROTHEE DEURING INDEPENDENT NON-EXECUTIVE DIRECTOR

Tenure on Board

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

Committee membership A, N, R

External appointments

- Non-executive director of the supervisory board of Bilfinger SE (from May 2016) and member of the audit committee
- Non-executive director of AXPO Holding AG (from March 2017)
- Non-executive director of Lonza Group (from April 2020)

EXPERIENCE AND ROLE

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

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

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

CHRISTINE SODEN INDEPENDENT NON-EXECUTIVE DIRECTOR

Tenure on Board

Christine was appointed a Non-Executive Director on 1 November 2020 and is the Designated Non-Executive Director for workforce engagement.

Committee membership A, N, R

External appointments

- Non-executive director of Fertilit Focus Limited
- Non-executive director of Futurenova Limited
- Non-executive director of Cell and Gene Therapy Catapult

EXPERIENCE AND ROLE

Christine brings significant experience of innovation and the commercialisation of technology to the Board. She is an experienced CFO with a strong track record from leading a range of private and public companies rooted in innovation with a particular focus on biotechnology, life sciences and pharmaceutical products.

Christine was CFO and Company Secretary of Acacia Pharma Group plc, a public quoted provider of pharmaceutical products designed to improve the outcomes and recovery for surgical patients (2015-2020). Prior to Acacia Pharma Group plc, Christine served as CFO and then non-executive director of AIM-listed Electrical Geodesics, Inc., which was acquired by Philips NV in 2017. Other CFO and finance leadership roles include Optos plc, BTG plc (former FTSE250 constituent), Oxigen Limited and Celltech Chiroscience Group plc, having started her life-sciences career as financial controller of Medeva plc.

Christine has previously served as chair of the audit committee at e-therapeutics plc, an AIM-listed technology based drug discovery platform (2017-2020) and at Provalis plc, a quoted health care business (2000-2005).

Christine is a chartered accountant and holds a degree in Mathematics from the University of Durham.

Executive Leadership Team

PAUL WATERMAN
CHIEF EXECUTIVE OFFICER

Full biography can be found on Page 66.

RALPH HEWINS
CHIEF FINANCIAL OFFICER

Full biography can be found on page 66.

LUC VAN RAVENSTEIN
SVP GLOBAL COATINGS
AND ENERGY

STIJN DEJONCKHEERE
SVP GLOBAL PERSONAL CARE

DR CHRISTIAN KATHER
SVP GLOBAL TALC

ERIC WALDMANN
SVP GLOBAL CHROMIUM

LUC VAN RAVENSTEIN
SVP GLOBAL COATINGS AND ENERGY

Tenure: Joined Elementis in 2012.

EXPERIENCE AND ROLE

Luc is responsible for leading the Global Coatings and Energy businesses. His focus in 2021 will be to further drive our exciting growth agenda for the business, laid out in our recent capital markets day.

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

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

STIJN DEJONCKHEERE
SVP GLOBAL PERSONAL CARE

Tenure: Joined Elementis in 2007 and was appointed SVP, Global Personal Care in May 2020.

EXPERIENCE AND ROLE

Stijn is responsible for the leadership of the Personal Care business which includes Cosmetics and AP Actives businesses. He is an accomplished leader who has demonstrated an ability to build and lead high performing commercial teams. Stijn spent many years developing his career at Elementis in various positions in our Personal Care and Coatings business, most recently as Director Global Sales Personal Care.

Prior to Elementis, he also held leading commercial roles at Capsugel, now Lonza, and Barentz.

Stijn holds Master degrees in Bio-Engineering from Ghent University and Agro-Management from Montpellier SupAgro and is a graduate of the Executive Development Program from the Wharton School.

DR CHRISTIAN KATHER
SVP GLOBAL TALC

Tenure: Joined Elementis in 2018.

EXPERIENCE AND ROLE

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

Previously, Christian worked as senior vice president & general manager at Evonik Degussa Corp., in Parsippany, NJ. There he was heading the Business Unit Coatings and Additives and was responsible for the global pigment dispersion business. Before that, he held a number of senior executive positions with the Degussa Group, both in Europe and the US.

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

ERIC WALDMANN
SVP GLOBAL CHROMIUM

Tenure: Joined Elementis in 2007 and was appointed SVP Global Chromium in February 2018.

EXPERIENCE AND ROLE

Eric is responsible for the leadership of our global Chromium business.

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

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

STEVE RIDGE
SVP GLOBAL SUPPLY CHAIN & MANUFACTURING

Tenure: Joined Elementis in 2019.

EXPERIENCE AND ROLE

Steve brings to Elementis his solid experience in overseeing a global manufacturing and supply chain foot print. With a proven track record of leading international teams and a passion for safety and continuous improvement, Steve drives a strong safety culture and operational excellence across all of the Elementis facilities around the world.

STEVE RIDGE
SVP GLOBAL SUPPLY CHAIN
& MANUFACTURING

JOE LUPIA
SVP GLOBAL TECHNOLOGY

CHRIS SHEPHERD
CHIEF HUMAN
RESOURCES OFFICER

ANNA LAWRENCE
GENERAL COUNSEL AND
CHIEF COMPLIANCE OFFICER
Anna joined Elementis in March 2021
and is a member of the ELT.

GREG BELLOTTI
CHIEF INFORMATION OFFICER

LAURA HIGGINS
GROUP COMPANY SECRETARY

Steve is responsible for supply chain, manufacturing, capital projects, procurement, quality, health and safety and is Chair of the Elementis Sustainability Council.

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

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

JOE LUPIA
SVP GLOBAL TECHNOLOGY

Tenure: Joined Elementis in 2019.

EXPERIENCE AND ROLE

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

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

Joe has a PhD in Organic Chemistry from Seton Hall University.

CHRIS SHEPHERD
CHIEF HUMAN RESOURCES OFFICER (CHRO)

Tenure: Joined Elementis in 2017.

EXPERIENCE AND ROLE

Chris leads the Group Human Resources and Communications function and is responsible for talent, succession, HR operations, reward programmes and internal communications. His focus is on embedding the Company's culture and values throughout the organisation, developing internal talent and standardising our global people processes. Chris is co-Chair of the Elementis Diversity, Equity and Inclusion Council and serves as a member of the Elementis Sustainability Council.

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

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

GREG BELLOTTI
CHIEF INFORMATION OFFICER

Tenure: Joined Elementis in 2014 and was appointed CIO in January 2021.

EXPERIENCE AND ROLE

Greg has been with Elementis since 2014 and took on the leadership of the IT function in 2018, joining the ELT in February 2021. As Chief Information Officer, Greg is responsible for global IT strategy, operations, service delivery, innovation and digital transformation.

Prior to joining Elementis, Greg held IT leadership roles at Allscripts (Summit Medical Group) and Siemens. At Summit, he rebuilt a team and an infrastructure to support exponential growth across facility locations. During his tenure at Siemens, Greg was instrumental in the acquisition of HEAR USA, the first B2C in Siemens' portfolio, and led project management, global service provision and the global PMO at various times.

Greg graduated from The College of New Jersey in 1992 with a Bachelor of Science degree in Law & Justice.

LAURA HIGGINS
GROUP COMPANY SECRETARY

Tenure: Joined Elementis in 2018.

EXPERIENCE AND ROLE

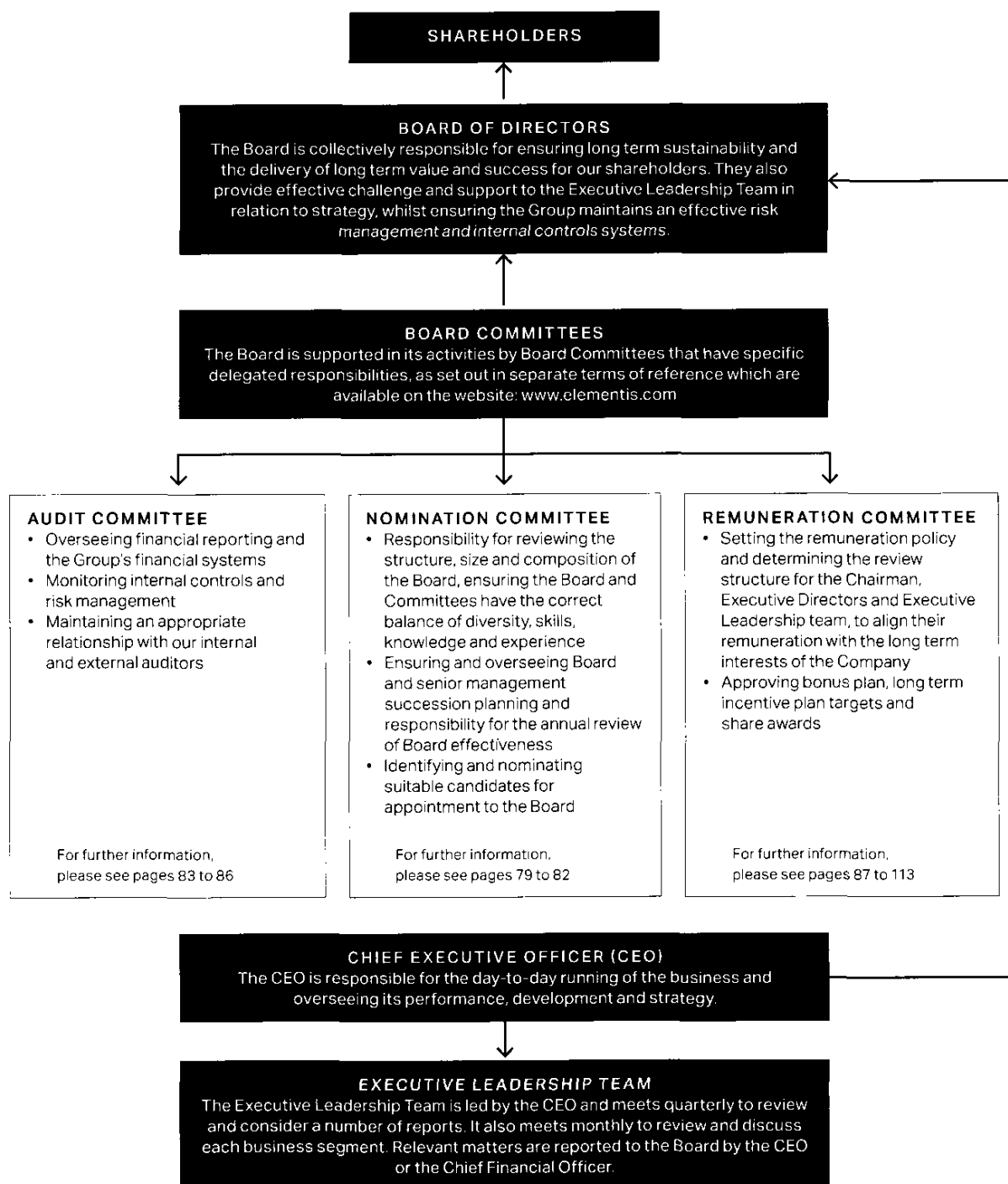
Laura is the Group's Company Secretary and is responsible for providing Board support and advice on corporate governance, UK listing obligations and corporate transactions. She is also responsible for overall Group risk management processes and the global insurance programme and is a pension trustee. Laura is a member of the Elementis Diversity, Equity and Inclusion Council and the Elementis Sustainability Council.

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

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

Division of responsibilities

GOVERNANCE FRAMEWORK



Board leadership and Company purpose

HOW THE BOARD OPERATES

The Board held eight scheduled meetings during the year and additional Board meetings were also held to discuss emerging matters such as COVID-19 updates, climate change and sustainability, Board recruitment and succession matters and to consider defence activities relating to an unsolicited offer for the Company. The Directors' attendance at scheduled Board and Committee meetings held during the year is set out on page 72.

For each Board and Committee meeting, meeting papers are provided in advance through a secure portal. Board papers include standing items such as financial performance and investor relations updates and special business such as strategic, operational or governance matters, which are prepared by Executive Directors, senior management, the Company Secretary and/or external advisers. The Board regularly invites ELT members to attend Board meetings and receives presentations and updates from their relevant business and functional areas.

Other key information such as analyst/investor reports, Company policies and governance guidelines is available through the secure portal.

SCHEDULED MEETINGS DURING THE YEAR

Business & financial performance	32%
Strategic	34%
Governance, risk & compliance	13%
Emerging	21%

BOARD ALLOCATION OF AGENDA TIME

Agendas for each Board meeting are prepared by the Company Secretary as a rolling programme over a 12 month period but are reviewed regularly and updated where appropriate. The agenda for each Board meeting is agreed with the Chairman, CEO and CFO.

MATTERS RESERVED FOR THE BOARD

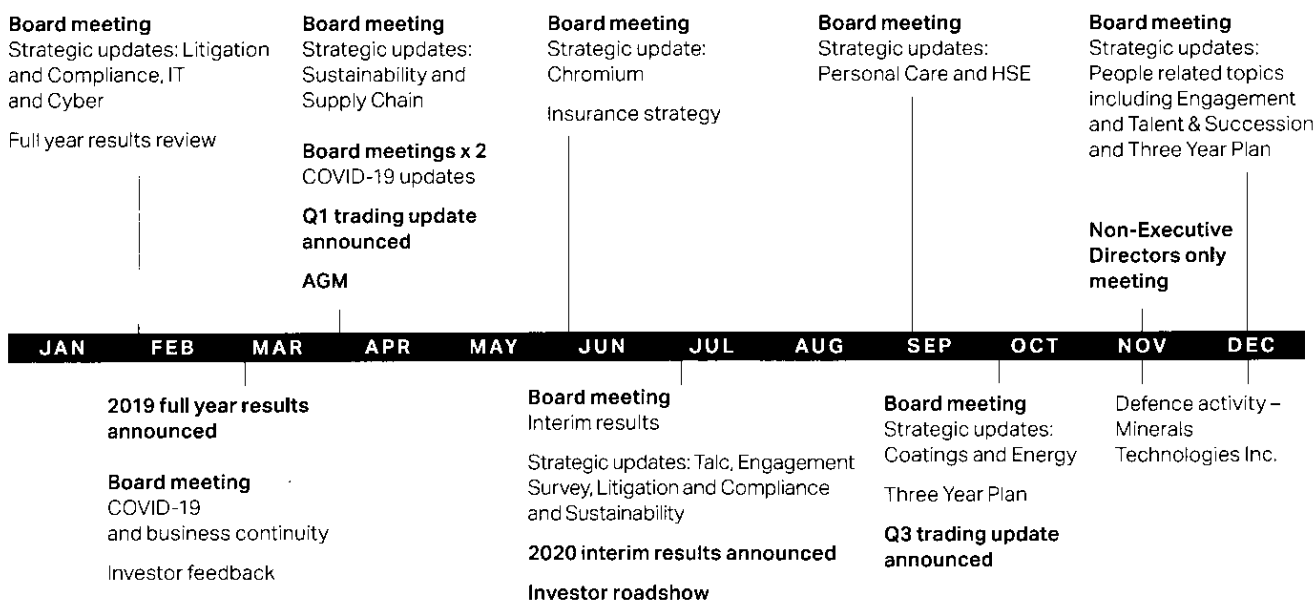
To ensure there is a clear division of responsibilities between the Board and the running of the Company business, the Board has a formal schedule of matters reserved for its decision. This is reviewed on a periodic basis and is available on our website www.elementis.com.

BOARD ACTIVITIES DURING THE YEAR

The Board has a formal annual programme of activities which is supplemented by adhoc meetings and conference calls, as and when appropriate. At each of its formal meetings, the Board receives standing updates, as part of the CEO's report, regarding financial, operational, governance, compliance, HSE performance and investor engagement. Due to the 'stay at home' measures during 2020, the Board meetings from March onwards were held remotely.

The Non-Executive Directors usually meet for dinner once a year without management present. Due to COVID-19, this meeting was also held remotely.

2020 BOARD ACTIVITIES TIMELINE



FOCUS DURING 2020

INNOVATION, GROWTH
AND EFFICIENCY
STRATEGY

- Supply Chain strategic updates
- Strategic reviews of Coatings, Personal Care, Energy, Chromium and Talc
- Annual plan and Three year plan
- Sustainability including environmental targets
- Charleston plant closure

OPERATIONAL
PERFORMANCE

- Regular CEO reports (Product Stewardship, Innovation, Business Development, IT, People, Communications, Safety and Supply Chain priorities)
- Health, Safety and Environment reports
- Group insurance and risk management activities programme
- Group risk review
- GDPR and data privacy updates
- Digital and cyber update
- COVID-19 and business continuity updates
- Litigation and Compliance updates

SHAREHOLDERS,
STAKEHOLDERS
AND GOVERNANCE

- Investor relations reports, roadshows and other investor meetings and feedback
- Board effectiveness evaluation
- New Designated Non-Executive Director workforce engagement appointment and engagement updates
- People strategy including engagement and talent management
- Modern Slavery transparency statement
- Litigation and compliance reports
- Corporate Governance updates
- Updates from Board Committee Chairs
- Employee engagement, townhalls and site visits
- Insurance strategy
- Health, Safety and Environment update
- Committee terms of reference
- Non-Executive Director recruitment/succession
- Defence activity relating to Minerals Technologies Inc.

FINANCE
MATTERS

- Financial performance reports and forecasts
- Distributable reserves and dividend recommendations
- Treasury and hedging reports
- Financial statements for full and half year and trading statements
- Full and half year results presentations
- Tax reports, tax strategy and updates on EU state aid
- Annual operating plan

CHANGES TO THE BOARD DURING THE YEAR

John O'Higgins was appointed to the Board on 4 February 2020
 Nick Salmon stepped down from the Board on 29 April 2020
 Sandra Boss stepped down from the Board on 29 April 2020
 Christine Soden was appointed to the Board on 1 November 2020*

- * Further information regarding Christine's appointment can be found within the Nomination Committee report on page 80

The attendance of the Directors at the Board meetings in the year ended 31 December 2020:

Andrew Duff	8/8
Paul Waterman	8/8
Ralph Hewins	8/8
Sandra Boss	3/3
Dorothee Deuring	8/8
Steve Good	8/8
Anne Hyland	8/8
John O'Higgins	8/8
Nick Salmon	3/3
Christine Soden	1/1

OUR PURPOSE

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

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

The Board is satisfied that the Company's culture continues to be aligned with its purpose, values and strategy:

- Company values were established during 2018 following a refresh and engagement with employee focus groups
- Strategy is discussed regularly and includes the Three year plan and annual operating plan and is formally agreed as part of the Board's annual programme
- The Company's values of Safety, Solutions, Ambition, Respect and Team underpin the behaviours expected to cultivate an open and inclusive culture

MAINTAINING A HEALTHY CULTURE

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

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

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

- Safety – near misses or process safety incidents
- Solutions – number of products launched or customer innovation projects
- Ambition – new business opportunities and market participation
- Respect – compliance training and speaking up channels
- Team – employee engagement survey, talent and succession plans

Read more on pages 38-41

HOW THE BOARD MONITORS CULTURE

EMPLOYEE SURVEY AND EMPLOYEE ENGAGEMENT

As a result of the transition of the role of the Designated Non-Executive Director (DNED) for workforce engagement, the Board received frequent reports on workforce matters including employee engagement insight, leadership activities, global townhalls, diversity and inclusion initiatives, organisational capability, health and safety and impact of the pandemic on employees in each of the countries in which we operate.

The Board receives regular updates on employee engagement and the insight gained from survey allows the Board to understand areas of Company culture that need specific focus and attention.

An employee engagement plan is in place and features a number of engagement mechanisms and activities for the year. Feedback is shared with the Board. As a result of the workforce engagement transition, the newly appointed DNED will ensure that feedback is shared with employees during 2021.

COMPLIANCE

The Board receives regular compliance reports on a bi-annual basis. In addition, internal audit and external audit reports provide further insight on our compliance culture.

HEALTH AND SAFETY

The Board receives regular Health and Safety information at each of its Board meeting in respect of monthly performance relating to recordable injuries, lost time accidents and process safety events.

In addition, a deeper dive occurs annually with a focus on health and safety programmes, performance and initiatives.

EMPLOYEE RETENTION

The Board receives a deep dive on people strategy which includes metrics on employee turnover, diversity, talent & succession. The Board receives regular updates from the CEO on people related matters.

INNOVATION

In terms of being able to understand the innovation culture, the Board has oversight of each business' innovation pipeline and product launches. The Board receives a deep dive on innovation on an annual basis.

WORKFORCE ENGAGEMENT IN ACTION

SAFETY

SOLUTIONS

AMBITION

RESPECT

TEAM

EMPLOYEE ENGAGEMENT FOCUS GROUPS

A discussion was facilitated with employees representing a range of organisational grades and roles in China, US, Finland and Germany. The engagement themes centred on areas which were linked to the Company's values, for example:

- I am proud to work for my organisation
- I believe my organisation is committed to upholding our corporate values
- Employees are encouraged to offer ideas and suggestions on how to improve safety

Further information on employee engagement can be found on page 16.

NEW DNEED FOR WORKFORCE ENGAGEMENT

Christine Soden has been appointed as the Designated Non-Executive Director for workforce engagement, effective 1 November 2020. Supported by the CHRO, Company Secretary and SVP Global Supply Chain and Manufacturing, quarterly updates on engagement activities and insight are received.

As well as regular Board reporting and feedback, Christine looks forward to connecting with our employees as part of our 2021 programme for employee engagement including a variety of mechanisms, for example, global townhalls, employee focus groups, and site visits when considered safe to do so.

EMPLOYEE ENGAGEMENT SESSION

The Board received and discussed insights arising from the employee engagement survey. This insight, along with management's response and action plans, has enabled the Board to gain a deeper understanding of our workforce including regional differences, views on Company culture, values, strategy and remuneration.

Further information on employee engagement can be found on page 16.

Shareholder engagement

SHAREHOLDER COMMUNICATIONS

The Chairman is responsible for effective communication with shareholders. The CEO and CFO are the Company's principal contacts for investors, analysts, press and other interested stakeholders.

There is a dedicated investor relations programme for current and potential investors, which is managed by the Director of Investor Relations who reports to the CFO. Further information regarding shareholder services can be found on page 186.

SHAREHOLDER ENGAGEMENT

Investor meetings

The Board receives an investor relations report at each of its meetings outlining recent dialogue with investors and feedback received, and frequent updates from our corporate brokers JP Morgan and Numis. Analysts' reports are also made available to the Board. The Chairman attends financial results presentations where he has the opportunity to meet with those analysts who attend. All Board members are invited to attend results presentations.

The Chairman and Senior Independent Director are available to shareholders to discuss governance and strategy concerns as appropriate. During the year, our new Senior Independent Director met with the Company's major investors. At these meetings, investors are invited to meet with other members of the Board, for example, the Chair of the Audit, Nomination or Remuneration Committees. In 2020, 125 meetings were held with investors.

Private investor

The Board is keen to hear the views of our private shareholders and they are encouraged to use our shareholder mailbox – company.secretariat@elementis.com. The Company's website is kept updated with Company reports and related information. Enquiries may also be addressed to the Company Secretary and sent to the registered office.

2020 Annual General Meeting

In light of the Government's 'stay at home' measures in response to the COVID-19 pandemic, it was decided and announced that the 2020 Annual General Meeting (AGM) would be held as a closed meeting with a minimum quorum in attendance at the Company's

registered office. Shareholders were encouraged to submit questions prior to the AGM, with responses published on the Company's website. All resolutions were passed by shareholders. No shareholder questions were received prior to the AGM.

2020 AGM voting update – Resolution 15

The Company received votes cast against special resolution 15 at the AGM held on 29 April 2020. As announced by the Company, this resolution was approved by shareholders, however, 20.40% of the votes were cast against the shortening of the notice period for calling general meetings to 14 days. This authority is commonly sought by UK listed companies.

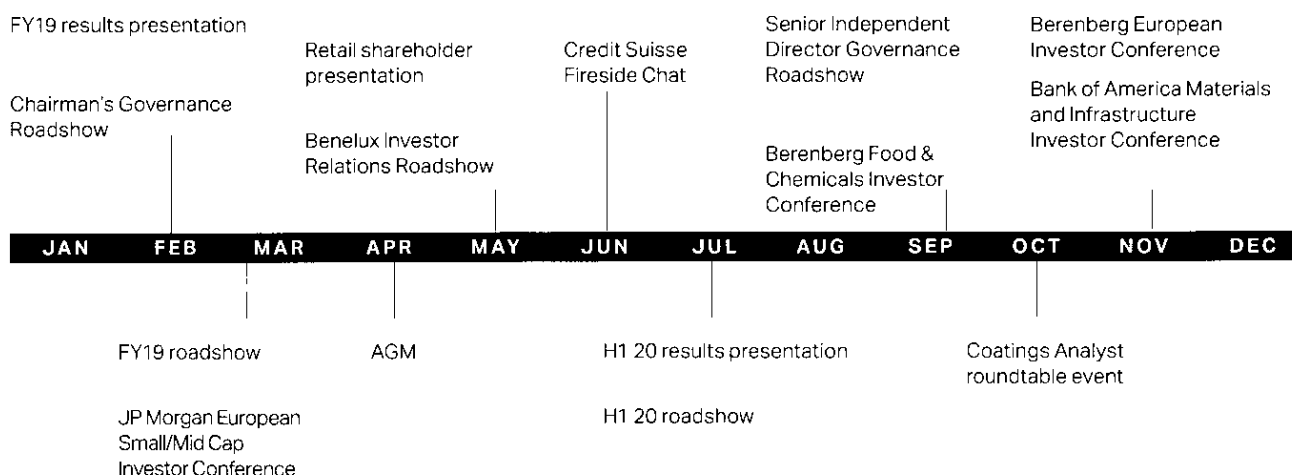
As required by the UK Corporate Governance Code, the Company issued an update statement within six months of the AGM to detail the steps that had been taken by the Company. A significant shareholder together with a small number of shareholders voted against this resolution. Certain shareholders typically vote against such resolutions as a matter of established voting policy and it is understood since the Company's update statement that the established voting policy held by the significant shareholder is unlikely to change. It is understood that the holding has been reduced. The Company respects such voting policies and continues to hold regular dialogue with its major shareholders during the course of the year.

The Company continues to maintain that having the flexibility to call general meetings on short notice is, in certain circumstances, of benefit to shareholders, however, the Board will continue to review the merits for including this type of resolution at future AGMs and will continue to engage with its major shareholders to understand their views of the Company.

Shareholder consultation

During the year, major shareholders were consulted regarding the renewal of our remuneration policy. Further information on page 65.

SHAREHOLDER ACTIVITIES DURING THE YEAR



Composition, succession and evaluation

ROLES AND RESPONSIBILITIES OF THE DIRECTORS

The Board has agreed a clear division of responsibilities between the Chairman and the CEO as well as those of the other Directors which are available on the Company's website.

Role	Name(s)	Responsibility
Chairman*	Andrew Duff	<ul style="list-style-type: none"> Leadership of the Board and responsibility for its effectiveness Setting the agendas in consultation with the CEO, CFO and Company Secretary Promoting open, honest and constructive debate and challenge during meetings and guiding the CEO and CFO in delivery of the Innovation, Growth and Efficiency strategy Ensuring the Board conforms with the highest standards of corporate governance Chairing the Nomination Committee and ensuring the Board has an appropriate balance of skill and experience and effective succession planning in place, and leading the annual Board effectiveness review Effective engagement and communication shareholders and other stakeholders, and ensuring that their views are understood by the Board
CEO	Paul Waterman	<ul style="list-style-type: none"> Day-to-day management of the business Execution of strategy and operational performance Providing regular updates to the Board on all significant matters relating to the Group Ensuring the Company has a strong team of high calibre executives, and putting in place management succession and development plans
CFO	Ralph Hewins	<ul style="list-style-type: none"> Supporting the CEO in the delivery of the Company's strategy and financial performance Leading the Group Finance function and responsible for financial reporting, investor relations, IT, risk, insurance and tax matters Key role in external stakeholder relationships, including investment community, lenders and pension trustees
Senior Independent Director	John O'Higgins	<ul style="list-style-type: none"> Acting as a sounding board to the Chairman, providing support and advice where necessary Point of contact for shareholders and other stakeholders to discuss matters of concern Leading the Board's appraisal of the Chairman's performance with the Non-Executive Directors
Independent Non-Executive Directors	Dorothee Deuring Steve Good Anne Hyland John O'Higgins Christine Soden	<ul style="list-style-type: none"> Providing independent oversight objectivity to the Board's deliberations Using their broad range of experience and expertise to challenge management and aid decision making Serving on various Committees and playing a leading role in the effectiveness of those Committees
Company Secretary	Laura Higgins	<ul style="list-style-type: none"> Supporting the Chairman in ensuring the Board operates efficiently and effectively Providing the Board with advice on governance developments Facilitating the Directors' induction programmes and assisting with ongoing training and development Assisting the Chairman with the Board effectiveness review process
Designated Non-Executive Director for workforce engagement	Christine Soden	<ul style="list-style-type: none"> Representing the Board when engaging and communicating with employees and providing communication on any outcomes

TIME COMMITMENTS

Following the Board evaluation process, as detailed on page 78, the Board has considered the individual Directors' attendance, contribution and external appointments, and is satisfied that each of the Directors is able to allocate sufficient time to the Group to discharge their responsibilities effectively. Information on Directors' external appointments can be found on pages 66 to 67.

The Directors' commitments register is maintained by the Group Company Secretary and is regularly reviewed by the Nomination Committee. All Directors are expected to commit sufficient time to the Board, and the Company, as is necessary to carry out their duties as a Director.

Non-Executive Directors are required to devote such time as is necessary for the proper fulfilment of their duties, which is to be anticipated to be a minimum time commitment of between 30 and 40 days p.a. on work for the Company. This includes: attendance at a minimum of eight Board meetings and pre-Board dinners; two 2 to 3 day overseas Board trips; the Board Committees which they serve (if any); the AGM and general meetings; meetings with the Non-Executive Directors; meetings with managers and non-managerial members of the workforce; and other ad hoc meetings/meetings with investors and advisers, as required. Copies of letters of appointment can be found on the Company's website.

Prior to issuing a letter of re-appointment, the Nomination Committee will also consider the ability of Directors to meet the time commitment, amongst other factors such as external responsibilities and independence.

CONFLICTS OF INTEREST

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

Directors are required to seek Board approval for any actual or potential conflicts of interest. Conflicts of interest are considered formally by the Board at each meeting, and are kept under review throughout the year. Annual confirmations are obtained from each Director that no conflict of interest has arisen during the year. The Code of Conduct also contains guidance on avoiding conflicts of interest.

Ralph Hewins is in receipt of a conflict authorisation from the Company in respect of him acting as a trustee of the Elementis Group Pension Scheme. Further details can be found in the Directors' report on page 114.

ADDITIONAL APPOINTMENTS

If a Non-Executive Director wishes to take on an additional external appointment, they are required to seek permission from the Board before they can formally accept any such role. The Board will take into consideration the time commitment required by the Non-Executive Director in their role as a Board Director, Committee Chair or Committee member before any permission is given.

No such external appointments are currently held by any of the Executive Directors.

BOARD TRAINING AND INDEPENDENT ADVICE

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

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

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

INDEPENDENCE OF THE NON-EXECUTIVE DIRECTORS

Each of the Non-Executive Directors is considered independent in character and judgement. The Chairman was considered independent on appointment. The independence of Non-Executive Directors is reviewed on a regular basis (in terms of additional appointments) and at least annually by the Nomination Committee.

Further information can be found in the Nomination Committee report on pages 79 to 82.

The biographies of the Directors can be found on pages 66 to 67 and details of the membership of each Board Committee can be found on pages 79, 83 and 87 respectively.

DIRECTORS' INSURANCE AND INDEMNITIES

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

The Company has also granted indemnities to each of the Directors. These indemnities are uncapped in amount, in relation to certain losses and liabilities which they may incur to third parties in the course of acting as a Director of the Company. Neither the indemnity nor insurance provides coverage in the event that a Director is proved to have acted fraudulently or dishonestly.

INFORMATION FLOWS

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

SUCCESSION PLANNING

In February 2020, John O'Higgins was appointed as a Non-Executive Director and succeeded Nick Salmon as Senior Independent Director when Nick retired from the Board after the AGM on 29 April 2020. Sandra Boss also stepped down from the Board after the AGM on 29 April 2020 to take up a full time executive role. Following Sandra's departure, a new search for a Non-Executive Director was undertaken and Christine Soden was appointed to the Board on 1 November 2020.

The Nomination Committee has oversight of succession planning for the Board and regularly reviews the structure, size, diversity and composition of the Board and its Committees. Processes are in place to ensure that Board members cannot participate in any discussions relating to their own succession.

Further information can be found within the Nomination Committee report on page 79.

BOARD EVALUATION

In line with the UK Corporate Governance Code, an externally facilitated review of the Board effectiveness is carried out every three years. The last externally facilitated review was carried out in 2018. In 2020, it was agreed that an internally facilitated review would be appropriate.

PROCESS

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

AREAS OF FOCUS DURING 2020

- Continue to identify ways of leveraging the expertise of the Non-Executive Directors
- Deepen the Board's understanding of the 'customer voice' in the boardroom
- Continued focus on Board succession planning

PROGRESS AGAINST ACTIONS ARISING FROM THE 2020 BOARD REVIEW

- Succession planning has continued with appointments in year: *John O'Higgins and Christine Soden as successors to Nick Salmon and Sandra Boss*
- The 'customer voice' has been heard through each strategic update provided by each business segment in the year as well as in regular COVID-19 updates and updates on innovation and new business opportunities

BOARD COMMITTEE AND DIRECTORS' PERFORMANCE EVALUATION CYCLE

YEAR 1 (2018)

An Independent externally facilitated review

YEAR 2 (2019)

An internal review facilitated by the Company Secretary

YEAR 3 (2020)

An internal review facilitated by the Company Secretary

2020 INTERNAL EVALUATION

The process for the 2020 review comprised a questionnaire of:

- areas identified for focus from the prior evaluation,
- Board changes and general observations such as navigating the Board's operations and decision making processes during COVID-19,
- Board relationships,
- observations on the operation/effectiveness of the Board and its Committees, and
- Individual performance and other themes and priorities for 2021.

The performance of the Chairman is led by the SID involving the whole Board. It was confirmed following the evaluation that the Chairman continues to be highly effective in his role. His strong leadership significantly contributes to the tone and culture of Board matters.

Focus for 2021

- Balance/cadence of Board calendar in 2021 to include physical and virtual meetings
- Continued focus on Board succession, executive development and talent mapping
- Agree external effectiveness/evaluation approach and timing
- Complete induction programmes for John O'Higgins and Christine Soden
- Continued focus on risk management and compliance
- Initiation of site visits and re-connecting with management (when considered safe to do so) and informal Board events

THE PROCESS IS DIVIDED INTO FOUR STAGES:

STAGE 1

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

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

STAGE 2

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

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

STAGE 3

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

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

STAGE 4

The report is presented and discussed with the Board.

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

Nomination Committee report

ANDREW DUFF CHAIRMAN

Dear Shareholders,
As Chair of the Nomination Committee (the 'Committee'), I am pleased to present the Nomination Committee report covering the work of the Committee in 2020. This report should be read in conjunction with the separate section on compliance under the UK Corporate Governance Code on page 65.

ROLE OF THE COMMITTEE

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

KEY RESPONSIBILITIES

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

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

RE-APPOINTMENT OF DIRECTORS

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

HIGHLIGHTS

- Appointment of two new Non-Executive Directors
- Oversight of Group's diversity policy
- Board effectiveness review
- Adopted new terms of reference

ATTENDANCE AT NOMINATION COMMITTEE MEETINGS

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

* Sandra Boss and Nick Salmon stepped down from the Board and General Meeting on 29 April 2020.

● Christine Soden stepped down from the Board on 1 November 2020.

In accordance with the Code, Christine Soden will submit herself for election and the remaining Directors will submit themselves for re-election at the 2021 AGM.

PROGRAMME OF BUSINESS

- Annual review of Directors' independence and conflicts in accordance with the Committee's terms of reference
- Engagement with external search consultants to conduct a search for a new Non-Executive Director
- Reviewing structure, size, diversity and composition of the Board
- Succession planning for the Board and oversight of senior management succession plans
- Ensuring that at least annually the Non-Executive Directors meet without the Executive Directors present
- Approval of Nomination Committee report for inclusion in the Annual Report.

RE-APPOINTMENTS TO THE BOARD

The re-appointment of Andrew Duff (for a third term from April 2020) and Steve Good (for a third term from October 2020) were approved and recommended to the Board during the year. The recommendations were supported by considerations regarding their independence, experience and contribution that they bring to the Board and its Committees. These matters were subsequently confirmed following the Board evaluation process and a review of conflicts and independence. In line with best practice, their continuing Board roles remain subject to annual re-election by shareholders.

BOARD EFFECTIVENESS

On an annual basis, the Chairman is responsible for conducting an appraisal with each Non-Executive Director in respect of their skills, experience, contribution and time commitment to the Company. The Committee oversees the evaluation process which during 2020 comprised an internal evaluation. The last externally facilitated review was carried out in 2018 and it is anticipated that the next external review will be conducted in 2021. Further information can be found on page 78.

SUCCESSION PLANNING

Following Sandra Boss stepping down from the Board in April 2020, the Committee appointed Russell Reynolds, external search consultants, to undertake a search for suitable candidates.

Following a thorough recruitment process, Christine Soden was appointed as a Non-Executive Director, and Designated Non-Executive Director for workforce engagement, with effect from 1 November 2020.

John O'Higgins was appointed to the Board on 4 February 2020 and a description of the recruitment process featured in the 2019 Annual Report.

NON-EXECUTIVE DIRECTOR RECRUITMENT PROCESS

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

Following a Committee discussion and with input from the Executive Directors, a role specification was prepared along with a recruitment brief and shared with Russell Reynolds.

Russell Reynolds prepared a longlist comprising gender diverse candidates. The Committee duly discussed the merits of each of the candidates and agreed the shortlist for interview with Board members. Committee meetings were held to discuss feedback.

Having carried out further due diligence including reference checks, time commitments and potential conflicts, the Committee agreed to recommend to the Board that Christine Soden be appointed as a Non-Executive Director and Designated Non-Executive Director for workforce engagement.

BOARD INDUCTION

The Chairman, with the support of the Group Company Secretary, is responsible for preparing and coordinating an appropriate induction programme, which is to be tailored to the needs of each newly appointed Non-Executive Director.

Newly appointed Directors are provided with a briefing on Directors' duties from the Group Company Secretary, and legal advisers if required.

John O'Higgins and Christine Soden have undertaken their induction programmes entirely remotely. Site visits will take place when safe to do so and in line with latest guidance.

2021 PRIORITIES

- Complete site visit programme as part of the induction programme for John O'Higgins and Christine Soden
- Agree Board effectiveness scope and activity for 2021
- Review Board and senior management succession plans
- Review Board diversity policy and objectives

EXAMPLE OF A TYPICAL INDUCTION PROGRAMME

INDUCTION – GENERAL TOPICS

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



INDUCTION – BOARD COMMITTEES (AS APPROPRIATE)

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



INDUCTION – EXTERNAL ADVISERS

- | | |
|---------------------------|-------------------------|
| Meetings with: | • Remuneration advisers |
| • External auditors | • Brokers |
| • Internal audit function | • Lawyers |



INDUCTION – SENIOR MANAGEMENT

- | | |
|--------------------------------|--|
| Meetings with: | • Chief HR Officer |
| • CEO | • SVP Global Technology |
| • CFO | • SVP Global Supply Chain & Manufacturing |
| • SVP Global Coatings & Energy | • Group General Counsel and Chief Compliance Officer |
| • SVP Global Personal Care | • Group Company Secretary |
| • SVP Global Chromium | • Group Head of Tax |
| • SVP Global Talc | • Group Financial Controller |
| | • Director of Investor Relations |



INDUCTION – SITE VISITS

- SciPark – New Jersey, US (US head office)
- Amsterdam, Netherlands (Talc)
- Castle Hayne – North Carolina, US (Chromium)
- Others as agreed during the course of the year

BOARD COMPOSITION AND SKILLS

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

BOARD SKILLS AND ATTRIBUTES

	Andrew Duff	Paul Waterman	Ralph Hewins	John O'Higgins	Steve Good	Anne Hyland	Dorothee Deuring	Christine Soden
Manufacturing/industrial processing	●	●	●	●	●		●	
Specialty chemicals		●		●	●		●	
Strategy/business development	●	●	●	●	●		●	●
International business and markets	●	●	●	●	●	●	●	●
Innovation/product development		●		●	●	●	●	●
Sales/marketing/customer	●	●		●	●			
Accounting/tax/treasury/risk			●		●	●		●
Regulated markets	●			●	●	●	●	●

As at 31 December 2020

COMPOSITION OF THE BOARD	GENDER OF BOARD		AVERAGE AGE OF THE BOARD	NATIONALITY OF THE BOARD	LENGTH OF TENURE
Independent Non-Executive Directors	Female	37.5%			Further information about Directors' independence, the Board's conflicts of interest policy and Directors' commitment is set out on page 77.
Chairman*	Male	62.5%			
Executive Directors					

* Independent on appointment

GENDER OF ELT		GENDER BALANCE OF ELT AND DIRECT REPORTS		GENDER COMPANY WIDE		OVERALL GENDER DIVERSITY SUMMARY (AS AT 31 DECEMBER 2020)		
Female	9%	Female	27%	Female	23%		Male	Female
Male	91%	Male	73%	Male	77%			
						Board	5	3
						ELT	10	1
						Senior management (XLT)	33	15
						Senior managers (s.414 CA 2006 definition)	25	6
						All employees	1,038	314

NOMINATION COMMITTEE REPORT CONTINUED

DIVERSITY POLICY

PROGRESS AGAINST OBJECTIVES

Policy objective Search and recruit the right candidates from the widest talent pool, against objective criteria and with regard for the benefits of diversity, including gender and ethnicity. When recruiting new Board members, the Nomination Committee Chairman will engage recruitment advisers who are able to demonstrate a commitment to gender and ethnic diversity as part of their role in identifying suitably qualified candidates from a talent pool that also reflects the Group's international profile.

Longlists have supported our diversity objectives representing gender and ethnicity

Implementation Russell Reynolds were appointed to undertake a search for a new Non-Executive Director in 2020. Russell Reynolds have signed up to the Voluntary Code of Conduct for Executive Search Firms which aims to address gender diversity on corporate boards and best practice for the related search processes.

Policy objective Ensure that the Board is comprised of an appropriate balance of skills, experience and knowledge to effectively oversee and support the management of the Company.

Ongoing

Implementation The Nomination Committee continues to review the composition of the Board and ongoing succession plans in accordance with its terms of reference.

Policy objective Maintain gender balance of females on the Board of at least 33%.

Exceeded target

Implementation During the year, Nick Salmon and Sandra Boss retired from the Board and were succeeded by John O'Higgins and Christine Soden.

Policy objective Aspire to improve the percentage of senior leadership positions held by women throughout the Group. The Nomination Committee will monitor pipeline diversity and the delivery of plans to improve gender and ethnic diversity across the organisation and promote talent from across our locations into management roles.

Ongoing

Implementation The Nomination Committee has visibility of diversity and inclusion initiatives to improve diversity throughout the organisation and receives succession planning updates for talent below senior management level as well as diversity, equity and inclusion updates. See page 40 for further information.

Policy objective Oversee succession plans to ensure that they meet both current and future needs of the business including improvement of gender and ethnic diversity across the organisation.

Ongoing

Implementation Succession plans are regularly reviewed in line with the current and future needs of the business.

Policy objective Report annually against policy objectives and assess the skills, expertise, backgrounds and experiences of Board members.

Complete

Implementation The Nomination Committee has reviewed and approved the Nomination Committee report.

Policy objective Continue to monitor regulatory developments and best practice in respect of diversity.

Ongoing

Implementation The CHRO and Company Secretary provide regular updates on regulatory developments and practices in this area.

Policy objective Periodically review this policy and its effectiveness.

Every 3 years

Implementation This policy, its objectives and effectiveness will be reviewed every 3 years or in line with developing practice if sooner.

Please read more on our diversity and inclusion policies in the Social section on page 40

AUDIT COMMITTEE REPORT

Audit, risk and internal control

Audit Committee report

ANNE HYLAND
CHAIRMAN
AUDIT COMMITTEE

Dear Shareholders,
As Chair of the Audit Committee (the 'Committee'), I am pleased to present the Audit Committee report covering the work of the Committee during 2020. This report should be read in conjunction with the separate section on compliance under the UK Corporate Governance Code on page 65.

ROLE OF THE COMMITTEE

To assist the Board by establishing, reviewing and monitoring the Group's financial reporting, internal controls framework and risk management, internal audit programmes and changes in regulatory requirements.

COMPOSITION OF THE COMMITTEE

In accordance with the UK Corporate Governance Code (the 'Code'), the Board has confirmed that all members of the Committee are independent Non-Executive Directors and have been appointed to the Committee based on their individual financial and commercial experience.

The Board is satisfied that Anne Hyland, as Chair of the Committee, has recent and relevant financial experience to chair this Committee through her current executive role as CFO at Kymab Group and in a previous role as CFO at FTSE listed Vectura plc. Anne is a chartered accountant (FCA) and a corporate tax adviser (CTA-AIT).

The Committee, as a whole, has financial and commercial competence relevant to the sector in which the Group operates. Further information on the skills, expertise and experience of Committee members can be found on page 81.

HIGHLIGHTS

- Going concern and longer term viability
- Assessment of impact of COVID-19 on the key policies, and estimates
- Presentation of adjusting items
- Goodwill and indefinite life intangible assets impairment review
- Group tax exposures and uncertain tax positions

ATTENDANCE AT AUDIT COMMITTEE MEETINGS

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

* Sandra Boss and Nick Salmon stepped down from the Board on 28 April 2021.

● Attendance was present for at least one of the four meetings.

All members of the Committee are independent Non-Executive Directors.

Members' biographies can be found on pages 66 to 67.

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

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

KEY RESPONSIBILITIES

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

The Committee's terms of reference, which are reviewed and approved annually, are available on the Company's website.

PROGRAMME OF BUSINESS

The Committee's focus in 2020 has been:

- Meetings with both the internal and external auditors to review their key findings
- Reviewing the internal control systems and considering the output of internal audit reviews and management's action plans
- Reviewing the integrity and consistency of key accounting judgements made by management in both the Company's full and half year results
- Advising the Board on whether the Annual Report and Accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy
- Reviewing the going concern and viability statements and the supporting assumptions and assessments in the Company's Half year report and Annual Report and Accounts
- Ensuring compliance with applicable accounting standards, monitoring developments in accounting regulations which affect the Group and reviewing appropriateness of accounting policies and practices currently in place
- Reviewing effectiveness of the internal and external auditors, their independence and objectivity and terms and scope of engagement and recommending their re-appointment
- Overseeing matters relating to tax including the impact of tax rates on the financial statements, approving the Company's tax strategy and EU state aid
- Litigation and compliance reports for both the full and half year
- Considering the material legal risks impacting the Company and the associated provisioning for both the full and half year
- Receiving updates on the Code of Business Conduct and Ethics and the associated training and whistleblowing policies
- Technical updates on Annual Report and Accounts key developments, 2020 year end reporting environment, corporate governance matters and future developments
- Reviewing the Group's risk management activities undertaken by each business area, and at Group level to identify and assess the Group's principal risks
- Monitoring and assessing the Group's insurance arrangements

The report of the Audit Committee for the 2020 financial year explains how its responsibilities have been carried out during the year.

COMMITTEE EFFECTIVENESS

As part of corporate governance, the Committee's performance and effectiveness was reviewed in the year as part of the review of Board and Committee effectiveness conducted by the Company Secretary, further details are on page 78.

EXTERNAL AUDITORS

Deloitte have served as external auditors to the Company since April 2016. The Committee engaged with Deloitte to ensure this key area of oversight was appropriately maintained. The Committee periodically meets privately with the lead audit partner and senior members of the audit team to discuss their work and findings, particularly in relation to the key areas of audit risk previously identified.

AUDITOR ROTATION AND TENDERING AND COMPETITION AND MARKETS AUTHORITY ORDER – STATEMENT OF COMPLIANCE

The Committee carried out an audit tender process in 2015 resulting in the appointment of Deloitte as external auditors in April 2016. Deloitte's re-appointment in 2020 was approved by shareholders at the Company's AGM in April 2020. The year ended 31 December 2020 is the fourth year for the lead audit partner Christopher Powell. The Committee confirms that the Company is compliant with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, for the year ended 31 December 2020.

AUDIT OF THE 2020 ANNUAL REPORT

At the end of 2020, Deloitte presented their audit plan for the year which the Committee considered and then approved. Deloitte highlighted the key areas of risk, which were primarily identified as areas of judgement and complexity and were consistent with those areas identified by the Committee. As part of the audit process, Deloitte then presented a detailed report of their audit findings, which was reviewed and discussed. A similar process is undertaken for the half year results.

AUDIT EFFECTIVENESS

To support the Committee in evaluating the effectiveness of the external auditors, a questionnaire based evaluation is circulated to internal stakeholders who have had the most interaction with the external auditors during the audit process. The data is collated into a score card which is used to assess the strengths and weaknesses of the external auditors.

Management and the external auditors then address any areas of weakness in their regular review meetings, and the lead audit partner from Deloitte updates the Committee on how areas of weakness are being addressed.

The Committee also monitors audit effectiveness by reviewing the Audit Quality Inspection reports published by the FRC.

The Committee will formally assess Deloitte's performance in relation to the 2020 audit following its completion. It is intended that a resolution to re-appoint Deloitte as the external auditor will be proposed at the 2021 AGM.

AUDIT INDEPENDENCE

The Committee considers the external auditors' objectivity and independence at least twice a year. It receives reports from Deloitte on its internal quality controls and independence rules and considers carefully the extent of the non-audit services provided by Deloitte. The Committee is of the view that Deloitte was objective and independent throughout the 2020 audit process notwithstanding the level of non-audit services provided.

KEY JUDGEMENTS AND AREAS OF SIGNIFICANT FOCUS

The following table sets out the significant matters considered by the Committee during the year in relation to the financial statements. Further information on these judgements are detailed in Note 1 of the accounts.

Key judgements	How the Committee has addressed these matters
Going Concern	<p>Given the continuing significant uncertainties resulting from the impact of COVID-19 on the economic environment in which the Group operates, and the material uncertainty around going concern reported at the half year, the Committee have placed a particular focus on the appropriateness of adopting the going concern basis in preparing the consolidated financial statements for the twelve months ended 31 December 2020.</p> <p>To support the Committee's assessment, Management produced three models over a future period of three years from the date of these accounts – a base case, a downside case and a reverse stress case with cashflows for each demonstrating the position of the company regarding its two financial covenants – Net Debt/EBITDA and Interest cover at each measurement period for the 18 months following the date of signing of these accounts.</p> <p>Having agreed covenant relaxations with our lenders in March and September 2020, the revised provision in our banking arrangements is for the net debt/EBITDA covenant to step down from 3.75x at present to 3.25x in June 2022. Under both the base and downside cases the Group is expected to remain within its financial covenants throughout the going concern period and the conditions necessary for the reverse stress case to be applicable were deemed sufficiently remote. As such the Committee concluded it was appropriate for the Group to adopt the going concern basis for these accounts.</p>
Environmental provision	<p>A process consistent with 2019 for the evaluation of environmental provisions was followed by management, the key area of judgement being the discount rate used for future liabilities. In 2019, the discount rate was 1% for the UK and 2% for the US. The Committee considered these discount rates and decided that revised rates of 0.8% for the UK and 1.7% for the US would reflect current market assessments of the time value of money and risks specific to the liabilities and therefore appropriate for 2020.</p>
Impairment testing of goodwill in relation to the Talc CGU	<p>Critical accounting estimates arise in determining the value in use for the goodwill balances tested, which require assessments of the achievability of business plans (and therefore future cash flows), growth rates beyond the period covered by the five-year business plans and appropriateness of the discount rates applied to future cash flows. A report from management was discussed setting out the basis for the assumptions and confirmation that the cash flows used were derived from the 2020 three year plan (which in their role as members of the Board, Committee members had previously reviewed and approved).</p> <p>The Committee has reviewed the robustness of the impairment model, challenged the appropriateness of the key assumptions used to calculate value in use including forecast sales volumes, selling prices, growth rates used to extrapolate beyond the forecast period and the discount rates applied to the resulting cash flows.</p> <p>After considering these items, and also the impairment of \$33.4m made to goodwill relating to the Talc CGU at the half year, the Committee concluded no further impairment was necessary at 31 December 2020.</p>
Revenue recognition	<p>The main area of judgement continues to be in relation to recognition of revenue from shipments by sea. The Committee satisfied itself that the Group had appropriately recognised revenues in accordance with their contractual obligations during the period, paying particular attention to period end cut-off.</p>

NON-AUDIT SERVICES AND FEES

The Group has an agreed policy with regard to the provision of audit and non-audit services by the external auditor, which has operated throughout 2020 and is available on the Company's website. Under the policy, the CFO may approve individual engagements where the fee is up to 15% of the Group's audit fee for the year, provided that the non non-audit fees in the year do not exceed 50% of that Group audit fee. Decisions above these thresholds must be referred to the Committee for determination.

	2020	2019
Audit fees (\$m)	2.2*	1.4
Assurance related services (\$m)	0.1	0.1
Non-audit fees (\$m)	0.1	0.0
Ratio of non-audit fees to audit fees (%)	4.5%	0%
Total fees (\$m)	2.4	1.5

* Includes \$0.3m of extra fees relating to the 2019 group audit

INTERNAL CONTROLS & RISK AND RISK MANAGEMENT

The Committee's role is to review the effectiveness of the internal control, compliance and risk management systems which it carries out in support of the Board's formal review of significant risks and material controls, as summarised in the Risk management report on pages 56 to 58.

PwC provide an outsourced internal audit function. The Committee considers that the value of internal audit is enhanced by having a third party perform this function, to support the independent challenge of management and give greater access to expertise and resources than an internal function could provide. The internal audit plan is based on a review of the Group's key risks which are considered high risk or have not been subject to a recent audit.

The 2020 internal audit plan was discussed and agreed between management and PwC ahead of it being considered and subsequently approved by the Committee. Management review the schedule with

AUDIT COMMITTEE REPORT CONTINUED

PwC on a quarterly basis and adapt the schedule during the year to incorporate any new or increased risks which materialise. This is then reviewed and approved by the Committee.

The outcome of the internal reports are provided to the Committee, alongside any remedial actions.

Following an evaluation of the services provided by PwC in respect of the internal audit, the Committee confirms that both the process for determining the internal audit programme, and the programme itself, are appropriate and effective. Required actions have arisen from the review of principal risks and uncertainties, management monitoring activities and internal and external audit reports, relating to inventory management within the Chromium division; the recognition of deferred and current taxation; user access controls and segregation of duties within certain finance systems; and the preparation of the goodwill impairment models used and the precision of the management review controls of those models. Management have put in place a plan to address these control findings, which the Audit Committee will oversee. Set out below is a summary of the key features of the Group's internal controls and risk management system.

CONTROL ENVIRONMENT

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

RISK IDENTIFICATION AND REVIEW

A formal risk review process exists at Board and ELT levels for the identification, evaluation, mitigation and ongoing monitoring of risks, including emerging risks. Further details can be found on pages 59 to 62.

INTERNAL AUDIT PROGRAMME

An internal audit programme is proposed by PwC in consultation with the CFO and approved by the Committee each year, setting out a programme of audits over the course of the next 12 months. The programme covers the monitoring of the effectiveness of internal controls and the design of processes to test the effectiveness of controls. As well as conducting audits of operating facilities, sales offices and tolling sites on a two to three year rotational basis, the internal audit programme includes reviews of Group functions and processes.

During 2020, the following audits were undertaken (with three other audits being deferred until 2021 due to the impact of COVID-19):

- Contract governance and compliance
- Credit management and collections
- Cyber security – maturity and incident response preparedness
- Environmental, social and governance framework assurance
- Livingston site
- Newberry Springs site
- Supplier management
- Travel and expenses

INTERNAL AUDITOR EFFECTIVENESS

To support the Committee in evaluating the effectiveness of the internal auditor programme, a questionnaire based evaluation is completed by employees who have had the most interaction with the internal auditors during the year. A scorecard is reviewed by the Committee to assess the strengths and weaknesses of the internal auditors. The effectiveness of the internal audit function was confirmed and agreed by the Committee.

CONTROLS ASSURANCE

The controls assurance framework at Elementis is as follows:

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

WHISTLEBLOWING

The Group's whistleblowing facility is accessible on a 24/7 basis, 365 days of the year and provides arrangements for an independent service provider to receive, in confidence, reports of breaches of any legal or Company policy or standards, including those related to accounting, auditing, risk, internal control and related matters. Details of how to access this service are referenced in the Code of Conduct, posters are available at each site and via the compliance training portal. The Committee have oversight of reports of this nature. In 2020, there were six reports, all of which were duly investigated and closed during the year.

FAIR, BALANCED AND UNDERSTANDABLE

The Committee adopted a similar approach as in previous years to ensure that the Annual Report is fair, balanced and understandable. The process was as follows:

- An internal Annual Report team (ART) was set up to manage the process. The ART consisted of members drawn from Group Finance, Company Secretariat and Investor Relations teams. The ART was responsible for regularly reviewing work and ensuring balanced reporting with appropriate links between key messages and sections of the Annual Report
- The Committee Chairman held meetings with the audit partner, and the Committee held meetings with the external auditors without management being present
- An audit clearance meeting was held with the Committee Chairman, CFO and members of the Finance team alongside the audit partner and audit team members
- The Committee received updates from management on the Annual Report progress and audit throughout the process as well as from the Company's brokers and other advisers
- The Committee, Chairman and Executive Directors reviewed the Annual Report in its final stages

Following this process, the Committee and then the Board were able to confirm that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

ANNE HYLAND
CHAIRMAN, AUDIT COMMITTEE

Directors' Remuneration report

STEVE GOOD
CHAIRMAN
REMUNERATION COMMITTEE

As Chair of the Remuneration Committee (the 'Committee'), I am pleased to present the Directors' Remuneration report for the year ended 31 December 2020.

The report is set out in the following parts:

1. This **Annual Statement** from the Chair of the Remuneration Committee summarising how our Remuneration Policy has been implemented and the key decisions taken by the Committee
2. An **At a glance** section providing an overview of how we implemented the Remuneration Policy during the year under review
3. The **Remuneration Policy** in respect of continuing application of existing Directors' Remuneration Policy will be submitted to shareholders in a binding vote at the AGM to be held on 13 May 2021
4. The **Annual Report on Remuneration** which provides full detail on how we paid Directors during 2020 and how we propose to implement the policy in 2021

The Remuneration Policy and the Annual Report on Remuneration will be presented to shareholders for approval at the AGM on 13 May 2021 and I hope you will vote in support of the resolutions.

ATTENDANCE AT REMUNERATION COMMITTEE MEETINGS

Steve Good (Chair)	● ● ● ● ●
Sandra Boss ¹	● ●
Dorothee Deuring	● ● ● ● ●
Nick Salmon ¹	● ●
John O'Higgins ²	● ● ● ● ●
Christine Soden ³	●

1 Nick Salmon and Sandra Boss stood down from the Board and the Committee on 29 April 2020.

2 John O'Higgins joined the Committee on 4 February 2020.

3 Christine Soden joined the Committee on 1 November 2020.

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REMUNERATION POLICY

As a global specialty chemicals company that utilises manufacturing technology and scientific innovation to deliver high value products to our clients, our Remuneration Policy has been designed with a natural bias towards long term performance which aligns with the long term nature of our business.

The 2021 AGM marks the third anniversary of the adoption of the current Directors' Remuneration Policy and in line with UK Directors' remuneration regulations, we are required to submit the Policy to shareholders for approval this year. Given the impact of the pandemic since early 2020, the Committee considered that the most appropriate course of action would be to roll-over the current Policy at the 2021 AGM, with the intention that an in-depth review would be undertaken later in 2021 and a refreshed Policy be presented at the 2022 AGM. On this basis, shareholder approval will be sought for the continuing application of the existing Directors' Remuneration Policy until the 2022 AGM.

The Committee reached this conclusion on the following rationale:

- The current Policy is considered to have worked effectively, complies with the majority of best practice governance requirements and the approach to aligning pensions with the workforce has already been agreed
- Undertaking a review of Directors' remuneration during 2020 would have resulted in diverting management time away from guiding the business through the unprecedented challenges arising as a result of COVID-19
- Given the uncertainty over the medium to long-term impact of COVID-19, deferring the Policy review work enables a considered response to be taken in relation to its impact on future remuneration design (if any)

Investors were consulted on this approach and were supportive. The only updates to the Policy are therefore from a drafting perspective. In particular, we have reflected the phased reduction to incumbent Executive Director pension levels to those typical in the wider UK workforce and alignment of the pension policy for new Executive Directors with that in force for new joiners to the UK workforce. This is as set out in last year's Directors' Remuneration report.

The Committee did note that whilst the Policy is in line with the majority of corporate governance best practice, a post-cessation share ownership guideline had not yet been adopted. The Committee has however agreed that this will be a feature of the policy renewal to take place at the 2022 AGM and that it expects to introduce a guideline that reflects both current institutional investor expectations and market practice at that time. The details of the operation of the guideline will be finalised during 2021 for adoption in 2022.

REMUNERATION IN 2020

Against the backdrop of the pandemic, 2020 has been a challenging year but one in which our management team responded strongly.

In March 2020, as the COVID 19 pandemic began to be felt around the globe, the Company's immediate priority was to safeguard the health and wellbeing of our employees, and to support our customers. Given the pandemic significantly impacted demand across our key markets, the Board took decisive early steps to mitigate against any material adverse financial impact. This focused on cash flow optimisation via cost savings, working capital reduction and tight management of capex. We also took the decision to suspend our 2019 dividend payment and not to declare an Interim 2020 dividend with a view to preserving cash. The Board's proactive response enabled the Company to deliver resilient performance as demand in some of our key markets has started to recover and we continued to achieve strong progress against our Innovation, Growth and Efficiency strategy. Key highlights of the year included the launch of 12 new products, capturing over \$30m of new business opportunities and delivering \$15m of in year cost savings.

Our ability to deliver the performance achieved during the year was a testament to the commitment and professionalism of our employees. Whilst tough choices were made, the Board was grateful that the Company was not in a position to have to implement pay cuts for the workforce, or place significant reliance on government support or government guaranteed loans.

Annual bonus

Whilst we performed resiliently in 2020 and met the bonus targets in part, including exceeding our threshold working capital target and achieving strongly against our non-financial strategic targets, the Executive Directors recommended, and the Committee agreed, that no bonuses should be payable in relation to 2020 performance.

In determining that no bonuses should be payable, the Committee recognised the progress achieved following the onset of COVID-19 in targeting improvements to our management of working capital and, in particular, the amount of inventories held, which notwithstanding the reduced volume of business during the year, resulted in partial achievement against the targets originally set. The Committee also noted the Executive Directors' robust performance against their strategic targets with strong progress in the areas of new business sales, business synergies and cost savings delivered. However, in the context of reduced overall profitability as a result of COVID-19, and the decision to suspend dividend payments in 2020, it was not considered appropriate to pay bonuses.

Further details of the targets set for 2020, and performance against them, are disclosed on pages 106 to 107. The Committee continues to provide detailed disclosure for non-financial targets following feedback from shareholders.

Long term incentive plan (LTIP)

The 2020 LTIP awards were granted on 7 April 2020. However, the awards were granted on a revised basis vis-à-vis awards granted in previous years.

Firstly, to reflect the prevailing share price which was impacted by COVID-19, the number of shares comprising the award was set with reference to a notional share price of 73.5p versus the closing share price from the day before grant (6 April 2020) of 49p. In effect, this resulted in the normal headline award levels of 200% of salary for the Chief Executive and 175% of salary for the Chief Financial Officer being reduced by 33%. On an equivalent multiple of salary basis this resulted in awards being granted at 135% of salary for the Chief Executive and 117.5% of salary for the Chief Financial Officer. The Committee also retains discretion to reduce the number of shares on vesting should it be considered appropriate, including in the event of a perceived windfall gain.

Secondly, in light of the impact of the COVID 19 pandemic, the Committee considered that given its increased strategic importance, cash conversion should be included as an additional performance measure in the 2020 LTIP award in addition to EPS growth and relative TSR. This change was made prior to the grant of the award with full details of the performance measures and the targets disclosed in the RNS announcement upon grant. The introduction of cash conversion as a metric differed from the preliminary performance metrics set out in last year's Directors' Remuneration report. However, given the range of cash conversion targets were set to reflect our publicly stated mid-term target of 90%, and the range of EPS growth targets and TSR targets remained unchanged as per the intended grant disclosed in last year's Directors' Remuneration report, the Committee was comfortable that the targets were appropriate and, overall, more demanding in the context of COVID-19 than targets set in prior years. The vesting of the award is also subject to a return on capital employed underpin which requires the Committee to consider whether the return generated is in line with the Board's expectations and if not, to reduce the vesting to a more appropriate level.

The Committee entered into dialogue with the Company's major shareholders in relation to the revised approach to quantum and target setting for the 2020 awards and did not receive any negative feedback.

Full details of the targets and the awards are set out on page 108. To the extent these awards vest at the end of the three year performance period, shares will be required to be held for a further two years.

The 2018 LTIP Awards that were subject to EPS growth and TSR performance targets measured over the three years to 31 December 2020 will not vest due to the required levels of performance not being achieved. Further details are included on page 108.

The Committee believes that the overall incentive outturns and approach to target setting for 2020 (as detailed above) were appropriate based on the Company's performance over the whole period and demonstrates that the Committee has, and will continue to, set performance targets which it considers to be meaningful and appropriately stretching.

With regards to use of Committee discretion during the year, as detailed above, following recommendation from the Executive Directors, the Committee used its discretion to reduce the formulaic 2020 bonus outcome to zero given that it was not considered appropriate to make bonus payments in light of COVID-19.

REMUNERATION IN 2021

Consistent with the Committee's decision to roll-over the Remuneration Policy for 2021 and noting there has been no material change to the Company's strategic priorities versus 2020 there will be no changes to the application of policy proposed for 2021, with the revised 2020 LTIP performance metrics also being retained for 2021. The key points to note include:

Salary review: In line with the 2% salary increases set for employees in the UK and US, the Executive Directors base salary increases will be 2% for 2021.

Pension reductions: In line with the previously communicated glidepath detailed in last year's Directors' Remuneration report, pension contributions for incumbent Executive Directors will continue to be reduced from 24% of salary to 22.5% of salary on 1 December 2021. The final phased reduction in pension contribution will be on 1 December 2022 to 21%, which will bring incumbent directors in line with the typical funding cost of pension benefits for UK employees as determined in 2019. To provide further context, both the median and upper quartile employee included in the pay ratio analysis in the 2019 Directors' Remuneration report had a funding cost (as a percentage of salary) in excess of the 21% of salary (i.e. typical 2019 UK employee pension provision was circa 21% in 2019). New Executive Directors will be aligned with the average new joiner UK employee pension rate of 8%.

2021 annual bonus: There will be no change to the quantum of the Executive Director bonus opportunity and as such the CEO will have the opportunity to earn up to 150% of salary and the CFO up to 125% of salary.

As for 2020, the bonus will be based 70% against a challenging range of financial targets (50% on adjusted Group profit before tax and 20% on average trade working capital to sales ratio (AWC) on total operations), 10% on Safety and Environment and 20% based

on the delivery of specific and measurable objectives that are related to the Company's strategic priorities. 50% of any bonus earned is deferred in shares for two years.

Summary details of our approach to target setting are detailed on page 93 and full details of the financial target ranges and our performance against them will be disclosed on a retrospective basis in next year's report. The Committee has discretion to modify the overall amount of bonus payable to ensure it is appropriate.

2021 LTIP Awards: Awards are expected to be granted at 200% of salary for the Chief Executive and 175% of salary for the Chief Financial Officer. In determining the award sizes, the Committee considered the degree of stretch in the targets noting both the minimal vesting at the threshold performance levels (which is well below market norms) and the demanding nature of the financial targets set in light of ongoing challenging market conditions.

The primary performance targets will be as per the 2020 awards and will be 33% based on EPS, 33% based on cash conversion and 33% based on TSR performance conditions.

- The EPS targets will be set based on the level of EPS achieved in 2023 with vesting to take place from 10 cents per share (cps) to 13 cps for threshold to maximum vesting which runs from 0% to 100% on a straight-line basis. EPS is to be set with reference to 2023 EPS to take account of the relatively low EPS base for FY 2020 which includes the impact of COVID-19. It is the Committee's intention to consider a return to setting EPS targets based on a range of annual growth targets from the previous year's EPS in due course. The Committee considers the 2023 EPS target to be appropriately stretching in light of the progress made with our Company's strategy after having had regard to current internal planning and external broker forecasts for our future performance in light of current market conditions.
- The cash conversion targets will again be set based on a range of 85% to 95% which aligns with the Company's publicly stated medium term target. Threshold to maximum vesting runs from 0% to 100% on a straight-line basis
- TSR will continue to be assessed against the constituents of the FTSE All Share index (excluding investment trusts). Threshold vesting starting at 3.85% for median performance, increasing on a graduated basis with 100% vesting for achieving stretch targets, which for TSR will require at least upper quartile performance.

The 2021 LTIP awards will also be subject to a return on capital employed underpin and general Committee discretion. The return on capital employed underpin will require the Committee to consider the vesting result determined based on the application of the EPS, cash conversion and TSR performance conditions in light of the return on capital employed achieved during the three year period ending 31 December 2023 relative to the Board's internal plans over the period. If the Committee does not consider the vesting result appropriate in light of the return on capital employed achieved in this context, the underpin enables vesting to be reduced to a more appropriate level. The general discretion the Committee retains will require the Committee to consider on vesting if it considers there to have been a windfall gain and, if so, reduce the vesting level to a level considered reflective of underlying financial performance.

CONTEXT OF DIRECTORS' PAY WITHIN THE COMPANY

In 2019, Sandra Boss was appointed the Designated Non-Executive Director (DNED) for workforce engagement with Christine Soden taking over this responsibility on appointment. During the year we held employee focus groups in the US, China, Finland and Germany to gather employee feedback on pay and benefits. This followed an analysis of our employee engagement survey results and will result in a communication and education programme throughout 2021.

The Group is not required to provide disclosure of the CEO to all employee pay ratio given the Group has less than 250 employees in the UK. However, given the external focus on pay ratios the Committee has included full pay ratio disclosure on page 111. The Committee noted that the ratio was towards the lower end of practice range of those previously disclosed by FTSE 350 companies.

The Group is also not required to report under the gender pay gap regulations. Despite this, the Group reviews gender pay on a biennial basis. In 2020 the salary and bonus gaps were 26% at the mean and 7% at the median which was a reduction from 42% and 15% in 2018. The reduction in the gap follows an internal review of pay differentials with action taken to address any areas where legacy pay issues were identified. CEO pay ratio and gender pay gap ratios will be taken into account when there is a full review of the Executive Director and wider Remuneration Policy in 2021.

CONCLUDING REMARKS

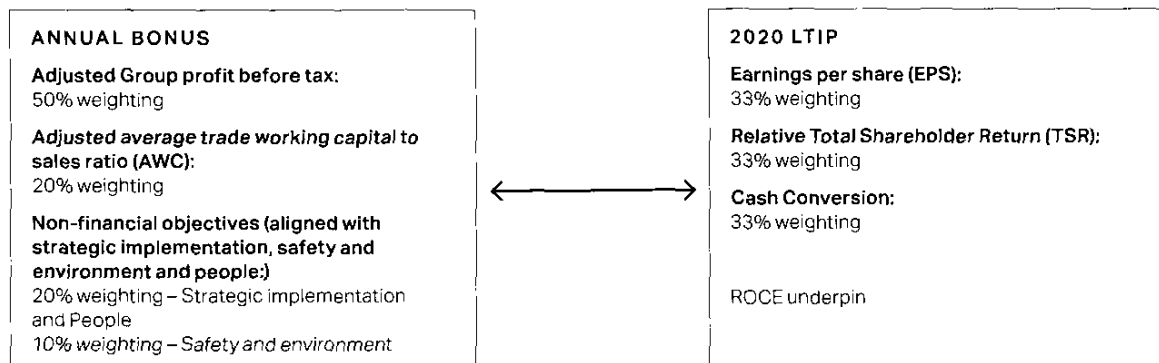
The Committee believes that the Policy and our approach to implementation in both 2020 and 2021 are in the best interests of the Company and we hope that you will support the actions the Committee has taken by voting in favour at the 2021 AGM. If you have any concerns, please feel free to contact me via the Group Company Secretary at company.secretariat@elementis.com.

STEVE GOOD

CHAIRMAN REMUNERATION COMMITTEE

AT A GLANCE

OUR MEASURES



HOW OUR MEASURES LINK TO STRATEGY

	Performance metrics	Strategic priorities		
		Innovation	Growth	Efficiency
Bonus	Financial: (70%)			
	Adjusted Group profit before tax	●	●	●
	Average trade working capital to sales ratio		●	●
	Non-financial: (30%)			
	Safety, compliance and risk management	●	●	●
	Strategic implementation	●	●	●
LTIP	People	●	●	●
	EPS (33%)	●	●	●
	Relative TSR versus FTSE All Share (33%)	●	●	●
	Cash Conversion (33%)			●
	Return on operating capital employed (underpin)	●	●	●

IMPLEMENTATION OF REMUNERATION POLICY FOR 2020

The section below summarises how the Policy was implemented in the financial year ending 31 December 2020. Further details are provided on pages 101 to 110.

Key Policy features	Performance assessment	How we implemented in 2020?		
Salary <ul style="list-style-type: none">Increases normally guided by the general increase for the local workforce and/or broader workforce as a whole	Not applicable		Paul Waterman	Ralph Hewins
		2020 salary	£715,866*	£362,237
		* Equivalent to \$917,741		
		In line with the average increases awarded to the US and UK salaried workforce, the salaries of the CEO and CFO were increased by 2% and 2.2% respectively. These changes were effective from 1 January 2020.		
Pension/benefits/all employee share schemes <ul style="list-style-type: none">Pension: In line with the phased pension contribution announced last year, the CEO and CFO pension contribution reduced to 24% of salary, effective from 1 December 2020.Benefits: Directors receive market competitive benefits and may participate in all-employee share schemes	Not applicable		Paul Waterman	Ralph Hewins
		Pension	£178,370*	£90,257
		* Equivalent to \$228,670		
		Implementation in line with the Policy.		
		Executive Directors' pensions have been and will be reduced in phases to be in aligned with the pension provision of the median employee:		
		<ul style="list-style-type: none">From 1 January 2020: 25%From 1 December 2020: 24%From 1 December 2021: 22.5%From 1 December 2022: 21%		
Annual bonus <ul style="list-style-type: none">Performance related scheme which delivers value for achievement against annual targetsCommittee may adjust outturn where formulaic assessment is inconsistent with Company's overall performance50% of bonus earned deferred into shares for two yearsRecovery and withholding provisions apply			Paul Waterman	Ralph Hewins
		Opportunity	150% of salary	125% of salary
		PBT	\$54m vs target of \$97.2m	
		Payout (50% of bonus)	0% of PBT maximum	
		AWC	23.8% vs target of 23.3%	
		Payout (20% of bonus)	50% of AWC maximum	
		Non-financial	See page 106 to 107	
			73.3% of	71.7% of
		Payout (30% of bonus)	Non-financial maximum	Non-financial maximum
			32% of	31.5% of
		Total	maximum	maximum
		As detailed in the Annual Statement on page 87 whilst resilient performance was delivered in 2020 and the bonus targets were met in part, including exceeding our threshold working capital target and achieving strongly against our non-financial strategic targets, the Executive Directors recommended and the Committee agreed that no bonuses should be payable in relation to 2020 performance.		

Further information can be found on pages 106 to 107.

As detailed in the Annual Statement on page 87 whilst resilient performance was delivered in 2020 and the bonus targets were met in part, including exceeding our threshold working capital target and achieving strongly against our non-financial strategic targets, the Executive Directors recommended and the Committee agreed that no bonuses should be payable in relation to 2020 performance.

IMPLEMENTATION OF REMUNERATION POLICY FOR 2020 CONTINUED

Long term incentive plan				Since the performance targets were not met in relation to the 2018 LTIP award, no vesting will take place.
<ul style="list-style-type: none">Performance measures based on financial and/or relative TSR metrics and measured over 3 years	2018 Award	Average EPS growth	TSR vs FTSE All Share	
	Weighting	50%	50%	
	Threshold target	3% p.a.	Median	
<ul style="list-style-type: none">Committee may adjust outturn where formulaic assessment is inconsistent with Company's overall performance	Maximum target	10% p.a.	Upper quartile	
	Actual	-58.3% p.a.	16th percentile	
	Vesting	0%/50%	0%/50%	
<ul style="list-style-type: none">Holding period applies for two years following vestingRecovery and withholding provisions apply	Further information can be found on pages 108 to 109.			
Share ownership guidelines				Both the CEO and CFO increased their holdings during the year. Further information can be found on page 110.
<ul style="list-style-type: none">Build up and maintain a shareholding equal to 200% of salary		Paul Waterman	Ralph Hewins	
	Guideline	200% of salary	200% of salary	
	Level	On track 123% of salary ¹	On track 49% of salary ¹	
	¹ For the purposes of the guideline, an estimate has been made in relation to the after tax number of shares in relation to vested/unexercised share awards.			

IMPLEMENTATION OF REMUNERATION POLICY FOR 2021

The section below summarises how the Committee intends to implement the Policy for the forthcoming financial year ending 31 December 2021.

Key Policy features	2021 implementation												
Salary <ul style="list-style-type: none">• Level based on the scope and responsibilities of the role• Increases normally guided by the general increase for the local workforce and/or broader workforce as a whole	<ul style="list-style-type: none">• The Committee reviewed salaries and decided to award Paul Waterman and Ralph Hewins each a salary increase as shown in the table below, which is consistent with the average increase in year for the respective US and UK salaried workforce. <table><tr><th></th><th>Paul Waterman</th><th>Ralph Hewins</th></tr><tr><td>Salary as at 1 January 20</td><td>\$917,740</td><td>£362,237</td></tr><tr><td>Salary as at 1 January 21</td><td>\$936,096</td><td>£369,482</td></tr><tr><td>2021 Increase</td><td>(+2%)</td><td>(+2%)</td></tr></table>		Paul Waterman	Ralph Hewins	Salary as at 1 January 20	\$917,740	£362,237	Salary as at 1 January 21	\$936,096	£369,482	2021 Increase	(+2%)	(+2%)
	Paul Waterman	Ralph Hewins											
Salary as at 1 January 20	\$917,740	£362,237											
Salary as at 1 January 21	\$936,096	£369,482											
2021 Increase	(+2%)	(+2%)											
Pension/ benefits/ all employee share schemes <ul style="list-style-type: none">• Pension: CEO participates in US specific arrangements and receives a salary supplement and the CFO receives a salary supplement• Any new Director appointment will have pension set at 8% of salary• Benefits: Directors receive market competitive benefits and may participate in all-employee share schemes	<ul style="list-style-type: none">• Implementation in line with the Policy• Pension rates for incumbent Directors are on a glidepath to be aligned with the typical individual pension funding rates prevalent at the time of the Directors' appointment (see page 110 for further detail)												

Key Policy features

2021 implementation

Annual bonus

- Policy maximum of 150% of salary for CEO and 125% of salary for CFO
- Performance related scheme which delivers value for achievement against annual targets
- Committee may adjust outturn where formulaic assessment is inconsistent with Company's overall performance
- 50% of bonus earned deferred into shares for two years
- Recovery and withholding provisions apply

Link to KPIs

- Adjusted Group PBT
- AWC
- Individual objectives linked to strategic priorities

	Paul Waterman	Ralph Hewins
Opportunity	150% of salary	125% of salary

Performance metrics:

- Adjusted Group PBT: 50%
- Average trade working capital to sales ratio: 20%
- Non-financial strategic priorities: 30%
- The Committee considers that the bonus targets are commercially sensitive and therefore plans to disclose them only on a retrospective basis in next year's Directors' Remuneration report.
- The range of targets around budgeted performance levels to apply in 2021 has been calibrated to take into account the current external environment and internal planning.

Long term incentive plan

- Policy maximum is 250% of salary
- Awards vest to the extent performance conditions are achieved
- Performance measures based on financial and/or relative TSR metrics and measured over three years with a ROCE underpin
- Committee may adjust outturn where formulaic assessment is inconsistent with Company's overall performance and/or there is a perceived windfall gain
- Holding period applies for two years following vesting
- Recovery and withholding provisions apply
- ROCE underpin introduced for the 2019 awards continues to apply

Link to KPIs

- EPS
- Relative TSR

	Paul Waterman	Ralph Hewins
LTIP Award	200% of salary	175% of salary

Performance metrics:

	Weighting	Threshold target	Threshold vesting	Maximum target
FY 2023 EPS	33%	10 cents per share	0%	13 cents per share
Cash conversion	33%	85%	0%	95%
Relative TSR vs FTSE all-share index	33%	Median	3.85%	Upper quartile

- The range of EPS targets is considered to be appropriately demanding noting (i) that vesting takes place from 0% (as opposed to the market norm of 25%), and (ii) in line with institutional investor expectations such that the range straddles consensus growth expectations
- Cash conversion is three year average Operating Cash Conversion

Chair and NED fees

- To attract individuals with the relevant skills, knowledge and experience that the Board considers necessary in order to maintain an optimal mix that ensures the effectiveness of the Board as a whole in carrying out its duties and responsibilities

- In line with treatment for the UK workforce, fees will increase by 2% for the upcoming year

	2021	2020	2021 Increase
Basic fees			
Chairman	£198,957	£195,055	(+2%)
Non-Executive Director	£52,294	£51,268	(+2%)
Additional fees			
Senior Independent Director	£9,087	£8,908	(+2%)
Chair of Audit or Remuneration Committee	£9,087	£8,908	(+2%)
Workforce engagement NED	£4,544	£4,454	(+2%)

REMUNERATION POLICY REPORT

The Company's existing Remuneration Policy was approved by shareholders at the Company's 2018 AGM and took effect from the date of that meeting. As stated in the Chairman's statement, the Committee are proposing the rollover of the current Policy for approval at the 2021 AGM, and if approved this will be the effective date of the Policy although it will be applied for the full financial year given it is essentially the same Policy as is currently in operation. A full Policy review will be conducted in 2021 with a view to presenting an amended Policy at the 2022 AGM.

The only minor amendment to the Policy presented at the 2021 AGM, is to formalise the changes to pension which had been agreed and communicated in the 2019 Directors' Remuneration report. This is a phased reduction to incumbent Executive Director pension provision so that the level of Company contribution in relation to pension is set to be aligned (as a percentage of salary) with the typical annual funding rate of pension benefits for UK employees as calculated in 2019. Newly appointed Executive Directors will be aligned with newly appointed UK employees. Further summary details of this change are included in the Remuneration Committee Chair's Introductory Statement in this Report with the details of the changes made set out in full in the 2019 Directors' Remuneration report.

The current Policy is aligned with the six factors listed in Provision 40 of the UK Corporate Governance Code:

- **Clarity** – the Policy is set out as transparently as possible and the workforce engagement director retains oversight of employee communication and education. We proactively consult our shareholders on any proposed changes to remuneration policy.
- **Simplicity** – the Remuneration Policy is structured as simply as possible however a degree of complexity is required to align pay and performance. Performance metrics are chosen to focus on the key operational, financial and strategic performance objectives of the business.
- **Risk** – the Remuneration Policy has been shaped to discourage inappropriate risk taking including long-term performance measurement, deferral and shareholding guidelines. The Committee retains discretion to override formulaic outcomes.
- **Predictability** – elements of the Policy are subject to caps and dilution limits. Examples of how remuneration varies depending on performance is set out in the scenario charts.
- **Proportionality** – there is a sensible balance between fixed pay and variable pay, and incentive pay is weighted to sustainable long-term performance.
- **Alignment to culture** – the Policy is weighted towards performance related pay which reflects supports a performance-based culture and the non-financial targets encourage innovation and optimisation which are also central to the Elementis culture and is aligned to Company values. These factors will be reconsidered as a part of the full policy review conducted in 2021.

POLICY TABLE

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

Basic salary

Purpose and link to Company's strategy	Targeted at a level to attract and retain world class executives who are essential to drive the business forward and deliver the Company's strategic goals.
How it operates in practice	<p>Annual salary increases that are broadly in line with the local workforce (in percentage of salary terms), subject to Committee approval.</p> <p><i>Increases beyond the average of those granted to the local workforce (in percentage of salary terms) may be awarded in certain circumstances, such as where there is a material change in responsibility or experience of the individual, to recognise exceptional performance over a sustained period or a significant increase in the complexity, size or value of the Company.</i></p> <p>Where new joiners or recent promotions have been placed on a below market rate of pay initially, a series of increases above those granted to the local workforce (in percentage of salary terms) may be given over the following few years subject to individual performance and development in the role.</p> <p>Salaries are normally reviewed in December and any changes are effective from 1 January in the following year.</p>
Maximum potential value	There is no prescribed maximum for salary increases. The Committee will be guided by the general increase for the local workforce and/or broader workforce as a whole, as well as the circumstances listed above.

Benefits

Purpose and link to Company's strategy	<p>To aid retention and to remain competitive in the marketplace. Healthcare benefits in order to minimise business disruption.</p> <p>Executive Directors may also participate along with other employees in the Group's HMRC approved SAYE or other equivalent savings based share schemes to share in the success of the Group.</p>
How it operates in practice	<p>Life assurance and private medical health insurance are provided.</p> <p>Provision of either a company car (for business and personal purposes) or a car allowance.</p> <p>Payments in connection with an international assignment and payments in connection with a relocation, which would typically be paid for a transitional period only, tailored to the location of each executive. The benefits may include provision of tax advice where, at the Company's request, the international location (or balance of time spent in different locations) is changed.</p> <p>Participation in all employee/savings based share option schemes as above.</p> <p>In addition, benefits in the US, where it is standard, include cover for dental costs, accidental death and disablement, long term disability and club membership.</p>
Maximum potential value	<p>SAYE/savings based schemes are subject to individual limits. These are \$2,000 per month in the US and in the UK up to the HMRC prescribed limit (£500 per month).</p> <p>Other benefits: the Committee will determine the level of benefit as it considers appropriate, taking into consideration local market practice.</p>

Pension

Purpose and link to Company's strategy	<p>To aid retention and remain competitive in the marketplace.</p> <p>To provide appropriate retirement benefits commensurate with local market practice, seniority of the role and tenure with the Company.</p>
How it operates in practice	<p>Executive Directors are eligible to participate in a Company sponsored pension scheme, a statutory pension arrangement, receive cash in lieu of a Company pension or a combination of these.</p>
Maximum potential value	<p>For incumbent Executive Directors pensions will be reduced in phases to be in aligned with the pension provision of the median employee:</p> <ul style="list-style-type: none"> • From 1 January 2020: 25% • From 1 December 2020: 24% • From 1 December 2021: 22.5% • From 1 December 2022: 21% <p>Any new Director appointment will have pension set to be aligned with the average of the appropriate wider workforce rate (currently 8% of salary).</p>

Annual bonus scheme

Purpose and link to Company's strategy	<p>To incentivise the senior management team to exceed the annual operating plan approved by the Board at the start of each financial year.</p> <p>To ensure that a significant proportion of an executive's total remuneration is based on corporate/ business financial performance that is linked to the Company's annual operating plan.</p> <p>Through the part deferral of bonuses into deferred shares this enables incentive pay to help executives build and maintain meaningful shareholdings and thereby providing a long term focus.</p>
How it operates in practice	<p>An annual bonus is based on over performance against selected performance measures which are linked to the Company's key performance indicators, or the achievement of strategic and/or operational objectives.</p> <p>Bonus payments are paid following the approval of full year results. Payments are based on salaries at the time of payment.</p> <p>Bonus deferral element: 50% of any cash bonus payable must be awarded in shares and deferred for 2 years. Dividends accrue on deferred shares (which are normally structured as nil cost options or conditional share awards) that vest during the vesting period. Deferred shares are forfeitable for gross misconduct (dismissal for cause).</p> <p>The Committee may seek recovery and/or withholding of bonuses paid that are later found to have been based on performance that was mis-stated or incorrectly calculated, or where the amount of any bonus may have been reduced or withheld due to reasons of gross misconduct. Recovery and withholding provisions will apply for a period of 3 years following payment of any bonus. Detailed provisions are incorporated into the rules of the various schemes which govern the terms of a bonus payment and/or the making of any deferred share or conditional award.</p>
Maximum potential value	<p>CEO: 150% of basic salary.</p> <p>CFO: 125% of basic salary.</p> <p>A higher annual bonus limit of 200% of basic salary may apply for new recruits.</p>
Framework used to assess performance	<p>Performance measures will be mainly financial measures. The Committee reserves the right to select other non-financial targets (including the basis of their measurement) as appropriate considering the Company's strategic objectives for the year ahead.</p> <p>The financial element of the bonus may include (but is not limited to) the Company's key performance indicators which include:</p> <p>Profit before tax or other measures of profitability.</p> <p>Group average trade working capital to sales ratio expressed as a percentage ('AWC') or other cash flow indicators.</p> <p>For any profit related metric, targets will be set at threshold, plan and stretch levels and the amount payable for threshold performance is 0% for financial targets rising on a graduated basis through to 100% becoming payable at the stretch performance level. With regards to non-financial targets, it is not always practicable to set targets on a sliding scale and so targets may be set based on the achievement of specific milestones and/or on a graduated scale.</p> <p>The Committee will consider the bonus outcome each year based on the Company's performance against the measures set at the start of the year. If it considers the quantum to be inconsistent with the Company's overall performance during the year it can override the result of the performance test. For the avoidance of doubt this can be to zero and bonuses may not exceed the maximum levels detailed above. Any use of such discretion would be detailed in the Annual report on remuneration.</p> <p>The Committee keeps performance metrics under review on an annual basis to ensure they continue to remain appropriate and has the discretion to introduce new metrics or remove existing ones and amend their relative weightings. As a result, the performance metrics and weightings may vary in line with the Company's evolving strategy during the life of the policy. The profit related element of annual bonus shall not be less than 50% of the overall bonus opportunity.</p>

Long term incentives

Purpose and link to Company's strategy	<p>The LTIP is the sole long term incentive mechanism for Executive Directors and is intended to align the interests of the executives and shareholders in growing the value of the Group over the long term.</p> <p>When granting awards under the LTIP the Committee generally takes into consideration the need to motivate and retain the Executive Directors and other participants.</p>
How it operates in practice	<p>Awards are normally structured as either nil cost options or conditional share awards which are eligible to be granted annually. Options may be exercisable 3 years from, and within 10 years of, the date of award. Share awards normally vest on the third anniversary of the date of award.</p> <p>A post-vesting holding period of 2 years will apply to annual awards.</p> <p>Recovery and withholding provisions similar to those described in respect of annual bonus payments but relating to the vesting of LTIP awards will apply to awards.</p> <p>Dividends may accrue on shares that vest during the vesting period (and during the post-vesting holding period where awards are structured as nil-cost options) and may be paid in cash or shares</p>
Maximum potential value	<p>The maximum award limit is set at 250% of basic salary.</p> <p>Current practice is as follows:</p> <ul style="list-style-type: none"> • CEO: 200% of basic salary • CFO: 175% of basic salary
Framework used to assess performance	<p>Awards are subject to achievement of financial (e.g. EPS) and/or relative TSR performance conditions, measured over a minimum of 3 financial years beginning with the financial year in which the award is made. The Committee also retains flexibility to introduce strategic targets as a performance measure for a minority of an award.</p> <p>For any financial performance condition, threshold vesting will start from 0% and this will increase on a graduated basis with 100% vesting for achieving the stretch targets.</p> <p>TSR will be measured against the constituents of a broad equity index, or a bespoke group of appropriate comparator companies. For any relative TSR performance condition, threshold vesting will start at 3.85% and this will also increase on a graduated basis with 100% vesting for achieving the stretch targets, which for the TSR performance condition will require at least upper quartile performance.</p> <p>In relation to strategic targets, the structure of the target will vary based on the nature of target set (i.e. it will not always be practicable to strategic targets using a graduated scale and so vesting may take place in full if specific criteria are met in full).</p> <p>The metrics and their weighting and targets within the LTIP will be reviewed each year.</p> <p>The Committee will consider the LTIP vesting outcomes for awards granted from 2018 based on applying the performance conditions and if it considers the level of vesting to be inconsistent with the Company's overall performance during the performance period (including its underlying financial performance) it can override the result of the performance test. For the avoidance of doubt this can be to zero. Any use of such discretion would be detailed in the Annual report on remuneration.</p>

Share ownership guidelines

Purpose and link to Company's strategy	To align an executive's interests with those of shareholders and to encourage executives to participate and share in the long term success of the Group.
How it operates in practice	<p>Executive Directors are expected to build up a shareholding in the Company that is equal in value to 200% of their basic annual salaries.</p> <p>Shares vesting from share awards, or transferred pursuant to an exercise of any option, granted under any share incentive or employee share saving scheme may not be sold (other than to meet a tax liability) until the above shareholding level has been met. In exceptional circumstances the Committee may allow the Director to sell some, or all, shares received from a share incentive scheme even if the individual has not met the share ownership guidelines, provided they are satisfied that shareholder interests are adequately aligned.</p> <p>The Committee monitors compliance with these guidelines and can make changes to them from time to time.</p>

Non-Executive Chairman and Directors' fees

Purpose and link to Company's strategy

Non-Executive Directors' fees are determined by the Chairman and the Executive Directors, having regard to fees paid to Non-Executive Directors in other UK quoted companies and the time commitment and responsibilities of the role.

In the case of the Chairman, the fee level is determined by the Committee. As well as taking into consideration the above factors, the Committee sets the fee at an appropriate level necessary to attract a role holder qualified to effectively lead the board of a company of a similar size and prestige as Elementis.

Fees are payable in cash and Non-Executive Directors are not eligible to participate in any pension, bonus or share incentive schemes.

All Non-Executive Directors are reimbursed for travel and related business expenses reasonably incurred in performing their duties so that they are fully recompensed on a pre-tax basis for undertaking Company business.

No individual is allowed to vote on his/her own remuneration.

How it operates in practice

Non-Executive Directors' fees are determined by the Chairman and the Executive Directors, having regard to fees paid to Non-Executive Directors in other UK quoted companies and the time commitment and responsibilities of the role.

In the case of the Chairman, the fee level is determined by the Committee. As well as taking into consideration the above factors, the Committee sets the fee at an appropriate level necessary to attract a role holder qualified to effectively lead the board of a company of a similar size and prestige as Elementis.

Fees are payable in cash and Non-Executive Directors are not eligible to participate in any pension, bonus or share incentive schemes.

All Non-Executive Directors are reimbursed for travel and related business expenses reasonably incurred in performing their duties so that they are fully recompensed on a pre-tax basis for undertaking Company business.

No individual is allowed to vote on his/her own remuneration.

Maximum potential value

Fees will be reviewed annually with changes taking effect from 1 January in the following year.

It is the Company's policy (other than where there is a step change in the time commitment required of the Non-Executives Directors) that fees paid to the Chairman and other Non-Executive Directors are increased annually in line with the average increase awarded to the UK salaried workforce.

LINK BETWEEN POLICY, STRATEGY AND STRUCTURE

The remuneration policy is principally designed to attract, motivate and retain the Executive Directors and other members of the Executive Leadership team (senior management team) to execute the Company's corporate and business strategies in order to deliver the annual operating plan and sustainable year on year profitable growth, as well as to generate and preserve value for shareholders over the longer term, without encouraging excessive levels of risk taking. The principles and values that underpin the remuneration strategy are applied on a consistent basis for all Group employees.

The remuneration structure for Executive Directors is made up of 2 elements: fixed remuneration (consisting of basic salary, benefits including for example non-contributory health insurance and life assurance and pension provision), and variable remuneration (annual bonus scheme and long term share incentives).

It is Company policy to reward all employees fairly, responsibly and by reference to local market practices, by providing an appropriate balance between fixed and variable remuneration.

CHOICE OF PERFORMANCE MEASURES AND APPROACH TO TARGET SETTING

The performance metrics that are used for annual bonus and long term incentive plans are drawn from a suite of Company KPIs monitored by the Board that are closely linked to the financial KPIs on pages 30 to 31.

In the annual bonus scheme, the financial measures currently used are adjusted Group profit before tax and AWC. Adjusted Group profit before tax is a clear measure of the Company's trading performance and AWC encourages the most efficient use of working capital and is how earnings are converted into cash. These metrics are aligned with the Company's objectives and strategy.

In addition, non-financial criteria also form part of the targets set in the bonus scheme and these are based on Company specific business objectives, such as the achievement of specific strategic or operational goals including metrics that take account of business or corporate performance in environmental, social and governance areas and typically incorporate specific HSE related targets or objectives.

With regard to long term performance targets, EPS is currently used since it is aligned with the Company's strategy of delivering profitable growth and creating long term shareholder returns. Cash conversion is also used to encourage efficient working practices. Use of relative TSR also further aligns shareholders and executives.

Targets for financial metrics are set relative to internal planning expectations after having regard to general economic conditions, external market data, current and past performance of the business and any organic or acquisitive growth plans.

Where appropriate, targets are set based on sliding scales. Only very modest rewards are available for delivering performance at threshold levels or above with maximum rewards requiring outperformance of our challenging plans approved at the start of each year.

The Committee keeps the choice of metrics and targets under review for both the annual and long term incentive plans each year to ensure they are appropriate in light of the Company's current circumstances. The Committee retains discretion to revise the choice of metric and weightings within the incentives as detailed above. Should the Committee make material changes to the application of remuneration policy from the approach (detailed on pages 59 to 60 of the 2017 annual report) e.g. introduce a strategic target into a future long term incentive award, appropriate consultation with the Company's major shareholders would take place.

DIFFERENCES IN EXECUTIVE REMUNERATION POLICY COMPARED TO OTHER EMPLOYEES

The Committee is informed of pay structures across the wider Group when setting the remuneration policy for Executive Directors. The Committee considers the general basic salary increase for the broader Group and, in particular the employees based in the US, UK and Europe, when determining salary increases for the Executive Directors.

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

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

In 2018, the Board introduced the ability to grant restricted shares into the new LTIP. The majority of the senior executive population at Elementis is based in the US where it is common market practice to grant restricted shares. It is considered that the ability to grant restricted shares in tandem with performance related share awards enables the Company to compete for the best talent.

Where restricted shares are used, the award levels will be lower than if performance shares were granted since restricted share awards are more valuable to a recipient given there is no performance requirement attached to the vesting of the award. Restricted shares will not be granted to Executive Directors.

HOW THE VIEWS OF EMPLOYEES ARE TAKEN INTO ACCOUNT

The Board has established a Designated Non-Executive Director for workforce engagement as a direct response to the UK Corporate Governance Code enabling the workforce voice in Board matters. The role of the workforce engagement director is to review and monitor employee insight informed by engagement activities and employee engagement surveys. For more information see page 74 on engaging with the workforce.

COMMITTEE DISCRETION WITH REGARD TO INCENTIVE PLANS

The Committee will operate the annual bonus plan, deferred share bonus plan, LTIP and all employee plans according to their respective rules and in accordance with the Financial Conduct Authority's Listing Rules (Listing Rules) and HMRC rules where relevant. The Committee retains discretion, consistent with market practice, in a number of regards to the operation and administration of these plans. These include the following (plan limits and performance targets restricted to the descriptions detailed in the preceding policy table):

- Who participates in the plans
- The timing of grant of award and/or payment
- The size of an award and/or payment
- The determination of vesting
- Dealing with a change of control (e.g. the timing of testing performance targets) or restructuring
- Determination of a good/bad leaver for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring and special dividends)
- The annual review of performance conditions, including metrics and weightings, for the annual bonus plan and LTIP

The Committee also retains the ability to adjust the targets and/or set different measures and alter weightings for the annual bonus plan and to adjust targets for the LTIP if events occur (e.g. material divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy. The Committee is introducing discretion to override incentive pay outcomes in the event that payouts are not considered reflective of overall Company performance having applied the performance conditions for the annual bonus and LTIP.

CEO AND CFO REWARDS SCENARIO ANALYSIS

The bar charts below illustrate the potential pay opportunities for Executive Directors under 3 different scenarios for 2021. The CEO's remuneration has been converted into pounds sterling using the average exchange rate for 2020 (\$1.2820:£1.00).

- Fixed: comprises fixed pay being the value of salary, benefits and pension (taken to be 24% of salary)
- On target: the amount receivable assumes performance in which 50% of annual bonus is payable and 50% of LTIP awards vest.
- Maximum: the maximum amount receivable should all stretch targets be met and vesting under both the annual bonus scheme and LTIP is 100%. In addition, in line with paragraph 35A of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) 2008 Regulations, we have provided an illustration of the maximum outcome assuming 50% share price appreciation for the purpose of the LTIP value.

The LTIPs also relate to awards to be made in 2021 rather than any awards vesting in 2021.

RECRUITMENT POLICY

For Executive Director recruitment and/or promotion situations, the Committee will follow the policy outlined below:

Element	Policy
Basic salary	Basic salary levels will be set in accordance with the Company's remuneration policy, taking into account the experience and calibre of the individual (e.g. typically around market rates prevalent in companies of comparable size and complexity) or salary levels may be set below this level (e.g. if the individual was promoted to the Board). Where it is appropriate to offer a below market rate of pay initially, a series of increases to the desired salary positioning may be given over the following few years subject to individual performance and development in the role.
Benefits	<p>New Directors may be entitled to benefits such as life assurance, private medical health insurance, cover for dental costs, accidental death and disablement, long term disability and provision of either a company car (for business and personal purposes) or a car allowance, club membership or any other appropriate benefit as the Committee reasonably determines.</p> <p>Where necessary the Committee may approve the payment of reasonable relocation expenses to facilitate recruitment for a maximum period of 12 months.</p>
Pension	Any new Executive Directors will have pension level set to be aligned with the appropriate wider workforce rate (currently 8% of salary).
Annual bonus	The annual bonus would operate as outlined for current Executive Directors but where necessary to aid recruitment the maximum bonus opportunity is 200% of basic salary for the life of this policy. Bonus will be pro-rated for the proportion of the year served. Depending on the timing and responsibilities of the appointment it may be necessary to set different performance measures and targets initially.
Long term incentives	<p>Awards under the LTIP will be granted in line with the policy outlined for the current Executive Directors on an annual basis but where necessary to aid recruitment the maximum award is 250% of basic salary for the life of this policy.</p> <p>An award may be made shortly after an appointment (subject to the Company not being in a prohibited period). For an internal hire, existing awards would continue over their original vesting period and remain subject to their terms as at the date of grant. In addition, if the grant of awards for that individual precedes his or her appointment as a Board Director for that financial year, the Committee's policy would include flexibility to top up awards for that year (subject to the overall individual salary limit) based on the executive's new salary.</p>
Buyout awards	<p>In the case of an external hire, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer), this would be provided for taking into account the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited.</p> <p>Replacement share awards may be granted using the Company's LTIP (up to the individual limit) or outside of the LTIP if necessary and as permitted under the Listing Rules.</p>
Interim appointments	Where a Director is appointed on an interim basis (e.g. to cover a role until a permanent successor is appointed), the Company may pay additional remuneration to an individual in line with the policy for the role.

OUTSIDE BOARD APPOINTMENTS

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

SHARE OWNERSHIP GUIDELINES

Executive Directors are expected to build up a shareholding in the Company that is equal in value to 200% of their basic annual salaries. Shares vesting from share awards, or transferred pursuant to an exercise of any option, granted under any share incentive or employee share saving scheme may not be sold (other than to meet a tax liability) until the above shareholding level has been met.

A post-cessation share ownership guideline has not yet been adopted. The Committee has however agreed that this will be a feature of the policy renewal to take place at the 2022 AGM and that it expects to introduce a guideline that reflects both current institutional investor expectations and market practice at that time.

SERVICE CONTRACTS

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

Name	Date of contract*	Notice period
Paul Waterman, CEO	6 November 2015	12 months
Ralph Hewins, CFO	27 June 2016	12 months

* The date of the service contract is not the same as the date of appointment which for Paul Waterman was 8 February 2016 and Ralph Hewins 12 September 2016.

Copies of the Executive Directors' service contracts are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the AGM.

POLICY ON PAYMENT FOR LOSS OF OFFICE

Termination payments

The maximum amount payable under both the CEO's and CFO's contract is basic salary, benefits and pension for 12 months while each serves his notice period. For the Executive Directors, the terms covering termination were agreed at the date their contracts were made and both are required to mitigate their loss in the event of loss of office by making efforts to secure a new position.

The Company may pay compensation in lieu of the notice period of basic salary only, to be paid in monthly instalments (pro-rated for the actual notice period). This would apply if the Company terminates his/her contract for any reason other than for cause, or if he/she serves notice to terminate his contract in 12 months' time.

Payments in lieu of notice to both the CEO and CFO may be reduced or ceased if either secures a new position. In both cases, the payments will only be ceased if the salary in a new position is equal to or more than the salary on termination; if not the monthly payments will be reduced by the gross salary earned by the CEO or CFO in his new position each month.

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

TREATMENT OF INCENTIVE PLANS

Annual bonus plan

If an Executive Director resigns and serves his/her notice period, the Committee retains discretion to make a pro-rata payment based on performance. The same applies in certain circumstances such as if the individual's employment is terminated on the grounds of ill health or disability. No bonus is payable for termination for cause.

In line with the Company's policy, rules of the annual bonus scheme incorporate a requirement to defer half of the amount of bonus vesting for 2 years in the form of share awards under the deferred share bonus plan. In certain 'good leaver' circumstances (e.g. ill health, death), the Committee, acting fairly and reasonably, may waive deferral.

Deferred share bonus plan

If an Executive Director's employment is terminated before a deferred share award vests (after 2 years), then the awards would vest in full on the date of leaving unless termination is for cause in which case the awards would lapse.

LTIP

As with the annual bonus plan, the Company's current (and proposed) LTIP also includes a number of discretions in connection with an Executive Director leaving employment. Other than in certain defined 'good leaver' circumstances, awards lapse on cessation of employment. Where an individual ceases employment for one of the defined 'good leaver' events (i.e. ill health, disability, redundancy within the meaning of UK legislation or its overseas equivalent, transfer out of the Group/sale of business or retirement with employer's consent and, in the case of the new LTIP, any other reason at the discretion of the Committee), the award will remain eligible to vest on its normal vesting date (unless the Committee uses its discretion to vest the award on the date of cessation of employment) in all cases subject to a pro-rata reduction to reflect the portion of the vesting period that has elapsed (unless the Committee determines otherwise) and the application of the performance condition. In the event of a death of an Executive Director the default is for the award to vest at the date of death unless the Committee determines otherwise in which case it will vest at the normal vesting date with pro-rating and performance conditions applied as described in other 'good leaver' circumstances.

Similar provisions apply in the event of a change of control, with performance measured up to the date of the relevant event, and a pro-rata reduction applying unless the Committee determines otherwise.

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

PAYMENTS AGREED PRIOR TO THE EFFECTIVE DATE OF THIS POLICY

Any agreements entered in good faith prior to the commencement of the 2021 remuneration policy will remain eligible to operate on their original terms.

NON-EXECUTIVE DIRECTORS' TERMS OF APPOINTMENT

Non-Executive Directors are appointed for a 3 year term, subject to annual re-election by shareholders. For Non-Executive Directors who have served for 9 years or more, they may be appointed for a further year at a time. Each letter of appointment currently provides that the Director's appointment can be terminated by the Company on 6 months' notice on any grounds without claim for compensation. Following the 2018 AGM, the letters of appointment of the Non-Executive Directors were amended to 30 days' notice by either party, which is the application of the new remuneration policy where a limit of up to 3 months is permitted. All other terms will remain the same. The Chairman's letter of appointment will remain with a 6 months' notice period.

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

The table below provides further details of the letters of appointment that the Non-Executive Directors held with the Company during 2020.

Name	Date of appointment	Date of last re-appointment	Date of expiry
NON-EXECUTIVE DIRECTORS			
A Duff	01 April 2014	1 April 2020	1 April 2023
D Deuring	1 March 2017	1 March 2020	1 March 2023
S Good	20 October 2014	20 October 2020	20 October 2023
A Hyland	1 June 2013	1 June 2019	1 June 2022
J O'Higgins	4 February 2020	n/a	4 February 2023
C Soden	1 November 2020	n/a	1 November 2023

Copies of all letters of appointment of Non-Executive Directors are available on the Company's website.

SHAREHOLDER ENGAGEMENT

The views of shareholders are important to the Committee. Regular dialogue and engagement with the Company's shareholders is undertaken. For example, the Committee wrote to its major shareholders and the leading advisory bodies in May 2020 noting the intent to renew the current remuneration policy for a further year in light of COVID-19 as detailed in the Annual Statement on page 87. As a result of the feedback received, which was supportive, a confirmation letter was sent to those consulted. The Committee will undertake a full consultation with shareholders in 2021 in relation to presenting an updated remuneration policy at the 2022 AGM.

ANNUAL REPORT ON REMUNERATION (REPORT)

This Report details how the Company's policies and practices on Directors' remuneration were applied in respect of the financial year ended 31 December 2020 and how they will be applied in the 2021 financial year.

REMUNERATION PAYABLE TO DIRECTORS FOR 2020 (AUDITED)

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

A breakdown of the Directors' remuneration for the year ended 31 December 2020 is set out in the table below.

£'000	Year	Fixed			Sub-total	Performance related		Other ³	Sub-total	Total
		Salary/fees	Benefits ²	Pension		Bonus	LTIP			
EXECUTIVE DIRECTORS										
Paul Waterman, CEO ¹	2020	716	76	178	970	0	–	37	0	1,007
	2019	705	70	152	927	187	–	–	187	1,114
Ralph Hewins, CFO	2020	362	26	90	478	0	–	–	0	478
	2019	354	25	89	468	75	–	–	75	543
NON-EXECUTIVE DIRECTORS										
Andrew Duff, Chairman	2020	195	–	–	195	–	–	–	–	195
	2019	191	–	–	191	–	–	–	–	191
Sandra Boss ⁴	2020	19	–	–	19	–	–	–	–	19
	2019	51	–	–	51	–	–	–	–	51
Dorothee Deuring	2020	51	–	–	51	–	–	–	–	51
	2019	50	–	–	50	–	–	–	–	50
Steve Good	2020	60	–	–	60	–	–	–	–	60
	2019	59	–	–	59	–	–	–	–	59
Anne Hyland	2020	60	–	–	60	–	–	–	–	60
	2019	59	–	–	59	–	–	–	–	59
John O'Higgins ⁵	2020	46	–	–	46	–	–	–	–	46
	2019	–	–	–	–	–	–	–	–	–
Nick Salmon ⁶	2020	20	–	–	20	–	–	–	–	20
	2019	59	–	–	59	–	–	–	–	59
Christine Soden ⁷	2020	9	–	–	9	–	–	–	–	9
	2019	–	–	–	–	–	–	–	–	–
TOTAL	2020	1,538	102	268	1,908	0	–	37	0	1,945
Total	2019	1,528	95	241	1,864	262	–	0	262	2,126

1 Paul Waterman is based in the US and paid in US dollars. He received an annual salary \$918k (2019: \$899k). His pension comprises 20% of his salary and employer contributions to defined contribution retirement schemes. Foreign exchange rate applied is the 2020 average rate of \$1.2820:£1.00 (2019: \$1.2764:£1.00).

2 Taxable benefits for Paul Waterman consist of a car allowance, private health care (£19,265), dental, life assurance, accidental death and disablement cover and long term disability insurance (£20,953), and tax advice (£23,401). The tax advice benefit allowed appropriate tax filings to be made in both the UK and US as a result of company business travel requirements during 2019/20 which exceeded the normal business expectations agreed on appointment and gave rise to the need for dual filings. Taxable benefits for Ralph Hewins consist of a car allowance (£18,000), private health care and life assurance.

3 As required by remuneration reporting regulations, the valuation of Paul Waterman's US Savings-Related Share Option Scheme (SRSOS) award is based on the face value of shares at grant (September 2020). There are no performance measures for the SRSOS.

4 Sandra Boss stepped down from the Board on 29 April 2020.

5 John O'Higgins was appointed a Non-Executive Director on 4 February 2020 and became Senior Independent Director on 29 April 2020.

6 Nick Salmon stepped down from the Board on 29 April 2020.

7 Christine Soden was appointed a Non-Executive Director on 1 November 2020 and is the Designated Non-Executive Director for workforce engagement.

DETERMINATION OF ANNUAL BONUS OUTCOME FOR PERFORMANCE IN 2020 (AUDITED)

This section shows the performance targets set in respect of the 2020 annual bonus scheme, the level of performance achieved.

As detailed in the Chair's Introductory Statement, while we performed robustly against challenging average working capital targets and our strategic targets, including in the areas of Growth and Efficiency, whilst we performed resiliently in 2020 and met the bonus targets in parts, including exceeding our threshold working capital target and achieving strongly against our non-financial strategic targets, the Executive Directors recommended, and the Committee agreed, that no bonuses should be payable in relation to 2020.

Based on a testing of the performance conditions originally set, the bonus payable would have been as follows but for the Committee agreeing no bonuses would be payable.

Full year bonus	Relative weighting of performance conditions	FY 2020 bonus plan targets					Percentage of Maximum Bonus Earned		Percentage of Salary Earned	
		Threshold	Plan	Stretch	Actual result	Percent of maximum	Paul Waterman CEO	Ralph Hewins CFO	Paul Waterman CEO	Ralph Hewins CFO
Maximum as % salary							100%	100%	150%	125%
PBT (\$m)	50%	93.5	97.2	106.9	52.7	0%	0%	0%	0%	0%
AWC (%)	20%	25.3	23.3	21.3	23.8	50%	10%	10%	15%	12.5%
Non-financial	30%	See disclosure below					22%	21.5%	33%	26.9%
TOTAL FULL YEAR	100%						32%	31.5%	48%	39.4%
POST DISCRETION							0%	0%	0%	0%

In relation to the targets, 0% is payable at the threshold performance levels, 50% at Plan and 100% at the maximum performance level.

Set out below are the challenging 2020 individual strategic objectives and actual performance against them prior to the use of discretion by the Committee to reduce the bonus outcomes. The objectives established and the assessment of performance is shown in the table below. The objectives were categorised into three groups – (1) Safety, Compliance & Risk Management, (2) Strategic Implementation and (3) People, with each group having an equal weighting.

2020 BONUS ASSESSMENT FOR CEO

Measure	Performance indicators	Achievements	Summary scoring
Safety, compliance and risk management – 10%	<ul style="list-style-type: none"> Reportable Injuries: TRIR – target <0.54, threshold <0.69 and stretch <0.39 Environmental Tier 2/3 incidents: target Tier 2 incidents = 1, threshold = 1 Tier 3 and stretch = 0 LTA > 3 days: target = 2, threshold = 3, stretch = 1 	<ul style="list-style-type: none"> TRIR = 0.68 Environmental Tier 2/3 incidents = 0 LTA > 3 days = 2 	6/10
ASSESSMENT	Targets partially achieved – further investment made in Safety culture through Together SAFE programme		
Strategic Implementation – 10%	<ul style="list-style-type: none"> Increase number of new products launches to 16 in 2020. Increase revenue contribution of unique and distinctive products to 47% in 2020 	<ul style="list-style-type: none"> 12 new product innovations delivered Revenue contribution of unique and distinctive products to 46% in 2020 	8/10
ASSESSMENT	Targets partially achieved		
People – 10%	<ul style="list-style-type: none"> Deliver \$26.5m of new business pipeline. Talc Revenue synergies achieved 	<ul style="list-style-type: none"> \$30m of new business achieved Talc Revenue synergies delivered 	
ASSESSMENT	All targets achieved or exceeded		
Efficiency – 10%	<ul style="list-style-type: none"> Supply chain operational savings 	<ul style="list-style-type: none"> Actions in place to underpin \$10m savings by 2021. Continued development of AP Actives plant in India 	
ASSESSMENT	Targets mainly achieved		
Financial Resilience – 10%	<ul style="list-style-type: none"> Pro-active actions to underpin net debt/ EBITDA ratio performance 	<ul style="list-style-type: none"> Optimise CAPEX H1 vs H2 (\$15m H1 vs \$26m H2) Put in place 2x Covenant relaxation mechanisms Delivered \$7m additional underlying working capital reduction 	
ASSESSMENT	Targets achieved		
People – 10%	<ul style="list-style-type: none"> Drive Employee Engagement Embed the Organisational Changes Diversity, Equity and Inclusion (DE&I) 	<ul style="list-style-type: none"> Increased employee engagement score Step change in organisational efficiency evidenced by reduced layers, increase in span of control and \$5m staff cost savings Established DE&I Council and key activities as part of 3 year plan 	8/10
ASSESSMENT	Targets mainly achieved		

2020 BONUS ASSESSMENT FOR CFO

Measure	Performance indicators	Achievements	Summary scoring
Safety, compliance and risk management – 10% ASSESSMENT Targets partially achieved – further investment made in Safety culture through Together SAFE programme	<ul style="list-style-type: none"> Reportable Injuries: TRIR – target <0.54, threshold <0.69 and stretch <0.39 Environmental Tier 2/3 incidents: target Tier 2 incidents = 1, threshold = 1 Tier 3 and stretch = 0 LTA > 3 days: target = 2, threshold = 3, stretch = 1 	<ul style="list-style-type: none"> TRIR = 0.68 Environmental Tier 2/3 incidents = 0 LTA > 3 days = 2 	6/10
Strategic Implementation – 15% Actions to deliver "Growth" Strategic Priority	<ul style="list-style-type: none"> Deliver \$26.5m of new business pipeline Talc Revenue synergies achieved 	<ul style="list-style-type: none"> \$30m of new business achieved Talc Revenue synergies achieved 	12/15
ASSESSMENT All targets achieved or exceeded Actions to deliver "Efficiency" Strategic Priority	<ul style="list-style-type: none"> Supply Chain Operational Savings 	<ul style="list-style-type: none"> Actions in place to underpin \$10m savings by 2021. Continued development of AP Actives plant in India 	
ASSESSMENT Targets partially achieved Actions to deliver "Efficiency" Strategic Priority	<ul style="list-style-type: none"> Development of the IT Platform Management Information and business Intelligence (MI/BI) development 	<ul style="list-style-type: none"> Implementation of JDE in Asia delayed due to COVID-19 Successful transition from IBM Notes to cloud based system Partial implementation of the 2020 element of the MI/BI platform and project 	
ASSESSMENT Targets partially achieved Actions to deliver additional Financial Resilience Strategic Priority	<ul style="list-style-type: none"> Pro-active actions to underpin net debt/ EBITDA ratio performance 	<ul style="list-style-type: none"> Optimise CAPEX H1 vs H2 (\$15m H1 vs \$26m H2) Put in place 2 x Covenant relaxation mechanisms. Delivered \$7m additional underlying working capital reduction 	
People – 5% Actions to deliver "People" Strategic Priority	<ul style="list-style-type: none"> Drive engagement of Finance & IT teams Finance team capability 	<ul style="list-style-type: none"> Achieved improved finance and IT function engagement scores Progress made securing continuity of knowledge and expertise in the Finance teams in building collaboration between US and UK teams 	3.5/5
ASSESSMENT Targets mainly achieved			

DIRECTORS' SHARE BASED AWARDS**Determination of 2018 LTIP awards (audited)**

Under the 2018 Award, achieving the threshold EPS growth target (3% p.a.) would result in 0% of the EPS portion vesting and achieving the threshold TSR target (median rank versus the FTSE All Share Constituents excluding Investment Trusts) would result in 3.85% of the TSR portion vesting.

Neither the EPS threshold target or the TSR threshold target was met and so the awards lapsed.

Annual LTIP awards granted in the year (audited)

On 7 April 2020, LTIP awards were granted in line with the Remuneration Policy. Whilst the CEO was granted a notional award over shares to the value of 200% of salary and 175% of salary for the CFO, this was based on a notional share price at grant of 73.5p as opposed to the actual closing share price on 6 April 2020 of 49p. Based on the actual share price at grant awards were reduced by 33% versus the normal award levels granted to the Executive Directors. The actual awards expressed as a percentage of salary using the grant share price were 135% of salary for the CEO and 117.5% of salary for the CFO. The Committee also maintains discretion to reduce the number of shares on vesting should it be considered appropriate, including in the event of a perceived windfall gain.

Details of the main terms of the 2020 LTIP awards are summarised in the table below. The awards are subject to EPS, TSR and Operating Cash Conversion performance conditions (equally weighted) each measured over the three years to 31 December 2022 as shown in the table below.

Operating Cash Conversion was included in addition to EPS and TSR given the increased focus as a result of the impact of COVID-19 as explained in the Chair's Introductory Letter.

Award holder	Type of share award	Grant date	Number of awards	Face value of award at grant (£'000s) ¹	Percentage that would vest at threshold performance	The end date of the performance period	A summary of performance targets and measures
Paul Waterman	Nil cost (restricted stock unit)	07.04.2020	2,037,577	1,498	0% of the award subject to the EPS condition and 3.85% of the award subject to the TSR condition and 0% of the award subject to operating cash conversion	31.12.2022	Average annual EPS growth of 3% to 12% and TSR performance of median to upper quartile and Three-year operating cash conversion between 85% and 95%
Ralph Hewins	Nil cost option	07.04.2020	862,469	634	0% of the award subject to operating cash conversion		

1 The share price used to determine the number of awards granted was a notional price of 73.5p pence – the share price on the day prior to award was 49p, in effect reducing the award size by 33%.

2 Details of deferred bonus and savings based share schemes are shown in the table overleaf.

SOURCING SHARES FOR OUR SHARE PLANS

Employee share plans comply with the Investment Association's guidelines on dilution which provide that overall issuance of shares under all plans should not exceed an amount equivalent to 10% of the Company's issued share capital over any ten year period, with a further limitation of 5% in any ten year period on discretionary plans. Based on the number of awards that remain outstanding as at the year end, the Company's headroom for all plans is 4.80% and for discretionary plans is 3.99% of issued share capital.

DIRECTORS' SCHEME INTERESTS (AUDITED)

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

				Scheme interests					Vested but unexercised share options
Interest type	Grant date	Option price (p)	01.01.20 ^(A)	Granted during 2020	Exercised during 2020	Lapsed during 2020	31.12.20		
EXECUTIVE DIRECTORS									
Paul Waterman	LTIP ^(A)	03.04.2017	–	512,509	–	–	512,509	–	
	DSBP ^(B)	05.03.2018	–	159,523	–	159,523	–	–	
	LTIP ^(A)	30.04.2018	–	483,127	–	–	483,127	–	
	DSBP ^(B)	06.03.2019	–	110,378	–	–	110,378	–	
	LTIP ^(A)	01.04.2019	–	849,282	–	–	849,282	–	
	DSBP ^(B)	05.03.2020	–	–	188,130	–	188,130	–	
	LTIP ^(A)	07.04.2020	–	–	2,037,577	–	2,037,577	–	
SRSOS ^(E)	15.09.2020	63.11	–	59,188	–	–	59,188	–	
TOTAL SCHEME INTERESTS			2,114,819	2,284,895	159,523	512,509	3,727,682	Nil	
Ralph Hewins									
	DSBP ^(B)	07.03.2017	–	7,140	–	–	7,140	7,140	
	RA ^(D)	07.03.2017	–	17,458	–	–	17,458	17,458	
	RA ^(C)	07.03.2017	–	92,262	–	–	92,262	92,262	
	LTIP ^(A)	03.04.2017	–	221,128	–	–	221,128	–	
	DSBP ^(B)	05.03.2018	–	73,123	–	–	73,123	73,123	
	LTIP ^(A)	30.04.2018	–	229,983	–	–	229,983	–	
	SAYE ^(F)	27.11.2018	163.91	10,981	–	–	10,981	–	
	DSBP ^(B)	06.03.2019	–	48,865	–	–	48,865	–	
	LTIP ^(A)	01.04.2019	–	381,469	–	–	381,469	–	
	DSBP ^(B)	05.03.2020	–	–	76,266	–	76,266	–	
LTIP ^(A)	07.04.2020	–	–	862,469	–	862,469	–		
TOTAL SCHEME INTERESTS			1,082,409	938,735	0	221,128	1,800,016	189,983	

Notes

- (A) LTIP awards are subject to performance conditions. The same relative TSR performance conditions apply in respect of the awards made in 2017, 2018 and 2019 and the same EPS growth targets apply to all awards (annual growth of 3% to 10%) other than the 2019 award (annual growth of 3% to 12%). The 2020 award is based on EPS, TSR and operating cash conversion targets. The EPS and TSR targets are the same as the 2019 award and the operating cash conversion performance conditions is based on three year targets between 85% and 95%. These awards ordinarily vest on the third anniversary of the grant date. Full detail of the vesting conditions are set out on page 108.
- (B) Conditional share award under the Deferred Share Bonus Plan (DSBP). Structured as restricted stock units for Paul Waterman and nil cost options for Ralph Hewins. For DSBP awards granted in March 2020, the share price at date of grant was 98.95 pence. The face value of awards at grant were £186,154.63 and £75,466 for Paul Waterman and Ralph Hewins respectively.
- (C) Replacement Awards structured as nil cost options made under standalone arrangements that borrow terms from the LTIP as amended. In line with the remuneration forfeited on leaving his former employer, the 2017 Award did not have performance conditions, but shares were required to be held for two years.
- (D) Replacement Awards structured as nil cost options made under standalone arrangements that borrow terms from the DSBP as amended.
- (E) Grant under the Elementis plc US Savings-Related Share Option Scheme 2018. The options are exercisable from 15 September 2022 with an option price of 63.11 pence per share. The options are made pursuant to a two year savings contract and the exercise price is based on the share price at close of business on 15 September 2020, being the date of the grant.
- (F) Options held under the UK SAYE scheme. This is a savings based share option scheme that is not subject to performance conditions. Further details on this scheme is shown in Note 26 to the consolidated financial statements on page 169.

DIRECTORS' SHARE INTERESTS (AUDITED)

The interests of the Directors (including any connected persons) during the year (and from the year end to 23 March 2021) in the issued shares of the Company were:

	01.01.20	Acquired during 2020	Disposed during 2020	31.12.20	Shareholding level met as at 31.12.20
EXECUTIVE DIRECTORS					
Paul Waterman	435,872	277,971	0	713,843	No ¹
Ralph Hewins	14,660	44,533	0	59,193	No ¹
NON-EXECUTIVE DIRECTORS					
Andrew Duff	69,500	44,000	0	113,500	n/a
Sandra Boss	15,625	25,000	0	40,625	n/a
Dorothee Deuring	16,250	10,000	0	26,250	n/a
Steve Good	12,500	50,000	0	62,500	n/a
Anne Hyland	22,153	0	0	22,153	n/a
John O'Higgins	0	0	0	0	n/a
Nick Salmon	17,500	0	0	17,500	n/a
Christine Soden	0	0	0	0	n/a

1 As per the Policy, Executive Directors are expected to build up a shareholding that is equal in value to 200% of their basic annual salaries. Share awards vesting over time will contribute to meeting the shareholder requirement. See page 109 for current holding values.

The market price of ordinary shares at 31 December 2020 was 115 pence (2019: 179 pence) and the range during 2019 was 18 pence to 185 pence (2019: 129.8 pence to 179.7 pence).

As at 31 December 2020, the Trustee of the Company's Employee Share Ownership Trust (ESOT) held 621,236 shares (2018: 780,759).

As Executive Directors, Paul Waterman and Ralph Hewins, as potential beneficiaries under the ESOT, are deemed to have an interest in any shares that become held in the ESOT.

As at 23 March 2021, no person who was then a Director had any interest in any derivative or other financial instrument relating to the Company's shares and, so far as the Company is aware, none of their connected persons had such an interest. Between 31 December 2020 and 23 March 2021 there was a change to Paul Waterman's relevant interests due to the automatic vesting of a DSBP award granted in 2018 increasing the level of shareholding by 60,619 shares after deduction of tax and withholding liabilities. There was no other change, so far as the Company is aware, in the relevant interests of other Directors or their connected persons.

Other than their service contracts, letters of appointment and letters of indemnity with the Company, none of the Directors had an interest in any contract of significance in relation to the business of the Company or its subsidiaries at any time during the financial year.

RETIREMENT BENEFITS

The table below shows the breakdown of the retirement benefits of the Executive Directors, comprising employer contributions to defined contribution plans and salary supplements paid in cash.

Paul Waterman received a salary supplement of 20% of his basic salary and participated in US contractual retirement schemes. Further detail can be found in the Policy. The amount shown in the table below represents employer matching contributions and both this and the salary supplement are included in the Directors' emoluments table shown on page 105.

Ralph Hewins received a salary supplement of 25% of his basic salary in lieu of any other retirement benefit. The amount received is shown in the table below and in the Directors' emoluments table.

DIRECTORS' RETIREMENT BENEFITS (AUDITED)

	Defined contribution plans		Salary supplement	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Paul Waterman	36	11	143	141
Ralph Hewins	n/a	n/a	90	89

Note: The pensions received were in line with the glidepath set out in the 2019 Directors' Remuneration report and for Paul Waterman included contributions to his US pension arrangements (which included a tax qualified 401k plan and a non-qualified plan with contributions to these structures varying year to year but in all cases capped in line with the commitments included in the 2019 Directors' Remuneration report).

PAYMENTS TO PAST DIRECTORS OR PAYMENTS FOR LOSS OF OFFICE (AUDITED)

There were no payments in the financial year.

TOTAL SHAREHOLDER RETURN PERFORMANCE AND CHANGE IN CEO'S PAY

The graph below illustrates the Company's total shareholder return for the ten years ended 31 December 2020, relative to the FTSE 250 Index, along with a table illustrating the change in CEO pay since 2010. The table also details the varying award vesting rates year on year for the annual bonus scheme and LTIP.

As the Company's shares are denominated and listed in pence, the graph below looks at the total return to 31 December 2020 of £100 invested in Elementis on 31 December 2010 compared with that of the total return of £100 invested in the FTSE 250 Index. This index was selected for the purpose of providing a relative comparison of performance because the Company is a member of it.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CEO pay (total remuneration – £'000s)	2,964	3,560	2,252	1,573	763	1,553 ¹	2,539	1,229	1,114	970
Annual bonus payout (% of maximum)	100%	81%	56%	50%	0%	27.5%	93.0%	35.0%	17.3%	0%
LTIP vesting (% of maximum)	100%	100%	100%	65%	0%	91.2% ²	91.4% ³	0%	0%	0%

1 Includes remuneration for Paul Waterman and David Dutro for the period in which each was CEO during 2016.

2 Relates to Paul Waterman's buy-out awards which vested in March 2017.

3 Relates to Paul Waterman's buy-out awards vesting in March 2018.

CEO TO ALL-EMPLOYEE PAY RATIO

Whilst Elementis is not required to publish a CEO to all-employee pay ratio given it has less than 250 UK employees, voluntary disclosure of the pay ratio is included below. In line with the relevant legislation, the analysis has been completed using Option A (i.e. actual total remuneration earned in 2019 has been used as the basis for comparison).

Whilst this is only based upon 73 UK employees there is a mix of factory based employees c. 80% and corporate Head Office employees. Option A was used as it was deemed the most accurate and prevalent amongst recent FTSE 250 disclosures. The ratio has reduced in 2020 versus 2019 largely due to no bonuses being earned in 2020 by Executive Directors. The ratio is comparable with that measured internally for 2019 and is consistent with the pay, reward and progression policies for the company's UK employees taken as a whole.

CEO pay ratio	2019	2020
Method	A	A
CEO Single figure	£1,114,000	£1,007,671
Upper quartile	15	14
Median	21	19
Lower quartile	25	23

The salary and total pay for the individuals identified at the Lower quartile, Median and Upper quartile positions in 2020 are set out below:

2020	Salary	Total Pay
Upper quartile individual	£49,407	£70,407
Median individual	£43,268	£51,605
Lower quartile individual	£38,203	£41,641

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows the total remuneration paid across the Group together with the total dividends paid in respect of 2020 and the preceding financial year.

£m	2020	2019	Change
Remuneration paid to all employees ¹	97.7	107.8	-9.4%
Total dividends paid in the year	0	37.6	-100%

1 See note 8 to the Consolidated financial statements. The amounts for 2020 and 2019 have been converted from dollars into pounds sterling using the average USD/GBP exchange rates for those years.

PERCENTAGE CHANGE IN THE REMUNERATION OF THE DIRECTORS (UNAUDITED)

The table below shows the change from 2019 to 2020 of the Directors' pay with regard to the three elements set out below and the corresponding change of these elements across all employees within the Group.

	Average percentage change 2019-20		
	Salary	Taxable benefits	Annual bonus
CEO ^{1,2,3}	2.0%	8.5%	-
CFO ^{1,2}	2.2%	2.8%	-
Andrew Duff	2.2%	-	-
Sandra Boss ⁴	2.8%	-	-
Dorothee Deuring	2.2%	-	-
Steve Good	2.2%	-	-
Anne Hyland	2.2%	-	-
Nick Salmon	2.2%	-	-
John O'Higgins	n/a	-	-
Christine Soden	n/a	-	-
Employees	-9.4%	-	-

1 All percentages are based on converting relevant local currencies into pounds sterling using the average rates for the respective year.

2 The Executive Directors recommended and the Committee agreed that no bonuses should be payable in relation to 2020 performance.

3 The year on year change in (i) the CEO's benefits are driven by increased private medical insurance subscription as a result of a change in coverage and (ii) changes in employee salary, benefits and bonus are driven by changes to the employee population and movements in exchange rates.

4 Sandra Boss was appointed as Designated Non-Executive Director for workforce engagement in October 2019 and retired from the Board in April 2020.

STATEMENT OF SHAREHOLDER VOTING

The resolution to approve the 2017 Directors' remuneration policy was passed on a poll at the Company's 2018 AGM held on 26 April 2018 and the 2019 Directors' Remuneration report was passed on a poll at the Company's 2020 AGM held on 29 April 2020. Set out in the table below are the votes cast by proxy in respect of these resolutions.

	Votes for	% For	Votes against	% Against	Votes with-held
2019 Directors' remuneration report (2020 AGM)	346,742,847	90.65	35,776,984	9.35	46,441,369
2017 Directors' remuneration policy (2018 AGM)	378,249,966	99.35	2,477,105	0.65	892,722

Votes withheld are not included in the final figures as they are not recognised as a vote in law.

OTHER INFORMATION ABOUT THE COMMITTEE'S MEMBERSHIP AND OPERATION**Committee composition**

The Chairman and members of the Committee are shown on pages 66 to 67, together with their biographical information. Five meetings were held during 2020 and the attendance of Committee members are shown on page 87.

The Chairman, CEO and other Non-Executive Directors who are not members of the Committee have a standing invite to attend and the CFO and CHRO also attend meetings by invitation, as appropriate. The Executive Directors are not present when their own remuneration arrangements are discussed or, if they are, they do not participate in the decision making process.

TERMS OF REFERENCE

A full description of the Committee's terms of reference is available on the Company's website at www.elementis.com.

ACTIVITIES DURING THE YEAR

The Committee ensure that the Policy promotes sustained performance of the Company and is aligned with shareholder interests with incentive pay based on growing profits and delivering above average total shareholder return. In line with the business operations as a global specialty chemicals company, our Policy is designed with a bias towards long term performance. In line with this strategy, the performance metrics are selected to focus on profitable growth and delivering above average total shareholder returns.

The Committee consider the Directors' remuneration in the context of remuneration practices across the group, considering pay ratios (including the CEO pay ratio and gender pay gap), internal relativities, and external benchmarking. The Committee is of the opinion that the Policy is currently operating as intended, and provides a strong link between company performance and outturns.

In the forthcoming review of the Policy, the Committee will consider the clarity, simplicity, risk alignment, predictability of outcomes, proportionality and alignment with culture. These are also considered when implementing the Policy. For example, salary increases are considered in the context of the increases provided to the wider employee population, the measures used in the incentive schemes are directly linked to the KPIs used within business and both the annual bonus and LTIP have clearly defined performance targets.

Shareholders will be consulted during the Policy review in 2021 in advance of it being presented for approval at the 2022 AGM.

Committee meeting dates	Agenda items
February 2020	<ul style="list-style-type: none"> • 2017 LTIP performance outcomes • 2020 LTIP targets/performance conditions • ELT salary review and bonus payments • Approval of final draft of Director's remuneration report • Executive Directors' pension arrangements • Remuneration policy review
April 2020	<ul style="list-style-type: none"> • 2020 LTIP grant
June 2020	<ul style="list-style-type: none"> • Remuneration policy review • Employee share schemes
October 2020	<ul style="list-style-type: none"> • Remuneration policy update • Workforce pay review • 2021 salary reviews for Paul Waterman and Ralph Hewins • Review of performance to date for 2020 annual bonus • Chairman's fee review • Special share award allocations for employees
December 2020	<ul style="list-style-type: none"> • Corporate governance update • Application of remuneration policy in 2021 • Gender pay gap review (UK and global perspectives)

Outside of the above meeting dates the Committee considered and confirmed operational matters in appropriate forums (e.g. the Executive Directors' 2020 annual bonus targets, granting of the 2020 LTIP awards).

Evaluation, training and development

On an annual basis the Committee's effectiveness is reviewed as part of the evaluation of the Board. Following the evaluation last year, there were no major issues to report. During 2020, Committee members were updated on the latest developments on executive remuneration and all members received briefings from the Group Company Secretary and the Committee's remuneration advisers throughout the year, to keep them updated on topical matters and developments relating to executive remuneration.

Remuneration advisers

Korn Ferry were appointed external advisers to the Committee with effect from April 2017. The Committee is satisfied that there was no over reliance on Korn Ferry and that advice received was independent and objective. Korn Ferry are a member of the Remuneration Consultants Group and voluntarily operate under the Code of Conduct. Fees paid to Korn Ferry for remuneration advisory services in 2020 were £47,570 (excluding VAT) and were charged on a time and materials basis. In addition to the remuneration advisory services provided by Korn Ferry, another team provided assistance in respect of executive assessments. There are no other connections with the Company that may impact the independence of the remuneration advice received given the nature of the other services provided and the internal protocols at Korn Ferry.

Auditable sections of the Directors' Remuneration report

The sections of the Annual Report on Remuneration that are required to be audited by law are as follows: Remuneration payable to Directors for 2020 and Retirement benefits; and tables headed Annual LTIP awards granted in the year, Directors' scheme interests, Directors' share interests and Directors' retirement benefits.

STEVE GOOD

CHAIRMAN, REMUNERATION COMMITTEE

23 March 2021

Directors' report

DIRECTORS' REPORT

The Directors present the Annual Report and Accounts together with the audited consolidated financial statements of the Company, and the Group, for the year ended 31 December 2020.

The Directors' Report comprises of pages 114 to 115 of this report, together with the information required to be disclosed referred to below which are incorporated by reference, in accordance with the Companies Act 2006 and the Listing Rule 9.8.4R of the Financial Conduct Authority. The Company, in accordance with Section 414(C) (11) of the Companies Act 2006, has chosen to set out certain information required to be included in the Directors' Report in the Strategic Report, the Governance Report, set out on pages 64 to 117 and the Consolidated Financial Statements. The destinations for such information are also shown in the table below:

Carbon emissions, energy consumption and energy efficiency	Page 34
Corporate Governance Framework	Page 70
Directors' share interests and remuneration	Pages 105, 109
Directors' training and development	Page 77
Employee diversity, equality and inclusion	Page 40
Employee engagement	Page 74
Innovation, Growth & Efficiency strategy	Page 24
Financial instruments and financial risk management	Page 56
Going concern statement	Page 63
Long term incentive plans	Page 88
Membership of Board	Page 66
Modern Slavery Statement	Page 41
Non-financial information	Page 44
Principal risks	Page 59
Results and Dividend	Page 45
Section 172 Statement	Page 20
Stakeholder engagement	Page 16
Statement of Directors' Responsibilities	Page 117
Viability Statement	Page 63

DIRECTORS

Board of Directors

The current Directors and their biographical details are detailed on pages 66 and 67. Sandra Boss stepped down from her role as Non-Executive Director 29 April 2020.

Appointment and replacement of Directors

The Articles give the Directors power to appoint and replace Directors. Under the terms of reference of the Nomination Committee, appointments are recommended by the Nomination Committee for approval by the Board. In line with the UK Corporate Governance Code, the Articles also require Directors to retire and submit themselves for election at the first annual general meeting ("AGM") following appointment and to retire at each subsequent AGM and to submit themselves for re-election at the following AGM. The service contracts of the Executive Directors and letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office.

Directors' powers

The Directors' powers are conferred on them by UK legislation and by the Company's Articles of Association ("Articles"). The Articles may only be amended by special resolution of the Company at general meeting of its shareholders.

Directors' conflicts of interest

Ralph Hewins is in receipt of a conflict authorisation from the Company in respect of him acting as a trustee of the Elementis Group Pension Scheme.

The conflict authorisation enables Ralph Hewins to continue to act as a trustee notwithstanding that this role could give rise to a situation in which there is a conflict of interest. The Board considers that it is appropriate for the trustees of the UK pension scheme to benefit from the financial expertise of the CFO and that his contribution at trustees' meetings demonstrates the Board's commitment to supporting the UK pension scheme. The Board's conflict authorisation is subject to annual review and, under the terms of the conflict authorisation, reciprocal provisions have been put in place with a view of safeguarding information that is confidential to the Group, as well as to the trustees. Were a conflict of interest to arise, Ralph Hewins is required to excuse himself from reading the relevant papers and absent himself from participating in relevant discussions. Procedures are in place to ensure compliance with the Companies Act 2006. These procedures have been complied with during the year. Details of any new conflicts or potential conflicts matters are submitted to the Board for consideration and, where appropriate, are approved.

Authorised conflicts and potential conflict matters are reviewed on an annual basis.

Directors' indemnities

In addition to the indemnity granted by the Company to Directors in respect of the liabilities incurred as a result of their office, a Directors' and Officers' liability insurance policy is maintained throughout the year. *Neither the indemnity nor the insurance provides cover in the event that a Director has been proven to have acted dishonestly or fraudulently. Similar arrangements also exist for Directors appointed to Group subsidiary entities.*

Directors' share interests

The Directors' interests in the ordinary shares and options of the Company can be found within the Directors' Remuneration report on pages 109 and 110.

SHARES

Share Capital

As at 31 December 2020, the Company's issued share capital was 580,801,241 ordinary shares of 5 pence in issue, which carries voting rights of one vote per share. All of the Company's issued shares are fully paid up and rank equally in all respects. The rights attached to the shares, in addition to those conferred on their holders by law, are set out in the Company's Articles.

From time to time the ESOT holds shares in the Company for the purposes of various share incentive plans and the rights attaching to them are exercised by independent trustees, who may take into account any recommendation by the Company. As at 31 December 2020, the ESOT held 621,236 shares in the Company (2019: 780,759). A dividend waiver is in place in respect of all shares that may become held by the Trust.

Further details of the authorised and issued share capital during the financial year are provided in note 17 to the accounts on page 151.

Rights and obligations attaching to shares

The rights and obligations attaching to the shares are set out in the Articles. The Articles may only be changed by a special resolution passed by the shareholders.

Voting rights

Shareholders are entitled to attend and vote at any general meeting of the Company and a poll will be held on every resolution. Every member present in person or by proxy has, upon a poll, one vote for every share held. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members in respect of the joint holding.

Dividends

The Directors are not recommending the payment of a final dividend this year.

Authority to purchase own shares

The Board has the power conferred on it by shareholders to purchase its own shares and is seeking renewal of that power at the forthcoming AGM within the limits set out in the Notice of Meeting.

Employee share plans

The Company operates a number of employee share plans, details of which are set out in note 26 to the consolidated financial statements and on page 108 of the Directors' Remuneration report. All of the Company's employee share plans contain provisions relating to change of control. On a change of control, options and awards granted to employees may vest and become exercisable, subject to the satisfaction of any applicable performance conditions at the time.

Substantial shareholders

In accordance with the Disclosure Guidance and Transparency Rules (DTR), as at 31 December 2020 and 23 March 2021, the following interests in voting rights over the issued share capital of the Company had been notified. Information provided to the Company under the DTR is publicly available via the regulatory information service and on the Company's website.

	Ordinary shares	Percentage of issued share capital
APG Asset Management N.V.	61,362,335	10.56
Ameriprise Financial, Inc. and its group	57,916,440	9.98
SFM UK Management LLP	33,337,634	5.74
Aberdeen Asset Managers Limited	23,056,448	4.97
Schroders plc	22,517,387	4.91
AXA Investment Managers S.A.	23,515,878	4.05
Blackrock, Inc.	Below 5%	Below 5%
FMR LLC	Below 5%	Below 5%

EMPLOYEES

Employment policies and equal opportunities

Elementis policies seek to create a workplace that has an open atmosphere of trust, honesty and respect. Harassment or discrimination of any kind based on race, colour, religion, gender, age, national origin, citizenship, mental or physical disabilities, sexual orientation, veteran status, or any other similarly protected status is not tolerated. This principle applies to all aspects of employment, including recruitment and selection, training and development, promotion and retirement. Employees are free to join a trade union and participate in collective bargaining arrangements.

It is also a Group policy for employees who have a disability to reasonably accommodate them, where practicable, and to provide training, career development and promotion, as appropriate. It is Group policy not to discriminate on the basis of any unlawful criteria and its practices include prohibition on the use of child or forced labour.

Elementis supports the wider fundamental human rights of its employees worldwide, as well as those of our customers and suppliers, and further details set out in the ESG section on pages 38 and 41.

Employee communications and involvement

The Company is committed to employee involvement throughout the business. Employees are kept informed of the performance and strategy of the Group via email. Telephone conference calls are held by the CEO to employees worldwide and these serve as an informal forum for employees to ask topical questions about the Group. Further information can be found on page 74.

Research and development activities

Innovation is a core strategic priority. Our innovation expertise and capability is focused on delivering products that address our customers needs.

As at 31 December 2020, 90 employees were engaged in global research and development activities. For further information on our approach to innovation, please refer to page 24.

During the year ended 31 December 2020, costs relating to research and development activities were \$7.2m (2019: \$7.8m).

ADDITIONAL INFORMATION

Going concern and viability statement

The Directors consider that the Group and the Company have adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. The Code requires the Directors to assess and report on the prospects of the Group over a longer period. This longer term viability statement is set out on page 63.

Audit Information

Each Director of the Company on 23 March 2021, the date this Directors' Report was approved, confirms that so far as they are aware, there is no relevant audit information of which the Company's auditor, Deloitte LLP, is unaware and that they have taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditors

Following recommendation by the Audit Committee, resolutions to re-appoint Deloitte LLP as auditors and to authorise the Audit Committee to fix their remuneration will be proposed at the forthcoming AGM. The remuneration of the auditors for the year ended 31 December 2020 is fully disclosed in note 7 to the Financial Statements on page 146.

Annual General Meeting

The 2021 AGM will be held on Thursday 13 May 2021. Details of the resolutions to be proposed at the AGM are set out in the Notice of AGM which has been sent to shareholders and is available on the Company's website: www.elementis.com

Amendments to the Company's articles of association

Any amendments to the Articles of Association of the Company may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

Significant agreements – change of control and takeover bids

There are few significant agreements which the Company is party to that take effect, alter or terminate in the event of change of control of the Company. The Company is a guarantor under the Group's \$200m and €172m long term loans, and \$375m revolving credit facility and, in the event of a change of control, any lender among the facility syndicate, of which there are 12 with commitments ranging from \$25m to \$93m, may withdraw from the facility and that lender's participation in any loans drawn down are required to be repaid.

The rules of the Company's various share incentive schemes set out the consequences of a change of control of the Company on the rights of the participants under those schemes. Under the rules of the respective schemes, participants would generally be able to exercise their options on a change of control, provided that the relevant performance conditions have been satisfied and, where relevant, options are not exchanged for new options granted by an acquiring company.

The Company is required to disclose any significant agreements that take effect, alter or terminate on a change of control of the Company following a takeover bid. In the event of a takeover or other change of control (usually excluding an internal reorganisation), outstanding awards under the Group's incentive plans vest and become exercisable (including Deferred Bonus Share Plan (DBSP) cash awards and Long Term Incentive Awards (LTIP) awards), to the extent any performance conditions (if applicable) have been met, and subject to time pro-rating (if applicable) unless determined otherwise by the Board in its discretion, in accordance with the rules of the plans. In certain circumstances, the Board may decide (with the agreement of the acquiring company) that awards will instead be cancelled in exchange for equivalent awards over shares in the acquiring company.

Political donations

The Group made no political donations during the year (2019:nil).

Branches

As a global Group, Elementis' interests and activities are held or operated through subsidiaries, branches, joint arrangements or associates which are established in, and subject to the laws and regulations of, many different jurisdictions.

Other information

Information about the Group's financial risk management and exposure to financial market risks are set out in Note 23 to the financial statements on pages 158 to 161.

Events after the balance sheet date

There were no significant events after the balance sheet date.

On behalf of the Board:



LAURA HIGGINS
COMPANY SECRETARY

23 March 2021

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and regulations. Detailed below are statements made by the Directors in relation to their responsibilities and disclosure of information to the auditor:

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

Company law requires the Directors to prepare such financial statements for each financial year. Under the law, the Directors are required to prepare the Group financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration report and Corporate Governance Statement that complies with that law and regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing and preparing and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' RESPONSIBILITY STATEMENT

Each of the Directors, who are appointed at the date of approval of this report, 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; and
- the Annual Report and financial statements, taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 23 March 2021 and is signed on its behalf by:



PAUL WATERMAN
CEO



RALPH HEWINS
CFO

Independent auditor's report to the members of Elementis plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. OPINION

In our opinion:

- the financial statements of Elementis plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the consolidated financial statement related notes 1 to 32; and
- the parent company statutory accounts related notes 1 to 11.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 7 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. SUMMARY OF OUR AUDIT APPROACH

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • Impairment of goodwill and intangible assets in relation to the Talc cash generating unit; • Revenue recognition; and • Environmental provision.
Materiality	<p>The materiality that we used for the group financial statements was \$3.0 million (2019: \$3.7 million) which was determined on the basis of 0.4% of revenue (2019: 5% of profit before tax adjusted for the sale of operations, restructuring and business transformation costs, the release of contingent consideration and other adjusting items). Given the volatility in performance during FY20 and the reporting of a statutory loss, revenue was considered the most appropriate performance measure on which to base materiality.</p>
Scoping	<p>We have performed full scope audits or the audit of specified account balances of seven components which comprise 93% of the Group's revenue and 89% of the Group's loss before tax.</p>
Significant changes in our approach	<p>We have amended the basis on which we have determined materiality in the current period, given the volatility in the current year earnings of the Group. Historically our materiality has been determined solely with reference to an adjusted profit before tax benchmark. In the current year, revenue was used as the reference benchmark.</p> <p>We have reduced our performance materiality percentage in the current year. Further details are provided in section 6.2 below.</p>

4. CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- evaluating the financing facilities including nature of facilities, repayment terms and covenants, including the easing of the net debt to EBITDA covenant ratio that the Group is required to achieve for the period up to and including 31 December 2021. Further information is set out on page 63 of the annual report;
- inspecting written evidence of the easing of the covenant referred to above, which was agreed by the Group's lenders in the second half of the year;
- recalculation and assessment of the amount of forecast headroom on the loan covenants;
- performing a sensitivity analysis to consider specific scenarios, including a reduction in revenue and associated profits;
- assessment of the cash flow model used to prepare the going concern forecast, testing of clerical accuracy of the model and our assessment of the historical accuracy of forecasts prepared by management; and
- evaluating the reverse stress test prepared by management.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Impairment of goodwill and intangible assets in relation to the Talc CGU

Key audit matter description

Due to underperformance of the Talc CGU against forecasts in the first half of the year, which included the adverse impact of COVID-19, management determined that this gave rise to an indicator of impairment at 30 June 2020. In performing their assessment of the future performance of the business, management determined that it was necessary to recognise an impairment charge of \$33.4m in relation to the goodwill of the Talc CGU as at 30 June 2020. No further impairment was recognised on completion of the annual impairment review as of 31 October 2020.

Management assumptions for short-term cash flows over the next five years show a growth rate higher than the historic growth rate experienced by the Group. Management has based such assumptions on a pipeline of new business opportunities and planned product launches which they have assessed will lead to future growth above historic trends.

As described in note 1 to the financial statements, the annual impairment review involves judgement in relation to forecasting future cash flows. At the planning stage of our audit, we identified the Talc CGU as being sensitive to variations in future forecast cash flows and we have identified the forecast revenue growth assumptions in the short-term cash flows as a key assumption.

Management has highlighted impairment of goodwill as a key source of estimation uncertainty in note 1 and provided disclosure on the sensitivity of the Talc CGU to reasonably possible changes in key assumptions in note 10. These significant judgement areas are also referred to within the Audit Committee report on page 85.

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

How the scope of our audit responded to the key audit matter	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Gaining an understanding of the Group and Talc management's process for developing the short term cash flow assumptions and the relevant controls mitigating the risks identified in the impairment process; • Meeting with Talc management to understand and challenge the revenue growth forecasts; • Understanding and challenging the key assumptions underpinning management's forecast revenue growth, including by reference to past actual performance and available third party evidence; • Considering available market data to assess and challenge the forecast sales volume increases and longer term growth rates; • Considering the impact of different scenarios should the forecast levels of revenue growth not be achieved, including assessment of what costs have been modelled that are directly linked to the revenue growth; • Considering and assessing the impact of contradictory evidence in relation to the expected performance of the CGU; • Assessing the historical accuracy of forecasts by comparing the current period actual trading performance against the FY20 planned expectations; • Performing further independent sensitivity analysis on the impairment model; • Involving internal valuations specialists to help provide an independent calculation of the discount rates; • Testing the integrity of the model through testing mechanical accuracy, formulae and inputs; and • Considering the appropriateness of the related disclosures.
Key observations	<p>We are satisfied that management's conclusion that no further impairment in excess of the \$33.4m recorded in the first half of the year is required is acceptable. We concluded that there are reasonably possible scenarios which could result in an impairment.</p> <p>We consider the disclosure in the judgements and estimates section of note 1 provided concerning the impairment of assets in the Talc CGU together with the reasonable possible change sensitivity provided in note 10 to comply with the requirements of IAS 36.</p> <p>We have separately reported to the Audit Committee our control findings on the preparation of the models used and the precision of the management review controls.</p>

5.2. Revenue recognition

Key audit matter description

At the year end, manual adjustments are required for goods which have been despatched but where, under the terms of sale, the control of the goods has yet to pass to the customer because the Group's systems record revenue on despatch. Management has determined the point at which control passes based on different shipping terms and the key judgement in the calculation relates to the assumptions made on the delivery times to the point at which control passes. The Group trades globally and a change in the number of days assumed for these shipments to transfer to the customer can have a material impact on the cut-off adjustment. Given the level of management judgement involved, we also identified this key audit matter as a potential fraud risk.

The accounting policy is described in note 1 where this is also included as a critical accounting judgement. These significant judgement areas are also referred to within the Audit Committee report on page 85.

How the scope of our audit responded to the key audit matter

Our procedures included:

- Gaining an understanding of the relevant controls over the revenue recognition adjustments;
- Reviewing and assessing commercial arrangements covering shipments, to determine the correct point of revenue recognition for different shipment *arrangements and agreements with customers*;
- Selecting a sample of international shipments made pre-year end for time periods varying by destination port and therefore transit time for shipments and agreed these to customer order, shipment and invoice details, cash receipts and goods receipt notes;
- Challenging management's assumptions used in their cut-off calculation for reasonableness and consistency by substantive testing of international shipments; and
- Substantively testing a sample of post year end credit notes raised to determine if revenue was inappropriately recognised in the year.

Key observations

From the work performed, we have concluded that management have completed appropriate cut-off adjustments at the year end to take into account those sales where control has not transferred.

A number of misstatements, which were both individually and in the aggregate immaterial, were identified and reported to the Audit Committee but were not corrected.

5.3 Environmental provision

Key audit matter description

In line with other companies within the chemicals industry, Elementis holds provisions for the monitoring and remediation of a number of operating and legacy sites, including those sold off or no longer in use. In accordance with the Elementis' environmental provision policy, a provision is recognised for the restoration of contaminated land.

As at 31 December 2020, Elementis has recognised a provision \$50.6 million (31 December 2019: \$44.1 million) for such liabilities, of which the majority is for two sites being the UK Chromium site at Eaglescliffe and the US Chromium site at Corpus Christi.

There is uncertainty in this provision relating to the estimated future cash expenditure to remediate the two sites and the discount rate applied in the calculation, given the long time horizon of 25 years over which costs for these two sites are anticipated. Small changes in annual forecast cash outflows can have a significant cumulative impact on the total provision estimate. The cash flow is estimated and calculated by management having regard to advice from external environmental consultants. These cash flows are then discounted at the management determined discount rate. Due to the judgemental and material nature of estimation of such forecast spending needed to undertake environmental remediation, we have considered the valuation of the provision on these two sites to be a key audit matter.

The Group's accounting policy is included within note 1 to the consolidated financial statements where this is also included as a critical accounting judgement. There is additional disclosure included within note 15. The Audit Committee discussion is included on page 85.

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

How the scope of our audit responded to the key audit matter	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Holding discussion with management and the Group's external environmental consultants on the identified environmental contamination to confirm our understanding of the current assessment and the process by which management and the external consultants prepared the cash flow forecasts; • Gaining an understanding of management's process for developing the cash flow assumptions and the relevant controls mitigating the risks identified in the environmental provision process; • Assessing the completeness of forecast cost categories on each significant site selected through discussions with site managers at relevant locations; • Engaging our internal environmental consultants to assist in challenging the completeness of the cost categories included within the forecast cash flows by assessing the key assumptions and inputs to the forecast cash flows; • Challenging the key assumptions and inputs to the forecast cash flows and agreeing the inputs to supporting documentation; • Engaging our internal valuation experts to challenge the appropriateness of the discount rates applied by comparison to our own internal benchmark data; • Reviewing the previous estimates made of expected cash outflows for 2020 to actual cash outflows in 2020 to assess forecasting accuracy; • Performing a retrospective review of assumptions made in the current year versus prior year and challenging the evidence for any changes in assumptions; and • Performing searches of external databases to determine completeness of the identified environmental issues and sites.
Key observations	<p>As a result of our work, we have concluded that the provisions held by Elementis in relation to environmental remediation and monitoring are materially correct, when assessed as part of the financial statements as a whole.</p> <p><i>A number of immaterial misstatements, both individually and in aggregate, were identified and reported to the Audit Committee, and one was corrected.</i></p>

6. OUR APPLICATION OF MATERIALITY

6.1. MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	\$ 3.0 million (2019: \$3.7 million)	\$1.2 million (2019: \$1.5 million)
Basis for determining materiality	Materiality was set on the basis of 0.4% of revenue. (2019: 5% of profit before tax adjusted for the sale of operations, restructuring and business transformation costs, the release of contingent consideration and other adjusting items).	A factor of 3% of net assets was used capped to an appropriate component materiality 40% (2019: 40%) of Group materiality.
Rationale for the benchmark applied	<p>Revenue is a key performance measures for management, investors and the analyst community. This metric is important to the users of the financial statements (investors and analysts being the key users for a listed entity) because it is a key indicator of the performance of the business and its ability to generate returns for shareholders.</p> <p>We have amended the basis on which we have determined materiality in the current period, given the volatility in the current year earnings of the Group. Historically our materiality has been determined solely with reference to an adjusted profit before tax benchmark. In the current year, revenue was used as the reference benchmark.</p>	We have used net assets in determining materiality as we believe this is an appropriate basis for materiality as it reflects the nature of the parent company as a holding company and its contribution to the Group performance.

6.2. PERFORMANCE MATERIALITY

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent Company financial statements
Performance materiality	60% (2019: 70%) of group materiality	60% (2019: 70%) of parent company materiality
Basis and rationale for determining performance materiality	<p>We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 60% of group materiality for the 2020 audit (2019: 70%).</p> <p>In determining performance materiality, we considered our past experience of the group and our risk assessment, including our assessment of the group's overall control environment. A number of control deficiencies were identified for the year ended 31 December 2019, which were reported to the Audit Committee.</p> <p>In determining performance materiality for the current year, we therefore considered the value and number of corrected and uncorrected misstatements in the previous year, as well as the likelihood of these recurring in the current year. Further discussion regarding the control environment is included in section 7.2.</p>	

6.3. ERROR REPORTING THRESHOLD

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of \$150,000 (2019: \$185,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. AN OVERVIEW OF THE SCOPE OF OUR AUDIT

7.1. IDENTIFICATION AND SCOPING OF COMPONENTS

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

There are seven components for the 2020 year end (2019: six), of which, four are significant to the Group:

- the Specialty products operations in the US;
- the Specialty products operations in the UK;
- the Specialty products operations in Taiwan;
- the Specialty products operations in China;
- the Chromium operations in the US;
- the Chromium operations in the UK; and
- the Talc operation in Netherlands and Finland.

These seven locations were subject to full scope audits or audits of specified accounts balances, which were performed by local component auditors under the direction and supervision of the Group audit team, except the Specialty UK and Chromium UK operations where the Group audit team performed the audit without the involvement of a component team. The Specialties products operations in Taiwan and in China were performed by separate teams reporting directly to us, whereas in the prior year one team reported directly to us on the combined results of these operations.

Our audit work on the seven components was executed at levels of performance materiality applicable to each individual entity which were lower than Group materiality and ranged from \$1.1 million to \$0.9 million (2019: \$1.6 million to \$1.3 million).

The in-scope locations represent the principal business units within the Group's operating divisions and account for 93% (2019: 89%) of the Group's revenue and 89% (2019: 77%) of the Group's loss before tax.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances. The parent company is located in the UK and is audited directly by the Group audit team.

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

7.2. OUR CONSIDERATION OF THE CONTROL ENVIRONMENT

Our audit for the period identified a number of control deficiencies. The nature of these deficiencies primarily related to the precision of controls around inventory management within the Chromium division, and the recognition of deferred and current taxation and the preparation of the goodwill impairment models used and the precision of the management review controls of those models.

We reported all of our significant findings and observations on internal controls to the Audit Committee, as well as some other findings and observations which are not significant, together with recommendations for improvement.

We identified the main finance systems used in each of the components, as well as the consolidation system, as key IT systems relevant to our audit. A number of IT control deficiencies were identified in prior audit engagements which remain unresolved, as well as new findings identified in the current year, primarily related to user access and segregation of duties. As a result of these findings, we did not plan to rely on testing controls in our audit approach, consistent with prior period audits.

As described in the Internal controls and risk management section of pages 85 and 86, the Audit Committee will oversee the actions taken to remediate the control observations. As a result of the deficiencies in IT controls and the business process controls summarised above, we extended the scope of our substantive audit procedures in response to the identified deficiencies.

7.3. WORKING WITH OTHER AUDITORS

The Group audit was conducted exclusively by a global network of Deloitte member firms under the direction and supervision of the UK Group audit team. Component auditors were assigned to perform audit procedures in line with the scoping of the respective components within their jurisdiction. For the Group audit, the component auditors focused on components classified for full scope and specified audit procedures. Further work was performed at a Group level over the consolidation and components not in scope. Dedicated members of the Group audit team were assigned to each component to facilitate an effective and consistent approach to component oversight.

The planned programme which we designed as part of our involvement in the component auditor's work was delivered over the course of the Group audit. The extent of our involvement which commenced from the planning phase included:

- Setting the scope of the component auditor and assessment of the component auditor's independence.
- Designing the audit procedures for all significant risks to be addressed by the component auditors and issuing Group audit instructions detailing the nature and form of the reporting required by the Group engagement team.

In response to the COVID-19 pandemic, which limited our ability to make component visits, more frequent calls were held between the Group and component teams and our procedures included, where appropriate, providing direction on enquiries made by the component auditors through online and telephone conversations, a review of each component auditor's engagement file by a senior member of the Group audit team and Group team virtual attendance at local component audit close meetings. Given the pandemic, the majority of our audit was performed under a remote working environment. Throughout this time, we increased the frequency of our meetings with the audit team and with management to ensure progress. We were able to perform our procedures without needing to make substantial changes to our planned approach.

8. OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

9. RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. IDENTIFYING AND ASSESSING POTENTIAL RISKS RELATED TO IRREGULARITIES

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, pensions, financial instruments, valuation, environmental and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: revenue recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions' legislation, and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty which we consider includes environmental regulations as having a fundamental effect on the operations of the Group.

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

11.2. AUDIT RESPONSE TO RISKS IDENTIFIED

As a result of performing the above, we identified revenue recognition as a key audit matter related to the potential risk of fraud or non-compliance with laws and regulations. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and environmental regulators; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the *Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.*

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 63
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 63;
- the directors' statement on fair, balanced and understandable set out on page 86;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 58 to 62;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 85 and 86; and
- the section describing the work of the audit committee set out on page 83.

14. MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

14.1. ADEQUACY OF EXPLANATIONS RECEIVED AND ACCOUNTING RECORDS

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns

We have nothing to report in respect of these matters.

14.2. DIRECTORS' REMUNERATION

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

15.1. AUDITOR TENURE


Following the recommendation of the audit committee, we were appointed by the Board on 27 April 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the years ending 31 December 2016 to 31 December 2020.

15.2. CONSISTENCY OF THE AUDIT REPORT WITH THE ADDITIONAL REPORT TO THE AUDIT COMMITTEE

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



CHRISTOPHER POWELL, FCA, (SENIOR STATUTORY AUDITOR)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

23 March 2021

Consolidated income statement

For the year ended 31 December 2020

	Note	2020 \$m	2019 \$m
Revenue	2	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	2	(28.2)	100.9
Profit/(loss) on disposal	32	0.3	(9.0)
Other expenses ¹	25	(1.6)	(1.5)
Finance income	3	0.3	0.4
Finance costs	4	(39.6)	(29.8)
(Loss)/profit before income tax		(68.8)	61.0
Tax	6	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)	9	(11.5)	8.0
Diluted (loss)/earnings (cents)	9	(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

	Note	2020 31 December \$m	2019 31 December \$m
NON-CURRENT ASSETS			
Goodwill and other intangible assets	10	892.6	958.1
Property, plant and equipment	11	516.0	513.6
ACT recoverable	16	0.6	4.8
Deferred tax assets	16	26.3	28.2
Net retirement benefit surplus	25	7.9	7.4
TOTAL NON-CURRENT ASSETS		1,443.4	1,512.1
CURRENT ASSETS			
Inventories	12	164.3	168.7
Trade and other receivables	13	108.3	117.9
Derivatives	21	1.4	0.1
Current tax assets		7.2	2.5
Cash and cash equivalents	20	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	19	(3.7)	(2.2)
Trade and other payables	14	(132.6)	(134.5)
Financial liabilities	21	(17.3)	(2.1)
Current tax liabilities		(23.2)	(23.2)
Lease liabilities	24	(7.2)	(7.1)
Provisions	15	(9.6)	(6.4)
TOTAL CURRENT LIABILITIES		(193.6)	(175.5)
NON-CURRENT LIABILITIES			
Loans and borrowings	21	(510.6)	(550.8)
Retirement benefit obligations	25	(28.1)	(24.5)
Deferred tax liabilities	16	(143.1)	(150.2)
Lease liabilities	24	(37.2)	(39.8)
Provisions	15	(49.2)	(45.2)
Financial liabilities	21	(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			
Equity			
Share capital	17	52.1	52.1
Share premium		237.7	237.7
Other reserves	18	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

The financial statements on pages 128 to 174 were approved by the Board on 23 March 2021 and signed on its behalf by:



PAUL WATERMAN
CEO



RALPH HEWINS
CFO

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

	Note	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	3	(0.3)	(0.4)
Finance costs	4	39.6	29.8
Tax charge	6	(1.8)	14.6
Depreciation and amortisation	7	66.7	70.1
Impairment loss on property, plant and equipment	11	11.7	–
Increase/(decrease) in provisions and financial liabilities		3.7	(27.8)
Pension payments net of current service cost	25	1.1	(1.2)
Share based payments	26	3.5	3.0
Impairment of goodwill		60.3	–
(Profit)/loss on disposal of business	32	(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	4	(23.7)	(25.0)
NET CASH FLOW FROM OPERATING ACTIVITIES		107.1	143.4
INVESTING ACTIVITIES:			
Interest received	3	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	32	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	29	–	(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	20	111.0	103.9

Notes to the consolidated financial statements

For the year ended 31 December 2020

1. ACCOUNTING POLICIES

Elementis plc is a public company limited by shares incorporated and domiciled in England and is the parent company of the Group. The address of its registered office is Caroline House, 55-57 High Holborn, London WC1V 6DX. The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRS'). The Company has elected to prepare its parent company financial statements in accordance with FRS 101. These are presented on pages 175 to 182.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The financial statements have been prepared on the historical cost basis except that derivative financial instruments are stated at their fair value. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. The preparation of financial statements requires the application of estimates and judgements that affect the reported amounts of assets and liabilities, revenues and costs and related disclosures at the balance sheet date. The Group's accounting policies have been updated following the adoption of a number of new standards and amendments to standards that have been issued and are now effective for the Group.

The financial statements have been prepared on a going concern basis. The rationale for adopting this basis is discussed in the Directors' report on page 116.

REPORTING CURRENCY

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

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

When applying the Group's accounting policies, management must make a number of key judgements on the application of applicable accounting standards and estimates and assumptions concerning the carrying amounts of assets and liabilities that are not readily apparent from other sources. These estimates and judgements are based on factors considered to be relevant, including historical experience, which may differ significantly from the actual outcome. The key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the amounts recognised in the financial statements within the next year are discussed below. The development of the estimates and disclosures related to each of these matters has been discussed by the Audit Committee.

CRITICAL ACCOUNTING JUDGEMENTS

The following is the sole critical judgement, (as opposed to those involving estimations which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies that has significant effect on the amounts recognised in the financial statements. Where relevant and practicable, sensitivity analyses are disclosed in the relevant notes to demonstrate the impact of changes in estimates or assumptions used.

Revenue recognition

Judgement is exercised over how to determine the timing of revenue recognition for orders where the agreed terms are delivery to the destination point. The Group has compiled shipping estimates based on the destination country which are used to inform the timing of revenue recognition. In compiling these estimates management have used past experience and carrier standard shipping estimates to inform their decision making.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material misstatement to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

a. Environmental provisions

Provisions for environmental restoration are recognised where: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be estimated reliably.

Environmental provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Due to the long time horizons over which costs are anticipated, small changes in recurring annual cash outflows can have a significant cumulative impact on the total provision required. Further details of these provisions and a sensitivity assessment are given in Note 15.

b. Valuation of a defined benefit pension obligation

The key estimates made in relation to defined benefit pensions relate to the discount rate used to determine the present value of future benefits and the rate of inflation applied to plan assets. Further details on pensions and a sensitivity analysis are given in Note 25.

c. Impairment testing of goodwill

Each year the Group carries out impairment tests of goodwill which require estimates to be made of the value in use of its cash generating units. These value in use calculations are dependent on estimates of future cash flows, long-term growth rates and appropriate discount rates to be applied to future cash flows. Further details on these estimates and sensitivities of the carrying value of goodwill to these estimates are provided in Note 10.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition costs are accounted for as an expense in the period incurred.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

A full list of the Group's subsidiaries is shown in Note 6 of the parent company financial statements.

CHANGES IN ACCOUNTING POLICIES

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

FOREIGN CURRENCY

a. Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at exchange rates ruling at the dates the fair value was determined.

b. Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at the average rates of exchange ruling for the relevant period. Exchange differences arising since 1 January 2004 on translation are taken to the translation reserve. They are recognised in the income statement upon disposal of the foreign operation. The Group may hedge a portion of the translation of its overseas net assets through US dollar and euro borrowings. From 1 January 2005, the Group has elected to apply net investment hedge accounting for these transactions where possible. Where hedging is applied, the effective portion of the gain or loss on an instrument used to hedge a net investment is recognised in equity. Any ineffective portion of the hedge is recognised in the income statement.

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Freehold land is not depreciated. Leasehold property is depreciated over the period of the lease. Freehold buildings, plant and machinery, fixtures, fittings and equipment are depreciated over their estimated useful lives on a straight line basis. Depreciation methods, useful lives and residual values are assessed at the reporting date. No depreciation is charged on assets under construction until the asset is brought into use.

Depreciation is charged on a straight-line basis over the estimated useful economic lives of the assets as follows:

Buildings	10 – 50 years
Plant and machinery	2 – 20 years
Fixtures, fittings and equipment	2 – 20 years
Right of use assets	Shorter of the useful economic life of the asset and the lease term

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within it will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Management regularly considers whether there are any indications of impairment to carrying values of property, plant and equipment. Impairment reviews are based on risk adjusted discounted cash flow projections. Significant judgement is applied to the assumptions underlying these projections which include estimated discount rates, growth rates, future selling prices and direct costs. Changes to these assumptions could have a material impact on the financial position of the Group and on the result for the year.

INTANGIBLE ASSETS

a. Goodwill

Goodwill arises on the acquisition of subsidiaries, and it represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

b. Research and development

Expenditure on pure research is recognised in the income statement as an expense as incurred. Under IAS 38, expenditure on development where research findings are applied to a plan or design for the production of new or substantially improved products and processes is capitalised if the product or process will give rise to future economic benefits and where the cost of the capitalised asset can be measured reliably. Expenditure capitalised is stated as the cost of materials, direct labour and an appropriate proportion of overheads less accumulated amortisation. The length of development lifecycles, broad nature of much of the research undertaken and uncertainty until a late stage as to ultimate commercial viability of a potential product can mean that the measurement criteria of IAS 38 regarding the probability of future economic benefits and the reliability of allocating costs may not be met, in which case expenditure is expensed as incurred.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

1. ACCOUNTING POLICIES CONTINUED

c. Customer relationships and other intangible assets

Customer relationships and other intangible assets are stated at cost or when arising in a business combination, estimated fair value, less accumulated amortisation.

d. Amortisation

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets through the administrative expenses line item, unless such lives are indefinite. Goodwill is systematically tested for impairment each year. Other intangible assets, comprising customer lists, customer relationships, manufacturing processes and procedures, trademarks, non-compete clauses and patents are amortised over their estimated useful lives which range from 5 to 24 years.

IMPAIRMENT OF NON-CURRENT NON-FINANCIAL ASSETS

The carrying amount of non-current assets other than deferred tax is compared to the asset's recoverable amount at each balance sheet date where there is an indication of impairment. For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

Each year the Group carries out impairment tests of its goodwill and other indefinite life intangible assets which requires an estimate to be made of the value in use of its cash generating units (CGUs). These value in use calculations are dependent on estimates of future cash flows and long term growth rates of the CGUs. Further details of these estimates are given in Note 10.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset(s). For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

IMPAIRMENT OF FINANCIAL ASSETS – EXPECTED CREDIT LOSSES

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on payment profiles and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward looking information in relation to macroeconomic factors that could affect the ability of customers to settle receivables.

The Group usually considers a financial asset in default when contractual payments are 120 days past due. In certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price, less estimated costs of completion and selling expenses. Cost, which is based on a weighted average, includes expenditure incurred in acquiring stock and bringing it to its existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads attributable to manufacture, based on normal operating capacity.

TRADE RECEIVABLES

Trade receivables are due for payment within one year and are thus classified as current. They are non-interest bearing and are stated at their nominal amount which is the original invoiced amount, less allowance for expected future credit losses. Estimates of future expected credit losses are informed by historical experience and management's expectations of future economic factors, further information on expected credit loss impairment is given in the impairment of financial assets accounting policy. Individual trade receivables are written off when management deem them to be no longer collectable.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

A non-current asset or a group of assets containing a non-current asset (a disposal group), is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale within one year is highly probable. On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographic area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

LEASES

Accounting policy applied from 1 January 2019

A lease liability is recognised when the Group obtains control of the right-of-use asset that is the subject of the lease. The lease liability is subsequently measured using the effective interest method, with interest charged to finance costs. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

At inception, the Group evaluates whether it is reasonably certain that any option to extend a lease term will be exercised or likewise whether any option to terminate the lease will be exercised. The Group continues to evaluate the likelihood of exercising such options throughout the initial lease term. When the Group is committed to extending or terminating the lease, having considered the alternative options available and, where appropriate, lessor consent to the extension or termination has been obtained, the Group will consider the option to be reasonably certain to be exercised. When an option is reasonably certain to be exercised, the right-of-use asset and lease liabilities recognised are adjusted to reflect the extended or curtailed lease term.

Leases, which at inception have a term of less than 12 months or relate to low-value assets, are not recognised on balance sheet. Payments made under such leases are recognised as an expense in the income statement on a straight-line basis over the period of the lease.

Accounting policy applied up until 31 December 2018

Leases which result in the Group receiving substantially all of the risks and rewards of ownership of an asset are treated as finance leases. An asset held under a finance lease is recorded in the balance sheet and depreciated over the shorter of its estimated useful life and the lease term. Future instalments net of finance charges are included within borrowings. Minimum lease payments are apportioned between the finance charge, which is allocated to each period to produce a constant periodic rate of interest on the remaining liability and charged to the income statement and reduction of the outstanding liability. Rental costs arising from operating leases are charged on a straight line basis over the period of the lease.

BORROWINGS

Borrowings are initially measured at cost (which is equal to the fair value at inception), and are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds, net of transaction costs and the settlement or redemption of borrowings is recognised over the terms of the borrowings using the effective interest rate method.

TRADE PAYABLES

Trade payables are non-interest bearing borrowings and are initially measured at fair value and subsequently carried at amortised cost.

PROVISIONS

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

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated. Provisions for environmental issues are judgemental by their nature, particularly when considering the size and timing of remediation spending, and more difficult to estimate when they relate to sites no longer directly controlled by the Group.

PENSION AND OTHER POST RETIREMENT BENEFITS

In respect of the Group's defined benefit schemes, the Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. Pension and post retirement liabilities are calculated by qualified actuaries using the projected unit credit method. Following the introduction of the revised IAS 19 Employee Benefits standard, the net interest on the defined benefit liability consists of the interest cost on the defined benefit obligation and the interest income on plan assets, both calculated by reference to the discount rate used to measure the defined benefit obligation at the start of the period.

The Group recognises actuarial gains and losses in the period in which they occur through the statement of comprehensive income. The Group also operates a small number of defined contribution schemes and the contributions payable during the year are recognised as incurred. Due to the size of the Group's pension scheme assets and liabilities, relatively small changes in the assumptions can have a significant impact on the expense recorded in the income statement and on the pension liability recorded in the balance sheet.

SHARE CAPITAL

Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity. When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Shares repurchased by the Company are classified as treasury shares and are presented as a deduction from total equity.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and commodity swap contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. The Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Due to the requirement to assess the effectiveness of hedging instruments, changes in market conditions can result in the recognition of unrealised gains or losses on hedging instruments in the income statement.

Derivative financial instruments are recognised initially at fair value and are shown within derivatives if they are in an asset position or within financial liabilities if they are in a liability position. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

1. ACCOUNTING POLICIES CONTINUED

a. Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit and loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset the gains or losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset.

The Group has adopted 'Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform – Phase 1', applying the amendments retrospectively to hedging relationships that existed at the start of the current year. The interest rates on which the cash flows of the Group's USD interest rate swap derivative financial instruments are based are currently linked to LIBOR, which is expected to cease as a benchmark at the end of 2021. By adopting these amendments, the impact for the Group is that it does not need to assume any impacts from LIBOR reform in assessing whether its existing instruments continue to meet the hedging criteria.

The Group will continue to apply these amendments until the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and amount of the interest rate benchmark cash flows. This temporary relief is expected to cease, on a hedge-by-hedge basis, when the designated hedge relationship is amended and application of Phase 2 reliefs begins.

b. Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in a fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement.

The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

c. Hedges of a net investment in a foreign operation

The Group designates the foreign exchange gain or loss on a proportion of the Group's Euro and US dollar denominated borrowings as a hedge of the Group's net investment in foreign operations. As such the foreign exchange gain or loss on those borrowings is recognised in other comprehensive income and accumulated in equity until such time as the operations are disposed of at which point the corresponding amounts are recycled to profit or loss.

TERMINATION BENEFITS

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

REVENUE

Revenue is recognised upon transfer of promised goods to customers (the performance obligation) in an amount that reflects the consideration the Company expects to receive in exchange for those goods. This may occur, depending on the individual customer relationship, when the product has been transferred to a freight carrier, when the customer has received the product or, for consignment stock held at customers' premises, when usage reports for the relevant period have been compiled.

All revenue is from contracts with customers and pertains to the sale of specialty chemicals products, selling prices are agreed in advance and hence are directly observable.

The Group's payment terms offered to customers are within a certain number of days of receipt of invoice and standard contracts do not include a significant financing component. The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Provisions for returns, trade discounts and rebates are recognised as a reduction in revenue at the later of when revenue is recognised for the transfer of the related goods and the entity pays or promises to pay the consideration. The promise to pay rebates is contractually agreed in advance and thus the point of transferring the goods to the customer is deemed to be the later of the two circumstances. Rebates and discounts are estimated using historical data and experiences with the customers. Returns from customers are negligible.

OPERATING PROFIT

Operating profit includes net profits realised on the sale of tangible fixed assets, current and long term assets and liabilities but excludes gains and losses on the disposal of businesses.

OTHER EXPENSES

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

FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest income on funds invested and changes in the fair value of financial instruments at fair value taken to the income statement. Interest income is recognised as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings, lease liabilities, unwinding of the discount on provisions, dividends on preference shares classified as debt, foreign currency gains/losses and changes in the value of financial instruments at fair value taken to the income statement. All borrowing costs are recognised in the income statement using the effective interest method.

TAXATION

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Group is required to estimate the income tax in each of the jurisdictions in which it operates. This requires an estimation of current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. The Group operates in a number of countries in the world and is subject to many tax jurisdictions and rules. As a consequence the Group is subject to tax audits, which by their nature are often complex and can require several years to conclude. Management's judgement is required to determine the total provision for income tax. Amounts are accrued based on management's interpretation of country specific tax law and likelihood of settlement. However, the actual tax liabilities could differ from the position and in such events an adjustment would be required in the subsequent period which could have a material impact. Tax benefits are not recognised unless it is probable that the tax positions are sustainable. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation. This evaluation requires judgements to be made including the forecast of future taxable income.

SHARE BASED PAYMENTS

The fair value of equity settled share options, cash settled shadow options and LTIP awards granted to employees is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options/awards. The fair value of the options/ awards granted is measured using a binomial model, taking into account the terms and conditions upon which the options/ awards were granted. The amount recognised as an employee expense is adjusted to reflect the actual number of share options/awards that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

OWN SHARES HELD BY EMPLOYEE SHARE OWNERSHIP TRUST (ESOT)

Transactions of the Group sponsored ESOT are included in the consolidated financial statements. In particular, the ESOT's purchases of shares in the Company are charged directly to equity.

GOVERNMENT GRANTS

Government grants are recognised at fair value when there is reasonable assurance that the conditions associated with the grants have been complied with and the grants will be received. Grants compensating for expenses incurred are recognised as a deduction of the related expenses in the consolidated income statement on a systematic basis in the same periods in which the expenses are incurred.

ALTERNATIVE PERFORMANCE MEASURES

In the analysis of the Group's operating results, earnings per share and cash flows, information is presented to provide readers with additional performance indicators that are prepared on a non-statutory basis. This presentation is regularly reviewed by management to identify items that are unusual and other items relevant to an understanding of the Group's performance and long term trends with reference to their materiality and nature. This additional information is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other organisations. The non-statutory disclosures should not be viewed in isolation or as an alternative to the equivalent statutory measure. Information for separate presentation is considered as follows:

- Material costs or reversals arising from a significant restructuring of the Group's operations are presented separately
- Disposal of entities or investments in associates or joint ventures or impairment of related assets are presented separately
- Other matters arising due to the Group's acquisition, such as adjustments to contingent consideration, payment of retention bonuses, acquisition costs and fair value adjustments for acquired assets made in accordance with IFRS 13 are separately disclosed in aggregate
- If a change in an accounting estimate for provisions, including environmental provisions, results in a material gain or loss, that is presented separately
- Other items the Directors may deem to be unusual as a result of their size and/or nature.

ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods that begin on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

International Accounting Standards (IAS/IFRSs) and Interpretations (IFRICs)	Effective date	UK/EU Endorsement status
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform – Phase 1	1 January 2020	Endorsed
Amendments to IFRS 3: Definition of a business	1 January 2020	Endorsed
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020	Endorsed
Conceptual Framework for Financial Reporting (Revised)	1 January 2020	Endorsed

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

1. ACCOUNTING POLICIES CONTINUED

NEW AND REVISED IFRS IN ISSUE BUT NOT YET EFFECTIVE

At the date of authorisation of these financial statements, the Group has not applied the following new and revised international accounting standards (IAS/IFRSs) and interpretations (IFRICs) that have been issued but are not effective for periods starting on 1 January 2020 but will be effective for later periods:

International Accounting Standards (IAS/IFRSs) and Interpretations (IFRICs) not yet endorsed for use in the EU or UK:	UK/EU Endorsement status	Effective for annual reporting periods beginning on or after
Covid-19-Related Rent Concessions – Amendment to IFRS 16	Endorsed	1 June 2020
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2	Endorsed	1 January 2021
Amendments to IFRS 3: Reference to the Conceptual Framework	Not yet endorsed	1 January 2022
Amendments to IAS 16: Property, Plant and Equipment—Proceeds before Intended Use	Not yet endorsed	1 January 2022
Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract	Not yet endorsed	1 January 2022
Annual Improvements to IFRS Standards 2018–2020 Cycle: Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture	Not yet endorsed	1 January 2022
IFRS 17 Insurance Contracts	Not yet endorsed	1 January 2023
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	Not yet endorsed	1 January 2023
IFRS 10 and IAS 28 (amendments): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not yet endorsed	tbc

2. OPERATING SEGMENTS

BUSINESS SEGMENTS

The Group has determined its operating segments on the basis of those used for management, internal reporting purposes and the allocation of strategic resources. The key measure used for review of the performance of the operating segments is adjusted operating profit. In accordance with the provisions of IFRS 8, the Group's chief operating decision maker is the Board of Directors.

The five reportable segments, Personal Care, Coatings, Talc, Chromium and Energy each have distinct product groupings and separate management structures. Segment results, assets and liabilities include items directly attributable to a segment and those that may be reasonably allocated from corporate activities. Presentation of the segmental results is on a basis consistent with those used for reporting Group results. The principal activities of the reportable segments are as follows:

Personal Care

Production of rheological modifiers and compounded products, including active ingredients for AP deodorants, for supply to personal care manufacturers.

Coatings

Production of rheological modifiers and additives for decorative and industrial coatings.

Talc

Production and supply of talc for use in plastics, coatings, technical ceramics and the paper sectors.

Chromium

Production of chromium chemicals.

Energy

Production of rheological modifiers and additives for oil and gas drilling and stimulation activities.

Inter-segment pricing is set at a level that equates to the manufacturing cost of the product plus a commercially appropriate mark up.

Unallocated items and those relating to corporate functions such as tax and treasury are presented in the tables overleaf as central costs.

SEGMENTAL ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2020

	2020							Total \$m
	Personal Care \$m	Coatings \$m	Talc \$m	Chromium \$m	Energy \$m	Segment totals \$m	Central costs \$m	
Revenue	160.8	295.5	132.5	146.9	23.6	759.3	-	759.3
Internal revenue	-	-	-	(8.0)	-	(8.0)	-	(8.0)
Revenue from external customers	160.8	295.5	132.5	138.9	23.6	751.3	-	751.3
Adjusted operating profit	33.6	47.1	16.6	5.6	(5.7)	97.2	(15.6)	81.6
Adjusting items	(13.6)	(3.8)	(39.0)	(9.2)	(42.5)	(108.1)	(1.7)	(109.8)
Profit/(loss) before interest	20.0	43.3	(22.4)	(3.6)	(48.2)	(10.9)	(17.3)	(28.2)
Loss on disposal	0.3	-	-	-	-	0.3	-	0.3
Other expenses	-	-	-	-	-	-	(1.6)	(1.6)
Finance income	-	-	-	-	-	-	0.3	0.3
Finance expense	-	-	-	-	-	-	(39.6)	(39.6)
Taxation – after adjusting items	-	-	-	-	-	-	(14.2)	(14.2)
Taxation – on adjusting items	-	-	-	-	-	-	16.0	16.0
PROFIT/(LOSS) FOR THE YEAR	20.3	43.3	(22.4)	(3.6)	(48.2)	(10.6)	(56.4)	(67.0)

	2020						Total \$m
	Personal Care, Coatings and Energy ¹ \$m	Talc \$m	Chromium \$m	Segment totals \$m	Central costs \$m		
Fixed assets	659.7	347.6	79.8	1,087.1	321.5		1,408.6
Inventories	89.5	20.2	54.6	164.3	-		164.3
Trade and other receivables	62.5	21.6	16.7	100.8	7.5		108.3
ACT recoverable	-	-	-	-	0.6		0.6
Derivatives	-	-	-	-	1.4		1.4
Tax assets	-	-	-	-	33.5		33.5
Net retirement benefit surplus	-	-	-	-	7.9		7.9
Cash and cash equivalents	-	-	-	-	111.0		111.0
SEGMENT ASSETS	811.7	389.4	151.1	1,352.2	483.4		1,835.6
Trade and other payables	(67.7)	(20.7)	(28.0)	(116.4)	(16.2)		(132.6)
Operating provisions	(2.7)	(4.2)	(21.1)	(28.0)	(30.8)		(58.8)
Lease liabilities	(28.9)	(13.8)	(0.7)	(43.4)	(1.0)		(44.4)
Bank overdrafts and loans	-	-	-	-	(514.3)		(514.3)
Current tax liabilities	-	-	-	-	(23.2)		(23.2)
Retirement benefit obligations	-	-	-	-	(28.1)		(28.1)
Deferred tax liabilities	-	-	-	-	(143.1)		(143.1)
Financial liabilities	-	-	-	-	(30.7)		(30.7)
SEGMENT LIABILITIES	(99.3)	(38.7)	(49.8)	(187.8)	(787.4)		(975.2)
NET ASSETS	712.4	350.7	101.3	1,164.4	(304.0)		860.4
Capital additions	18.4	13.8	7.2	39.4	3.8		43.2
Depreciation and amortisation	(29.4)	(25.4)	(10.2)	(65.0)	(1.7)		(66.7)

1 Due to the shared nature of the production facilities for the Personal Care, Coatings and Energy segments a split of assets and liabilities by segment is not available and the cost to determine such a split would be prohibitive therefore assets and liabilities are shown in aggregate for these segments.

ANALYSIS BY GEOGRAPHY

	North America \$m	United Kingdom \$m	Rest of Europe \$m	Rest of the World \$m	Total \$m
2020					
Revenue from external customers	240.8	24.4	235.4	250.7	751.3
Fixed assets	756.8	210.4	373.7	67.7	1,408.6
Capital additions	19.2	1.2	13.7	9.1	43.2
Depreciation and amortisation	(33.7)	(1.4)	(28.6)	(3.0)	(66.7)

Revenue is based on the location of the customer. The Group's largest customer accounts for 7.9% of revenue (\$60.0m).

Notes to the consolidated financial statements

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For the year ended 31 December 2020

2. OPERATING SEGMENTS CONTINUED

SEGMENTAL ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2019

	2019						
	Personal Care \$m	Coatings \$m	Talc \$m	Chromium \$m	Energy \$m	Segment totals \$m	Central costs \$m
Revenue	195.0	320.1	150.7	171.0	46.6	883.4	–
Internal revenue	–	–	–	(9.8)	–	(9.8)	–
Revenue from external customers	195.0	320.1	150.7	161.2	46.6	873.6	–
Adjusted operating profit	42.7	48.3	25.7	18.2	3.8	138.7	(15.7)
Adjusting items	(13.6)	(4.6)	(5.8)	(5.6)	–	(29.6)	7.5
Profit/(loss) before interest	29.1	43.7	19.9	12.6	3.8	109.1	(8.2)
Loss on disposal	(9.0)	–	–	–	–	(9.0)	–
Other expenses	–	–	–	–	–	–	(1.5)
Finance income	–	–	–	–	–	–	0.4
Finance expense	–	–	–	–	–	–	(29.8)
Taxation – after adjusting items	–	–	–	–	–	–	(20.7)
Taxation – on adjusting items	–	–	–	–	–	–	6.1
PROFIT FOR THE YEAR	20.1	43.7	19.9	12.6	3.8	100.1	(53.7)

	2019					
	Personal Care, Coatings and Energy ¹ \$m	Talc \$m	Chromium \$m	Segment totals \$m	Central costs \$m	Total \$m
Fixed assets	708.8	330.3	82.6	1,121.7	350.0	1,471.7
Inventories	88.9	19.0	60.8	168.7	–	168.7
Trade and other receivables	70.1	21.5	19.3	110.9	7.0	117.9
ACT recoverable	–	–	–	–	4.8	4.8
Derivatives	–	–	–	–	0.1	0.1
Tax assets	–	–	–	–	30.7	30.7
Net retirement benefit surplus	–	–	–	–	7.4	7.4
Cash and cash equivalents	–	–	–	–	103.9	103.9
SEGMENT ASSETS	867.8	370.8	162.7	1,401.3	503.9	1,905.2
Trade and other payables	(72.3)	(20.0)	(27.0)	(119.3)	(15.2)	(134.5)
Operating provisions	(2.3)	(4.4)	(20.9)	(27.6)	(24.0)	(51.6)
Lease liabilities	(31.1)	(13.4)	(1.1)	(45.6)	(1.3)	(46.9)
Bank overdrafts and loans	–	–	–	–	(553.0)	(553.0)
Current tax liabilities	–	–	–	–	(23.2)	(23.2)
Retirement benefit obligations	–	–	–	–	(24.5)	(24.5)
Deferred tax liabilities	–	–	–	–	(150.2)	(150.2)
Financial liabilities	–	–	–	–	(15.1)	(15.1)
SEGMENT LIABILITIES	(105.7)	(37.8)	(49.0)	(192.5)	(806.5)	(999.0)
NET ASSETS	762.1	333.0	113.7	1,208.8	(302.6)	906.2
Capital additions	21.1	14.4	11.6	47.1	4.1	51.2
Depreciation and amortisation	(33.6)	(24.6)	(9.8)	(68.0)	(2.1)	(70.1)

1 Due to the shared nature of the production facilities for the Personal Care, Coatings and Energy segments a split of assets and liabilities by segment is not available and the cost to determine such a split would be prohibitive therefore assets and liabilities are shown in aggregate for these segments.

ANALYSIS BY GEOGRAPHY

	North America \$m	United Kingdom \$m	Rest of Europe \$m	Rest of the World \$m	Total \$m
2019					
Revenue from external customers	285.2	29.4	250.7	308.3	873.6
Fixed assets	810.1	240.4	357.8	63.4	1,471.7
Capital additions	25.5	1.3	16.7	7.7	51.2
Depreciation and amortisation	(33.4)	(1.6)	(31.6)	(3.5)	(70.1)

Revenue is based on the location of the customer. The Group's largest customer accounts for 3.1% of revenue (\$27.2m).

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

	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

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

5. ADJUSTING ITEMS CONTINUED

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 policy in Note 1, in order to provide additional useful analysis of the Group's results. The net impact of these items on the Group profit before tax for the year is a debit of \$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 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/(loss) 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

Notes to the consolidated financial statements

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For the year ended 31 December 2020

5. ADJUSTING ITEMS CONTINUED

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							Total \$m
	Personal Care \$m	Coatings \$m	Talc \$m	Chromium \$m	Energy \$m	Segment totals \$m	Central costs \$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							Total \$m
	Personal Care \$m	Coatings \$m	Talc \$m	Chromium \$m	Energy \$m	Segment totals \$m	Central costs \$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 to 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*		
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

* 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 19.00% (2019: 19.00%)	(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

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

7. PROFIT FOR THE YEAR

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

	2020 \$m	2019 \$m
Employee costs (see Note 8)	125.3	137.6
Net foreign exchange gains	0.6	(0.2)
Research and development costs	7.2	7.8
Depreciation of property, plant and equipment	50.6	50.9
Amortisation of intangible assets	16.1	19.2
Total depreciation and amortisation expense	66.7	70.1
(Profit)/loss on disposal	(0.3)	9.0
Release of contingent consideration	–	(9.0)
Profit on disposal of property, plant and equipment	(0.7)	0.4
Write off of inventory	2.8	2.0
Cost of inventories recognised as expense	325.9	379.4
Fees payable to the Company's auditor and its associates:		
Audit of company*	1.1	0.4
Audit of subsidiaries	1.1	1.0
Audit related services – interim review	0.1	0.1
Other advisory fees	0.1	–

* The \$1.1m of audit of company includes \$0.3m of extra fees relating to the 2019 group audit.

GOVERNMENT GRANTS AND OTHER 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.

8. EMPLOYEES

	2020 \$m	2019 \$m
Employee costs:		
Wages and salaries	111.6	121.9
Social security costs	8.8	9.7
Pension costs	4.9	6.0
	125.3	137.6
	Number	Number
Average number of FTE employees*:		
Specialty Products	917	1,040
Talc	253	234
Chromium	195	258
Central	17	18
Total	1,382	1,550

* Full time equivalent including contractors.

The aggregate amount of Directors' remuneration (salary, bonus and benefits) is shown in the Remuneration Report on page 105;

- The aggregate amount of gains made by Directors on exercise of share options was \$0.1m (2019: \$0.1m).
- The remuneration of the highest paid Director was \$1.2m (2019: \$1.4m).
- Payments have been made to a defined contribution pension scheme on behalf of 1 Director (2019: 1 Director). For the highest paid Director, pension contributions of \$0.2m (2019: \$0.2m) were made.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following:

	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

10. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill \$m	Brand \$m	Customer lists \$m	Other intangible assets \$m	Total \$m
COST:					
At 1 January 2019	717.3	26.4	179.4	103.3	1,026.4
Exchange differences	8.4	0.3	(1.2)	(1.0)	6.5
Additions	–	–	–	2.8	2.8
Intangible assets arising on the acquisition of Mondo	–	(0.8)	(12.4)	(1.9)	(15.1)
At 31 December 2019	725.7	25.9	165.8	103.2	1,020.6
Exchange differences	2.6	0.8	4.7	2.5	10.6
Additions	–	–	–	0.4	0.4
Disposals	–	–	–	–	–
Impairment	(60.3)	–	–	–	(60.3)
AT 31 DECEMBER 2020	668.0	26.7	170.5	106.1	971.3
AMORTISATION:					
At 1 January 2019	–	1.9	14.7	33.2	49.8
Charge for the year	–	1.1	10.7	7.4	19.2
Disposals	–	(0.7)	(4.6)	(1.2)	(6.5)
At 31 December 2019	–	2.3	20.8	39.4	62.5
Charge for the year	–	0.9	9.3	5.9	16.1
Disposals	–	–	–	–	–
AT 31 DECEMBER 2020	–	3.2	30.1	45.3	78.6
CARRYING AMOUNT:					
AT 31 DECEMBER 2020	668.0	23.5	140.4	60.8	892.7
At 31 December 2019	725.7	23.6	145.0	63.8	958.1
At 1 January 2019	717.3	24.5	164.7	70.1	976.6

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

10. GOODWILL AND OTHER INTANGIBLE ASSETS CONTINUED

The net book value of customer lists includes \$102.5m (2019: \$108.0m) in relation to the acquisition of SummitReheis which have remaining lives of between 3 and 20 years (2019: between 4 and 21 years) and \$38.0m (2019: \$37.0m) in relation to the acquisition of Mondo which have remaining lives of 13 years (2019: 14 years).

The brand intangibles represent the value ascribed to the trading name and reputation of the Deuchem, Fancor, Watercryn, Hi-Mar and SummitReheis acquisitions. The Group, with the exception of SummitReheis, considers these to have significant and ongoing value to the business that will be maintained and it is therefore considered appropriate to assign these assets an indefinite useful life. The brand relating to SummitReheis is being amortised over a period of three years. The carrying amount of brand intangibles with an indefinite useful life as at 31 December 2020 is \$24.2m (2019: \$23.4m). Brand intangibles are tested annually for impairment using similar assumptions to the goodwill testing. The remaining intangible assets comprise the value ascribed to customer lists, patents and non-compete clauses, which are being amortised over periods of five to twenty-four years.

GOODWILL IMPAIRMENT TESTING

Goodwill is allocated to the Group's cash-generating units ("CGUs") as follows:

	2020 \$m	2019 \$m
Personal Care	289.4	293.2
Coatings	193.5	202.6
Talc	185.1	201.5
Chromium	–	–
Energy	–	28.4
At 31 December	668.0	725.7

The Group tests annually for impairment at 31 October, or more frequently, if there are events or circumstances that indicate that the carrying amount may not be recoverable.

The recoverable amounts of the Group's CGUs are determined from value in use calculations which use cash flow projections based on financial budgets approved by the directors covering a three to five year period. The key assumptions for the value in use calculations are expected changes to sales volumes, selling prices and direct costs during the forecast period, growth rates used to extrapolate beyond the forecast period and the discount rates applied to the resulting cash flows. Changes in sales volumes, selling prices and direct costs are based on past practices and expectations of future changes in the market. Cash flows for periods beyond the forecast period are extrapolated based on estimated growth rates. The rates do not exceed the average long term growth rate for the relevant products or markets. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

Personal Care

The recoverable amount of the CGU was calculated using forecast cash flows based on budgets and plans for 2021 to 2023, a pre-tax discount rate of 10.5% (2019: 10.5%) and a long-term growth rate of 5.0% based on the long term historical growth rate seen in this CGU. The recoverable amount exceeded the carrying value of the CGU by \$81.0m. A reasonably possible reduction in the long term growth rate of 2.3%, a reduction in revenues of 8.3% in each year of the three year forecast period (applied to average forecast revenues of \$178.8m per annum in the three year period) or an increase in the pre-tax discount rate of 1.8%, applied in isolation, would result in the headroom reducing to nil.

Coatings

The recoverable amount of the CGU was calculated using forecast cash flows based on budgets and plans for 2021 to 2023, a pre-tax discount rate of 10.5% (2019: 10.5%) and a long-term growth rate of 3.0%.

Talc

For the Talc CGU a large part of the value in use is attributable to new business opportunities (NBOs) expected to materialise over the course of the next few years. As such a five year forecasting model has been used to value the Talc CGU to capture the impact of these NBOs.

At 30 June 2020, it was determined that the adverse impact of COVID-19 on global economic activity and the challenging trading results gave rise to an indicator of impairment. In assessing potential downside risks to our base case (for example a further macroeconomic downturn) we determined it appropriate to recognise an impairment charge of \$33.8m to the goodwill of the Talc CGU as at 30 June 2020 based on a recoverable amount of \$477.3m. Due to the currency of the entity where this is held, this impairment is reflected as a P&L charge of \$33.4m and \$0.4m movement in exchange differences on translation of foreign operations in other comprehensive income. In reaching the impairment charge the forecast period included revenue growth and therefore operating profit growth of between 1% and 14%. A pre-tax discount rate of 10.6% was applied. The outcome of the impairment review was most sensitive to changes to forecast operating profit and discount rate. A 0.5% increase in the pre-tax discount rate would have increased the impairment charge by \$29.0m and a 5% decrease in forecast operating profit or revenue in each year of the five year forecast period would have increased the impairment charge by \$21.7m.

At the annual impairment review the recoverable amount of the CGU exceeded carrying amount by \$97.7m and thus no further impairment was required. A pre-tax discount rate of 10.0% and a long term growth rate of 3.0% were applied. A reasonably possible reduction in the long term growth rate of 2.0%, an average reduction in revenues of 7.3% in each year of the five year forecast period (applied to average forecast revenues of \$171.3m over the five year period) or an increase in the pre-tax discount rate of 1.3% applied in isolation would result in the headroom reducing to nil.

Chromium

The recoverable amount of the CGU was calculated using forecast cash flows based on budgets and plans for 2021 to 2023, a pre-tax discount rate of 10.5% (2019: 10.5%) and a long-term growth rate of 3.0%.

Energy

The effect of COVID-19 on the Energy market has seen a significant decline in oil prices, rig counts and thus demand for drilling products. As a result, our Energy business segment recorded an operating loss for the 6 months to 30 June and an impairment review was conducted at that date. At 30 June 2020, given the challenging market outlook, in particular for North American shale, we assumed continued subdued demand in the near to mid-term and therefore impaired the full value of the goodwill associated with the Energy CGU of \$26.9m. A pre-tax discount rate of 10.6% and a long term growth rate of 0.0% were applied.

At the annual impairment review the recoverable amount of the CGU exceeded carrying amount and thus no further impairment was required. A pre-tax discount rate of 10.5% and a long term growth rate of 3.0% were applied.

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings \$m	Plant and machinery \$m	Fixtures fittings and equipment \$m	Under construction \$m	Right-of-use assets			Total \$m
					Land and buildings \$m	Plant and machinery \$m	Fixtures fittings and equipment \$m	
COST:								
At 1 January 2019	125.5	580.8	44.4	25.1	52.2	5.7	2.1	835.8
Additions	–	14.3	0.1	33.4	0.1	0.1	0.4	48.4
Exchange differences	(0.1)	(4.2)	(0.1)	(0.1)	(0.2)	(0.1)	–	(4.8)
Disposals	(2.9)	(11.1)	(1.2)	(0.1)	(0.7)	(0.1)	–	(16.1)
Reclassifications	2.8	34.7	2.5	(40.0)	–	–	–	–
At 31 December 2019	125.3	614.5	45.7	18.3	51.4	5.6	2.5	863.3
Additions	0.2	13.0	–	28.3	0.9	–	0.5	42.9
Exchange differences	4.0	28.8	1.0	0.4	1.1	0.4	0.1	35.8
Disposals	(1.0)	(3.1)	(0.6)	(0.3)	(0.1)	(0.2)	–	(5.3)
Reclassifications	0.1	17.0	1.1	(18.2)	–	–	–	–
AT 31 DECEMBER 2020	128.6	670.2	47.2	28.5	53.3	5.8	3.1	936.7
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES:								
At 1 January 2019	55.5	211.1	31.0	–	11.8	–	–	309.4
Charge for the year	2.8	39.0	2.4	–	4.5	1.1	1.1	50.9
Exchange differences	–	(0.2)	(0.1)	–	–	–	–	(0.3)
Disposals	(0.4)	(9.0)	(0.7)	–	(0.2)	–	–	(10.3)
Reclassifications	–	(0.5)	0.5	–	–	–	–	–
At 31 December 2019	57.9	240.4	33.1	–	16.1	1.1	1.1	349.7
Charge for the year	2.7	40.4	2.3	–	3.4	1.1	0.7	50.6
Exchange differences	1.9	8.4	1.0	–	0.3	0.1	0.1	11.8
Disposals	(0.1)	(2.1)	(0.5)	–	–	(0.3)	(0.1)	(3.1)
Impairment losses	2.8	8.9	–	–	–	–	–	11.7
Reclassifications	–	(0.3)	0.3	–	–	–	–	–
AT 31 DECEMBER 2020	65.2	295.7	36.2	–	19.8	2.0	1.8	420.7
NET BOOK VALUE:								
AT 31 DECEMBER 2020	63.4	374.5	11.0	28.5	33.5	3.8	1.3	516.0
At 31 December 2019	67.4	374.1	12.6	18.3	35.3	4.5	1.4	513.6
At 1 January 2019	70.0	369.7	13.4	25.1	–	–	–	478.2

Group capital expenditure contracted but not provided for in these financial statements amounted to \$nil (2019: \$nil).

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

12. INVENTORIES

	2020 \$m	2019 \$m
Raw materials and consumables	52.5	56.7
Work in progress	15.2	15.7
Finished goods and goods purchased for resale	96.6	96.3
	164.3	168.7

Inventories are disclosed net of provisions for obsolescence of \$6.8m (2019: \$6.5m).

13. TRADE AND OTHER RECEIVABLES

	2020 \$m	2019 \$m
Trade receivables	86.4	96.6
Other receivables	12.5	13.8
Prepayments	9.4	7.5
	108.3	117.9

During the year the group entered into an accounts receivable purchase programme, at 31st December the net balance outstanding in relation to this programme was \$13.7m (2019: \$nil).

14. TRADE AND OTHER PAYABLES

	2020 \$m	2019 \$m
Trade payables	71.4	79.8
Other payables	13.7	15.2
Accruals	47.5	39.5
	132.6	134.5

The group has entered into supplier financing arrangements, the net balance outstanding on these arrangements totalled \$4.9m (2019: \$nil) at the end of the period.

15. PROVISIONS

	Environmental \$m	Self insurance \$m	Restructuring \$m	Other \$m	Total \$m
At 1 January 2020	44.1	2.2	3.6	1.7	51.6
Charged/(credited) to the income statement:					
Increase in provisions	7.2	0.2	3.2	–	10.6
Unused amounts reversed	(0.5)	(0.3)	–	–	(0.8)
Unwinding of discount	2.0	–	–	0.4	2.4
Utilised during the year	(3.7)	(0.6)	(1.7)	(0.5)	(6.5)
Currency translation differences	1.5	–	0.2	(0.2)	1.5
AT 31 DECEMBER 2020	50.6	1.5	5.3	1.4	58.8
Due within 1 year	3.9	0.4	4.8	0.5	9.6
Due after 1 year	46.7	1.1	0.5	0.9	49.2

Environmental provisions relate to manufacturing and distribution sites including certain sites no longer owned by the Group. These provisions have been derived using a discounted cash flow methodology and reflect the extent to which it is probable that expenditure will be incurred over the next 25 years. Included within environmental provisions are amounts in respect of all anticipated costs related to the closure and remediation of the Chromium UK site at Eaglescliffe.

Environmental provisions have increased by \$1.1m due to decreases in the discount rates used to discount the provisions and by \$6.1m due to extra remediation work identified during the year. This expense in addition to the unused amounts reversed in the year of \$0.5m is included within adjusting items (see Note 5).

If the cost estimates on which the provisions at 31 December 2020 are based were to change by 10%, the provision recognised would need to increase by approximately \$4.6m. Whilst a range of outcomes is possible, the Directors believe that the reasonably possible range for the environmental provision is from \$43.5m to \$51.9m.

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

Restructuring provisions relate to costs of adjusting head count, training, relocation and other costs of restructuring where a need to do so has been identified by management. Other provisions represent payments made for right of first refusal on a quarry, payments for which are linked to the discharge of residue into another quarry owned by the same counterparty. These provisions are expected to be utilised within three years.

16. DEFERRED TAX AND ACT RECOVERABLE

	Retirement benefit plans \$m	Accelerated tax depreciation \$m	Amortisation of US goodwill \$m	Other intangible assets \$m	Temporary differences \$m	Unrelieved tax losses \$m	Total \$m
At 1 January 2019	0.8	(31.6)	(58.6)	(61.5)	17.2	6.4	(127.3)
Arising on disposal	–	–	–	2.8	–	–	2.8
Credit/(charge) to the income statement	0.2	(0.4)	0.1	(0.8)	0.7	(1.0)	(1.2)
Credit/(charge) to other comprehensive income	1.5	–	–	–	(0.2)	–	1.3
Credit to retained earnings	–	–	–	–	0.3	–	0.3
Currency translation differences	(0.2)	–	–	(0.2)	2.5	–	2.1
At 1 January 2020	2.3	(32.0)	(58.5)	(59.7)	20.5	5.4	(122.0)
Reallocation	–	(15.0)	(10.7)	25.7	–	–	–
Credit/(charge) to the income statement	0.9	6.2	5.6	(1.8)	(7.2)	5.0	8.7
(Charge)/credit to other comprehensive income	(0.7)	–	–	–	0.4	–	(0.3)
Credit to retained earnings	–	–	–	–	0.1	–	0.1
Currency translation differences	(0.1)	(3.3)	–	0.4	(0.5)	0.2	(3.3)
AT 31 DECEMBER 2020	2.4	(44.1)	(63.6)	(35.4)	13.3	10.6	(116.8)
DEFERRED TAX ASSETS	2.4	–	–	–	13.3	10.6	26.3
DEFERRED TAX LIABILITIES	–	(44.1)	(63.6)	(35.4)	–	–	(143.1)

Deferred tax assets have been recognised to the extent that it is considered more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted. Where this is not the case, deferred tax assets have not been recognised.

Deferred tax liabilities are reduced for any deferred tax assets which exist within a jurisdiction where consolidated tax returns are filed and where tax assets and liabilities may be netted.

An asset of \$42.0m was recognised in 2014 relating to UK advance corporation tax ('ACT') credits which had previously been unrecognised because of uncertainty over future UK taxable profits. Movements in the ACT recoverable balance are shown below:

	2020 \$m	2019 \$m
At 1 January	4.8	9.8
Utilisation	(4.0)	(5.2)
Currency translation differences	(0.2)	0.2
At 31 December	0.6	4.8

There are no material losses where deferred tax assets have not been recognised.

At the balance sheet date the aggregate amount of the temporary differences in relation to the investment in subsidiaries for which deferred tax liabilities have not been recognised was \$19.9m (2019: \$26.0m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and the Group considers that it is probable that such differences will not reverse in the foreseeable future. As at the balance sheet date the Group had an unrecognised deferred tax asset of \$4.1m in relation to restricted US interest deductions and an unrecognised deferred tax asset of \$10.9m in respect of German net operating losses.

17. SHARE CAPITAL

	2020 \$m	2019 \$m
At 1 January	52.1	52.1
Issue of shares	–	–
At 31 December	52.1	52.1

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

18. OTHER RESERVES

	Capital redemption reserve \$m	Translation reserve \$m	Hedging reserve \$m	Share options reserve \$m	Total \$m
Balance at 1 January 2019	158.8	(73.0)	(5.6)	5.3	85.5
Share based payments	–	–	–	3.0	3.0
Exchange differences	–	4.0	–	2.7	6.7
Change in fair value of derivatives	–	–	(2.8)	–	(2.8)
Transfer	–	–	–	(1.3)	(1.3)
At 1 January 2020	158.8	(69.0)	(8.4)	9.7	91.1
Share based payments	–	–	–	3.5	3.5
Exchange differences	–	20.1	–	(2.7)	17.4
Change in fair value of derivatives	–	–	(0.5)	–	(0.5)
Transfer	–	–	–	(2.9)	(2.9)
BALANCE AT 31 DECEMBER 2020	158.8	(48.9)	(8.9)	7.6	108.6

The Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The capital redemption reserve represents the nominal value of the shares redeemed.

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The share options reserve comprises amounts accumulated in equity in respect of share options and awards granted to employees.

19. BORROWINGS

	2020 \$m	2019 \$m
Bank loans	519.1	558.1
Unamortised syndicate fees	(4.8)	(5.1)
Carrying value of borrowings at 31 December	514.3	553.0

The borrowings are repayable as follows:

Within one year	3.7	2.2
Within two to four years	515.4	393.1
In the fifth year	–	162.8
	519.1	558.1

The weighted average interest rates paid were as follows:

	2020 %	2019 %
Bank loans	3.2	3.4

Group borrowings were denominated as follows:

	US Dollar	Taiwan Dollar	Euro	Total
Bank loans				
31 DECEMBER 2020	306.6	2.1	210.4	519.1
31 December 2019	245.2	2.0	310.9	558.1

Of the US dollar borrowings, \$nil was unsecured (2019: \$nil), bearing interest at the relevant interbank rates plus a margin. The Taiwan dollar and remaining US dollar borrowings consisted of those secured by time deposits and those secured by charges over various land and buildings in Taiwan.

20. CASH AND CASH EQUIVALENTS

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

	2020 \$m	2019 \$m
Cash at bank and on hand	111.0	103.9

21. FINANCIAL INSTRUMENTS

At 31 December 2020:

	Held at fair value		Held at amortised cost		Total book value \$m	Total fair value \$m
	Through profit and loss \$m	Derivatives used for hedging \$m	Loans and receivables \$m	Liabilities \$m		
CURRENT:						
Trade and other receivables (see note 13)	-	-	98.9	-	98.9	98.9
Derivative financial instruments (see note 22)	-	1.4	-	-	1.4	1.4
Cash and cash equivalents (see note 20)	-	-	111.0	-	111.0	111.0
Financial assets	-	1.4	209.9	-	211.3	211.3
CURRENT:						
Bank overdrafts and loans (see note 19)	-	-	-	(3.7)	(3.7)	(3.7)
Trade and other payables (see note 14)	-	-	-	(132.6)	(132.6)	(132.6)
Derivative financial instruments (see note 22)*	(14.7)	(2.6)	-	-	(17.3)	(17.3)
Lease liabilities (see note 24)	-	-	-	(7.2)	(7.2)	(7.2)
NON-CURRENT:						
Loans and borrowings** (see note 19)	-	-	-	(510.6)	(510.6)	(515.4)
Lease liabilities (see note 24)	-	-	-	(37.2)	(37.2)	(37.2)
Contingent consideration***	-	-	-	(13.4)	(13.4)	(13.4)
Financial liabilities	(14.7)	(2.6)	-	(704.7)	(722.0)	(726.8)
TOTAL	(14.7)	(1.2)	209.9	(704.7)	(510.7)	(515.5)

At 31 December 2019:

	Held at fair value		Held at amortised cost		Total book value \$m	Total fair value \$m
	Through profit and loss \$m	Derivatives used for hedging \$m	Loans and receivables \$m	Liabilities \$m		
CURRENT:						
Trade and other receivables (see note 13)	-	-	110.4	-	110.4	110.4
Derivative financial instruments (see note 22)	-	0.1	-	-	0.1	0.1
Cash and cash equivalents (see note 20)	-	-	103.9	-	103.9	103.9
Financial assets	-	0.1	214.3	-	214.4	214.4
CURRENT:						
Bank overdrafts and loans (see note 19)	-	-	-	(2.2)	(2.2)	(2.2)
Trade and other payables (see note 14)	-	-	-	(134.5)	(134.5)	(134.5)
Derivative financial instruments (see note 22)*	(1.4)	(0.7)	-	-	(2.1)	(2.1)
Lease liabilities (see note 24)	-	-	-	(7.1)	(7.1)	(7.1)
NON-CURRENT:						
Loans and borrowings** (see note 19)	-	-	-	(550.8)	(550.8)	(555.9)
Lease liabilities (see note 24)	-	-	-	(39.8)	(39.8)	(39.8)
Contingent consideration*** (see note 5)	-	-	-	(13.0)	(13.0)	(13.0)
Financial liabilities	(1.4)	(0.7)	-	(747.4)	(749.5)	(754.6)
TOTAL	(1.4)	(0.6)	214.3	(747.4)	(535.1)	(540.2)

* Derivatives in a liability position at 31 December 2020 and 31 December 2019 are shown within current financial liabilities in the Consolidated balance sheet.

** Loans and borrowings are shown net of facility fees of \$4.8m (2019: \$5.1m).

*** Contingent consideration payable of \$13.4m (2019: \$13.0m) is shown in the non-current financial liabilities line in the Consolidated balance sheet. This balance is payable to the previous owners of Mondo should Elementis be successful in an historic, pre-acquisition interest deductibility case relating to Mondo. Should Elementis be unsuccessful the balance payable to the previous owners of Mondo will be nil.

Notes to the consolidated financial statements continued

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21. FINANCIAL INSTRUMENTS CONTINUED

FAIR VALUES MEASUREMENT AND HIERARCHY

Basis for determining fair values

The Group measures fair values in respect of financial instruments in accordance with IFRS 13, using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly or indirectly.

Level 3: Valuation techniques using significant unobservable inputs. This category includes contingent consideration.

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

The Group assesses that the fair values of cash and cash equivalents, trade and other receivables, trade and other payables, and the current portion of floating rate bank and other borrowings, approximate to book values due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within their book value for credit risk. The fair values of lease liabilities approximate to their book values due to the measurement of lease liabilities at the Group's incremental borrowing rate, which has not changed significantly since the inception of the lease liabilities presented. Leases are also negotiated at market rates with independent, unrelated third parties and are subject to periodic rental reviews.

DERIVATIVES (LEVEL 2)

Fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate (based on government bonds).

NON-DERIVATIVE NON-CURRENT FINANCIAL LIABILITIES (LEVEL 2)

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

CONTINGENT CONSIDERATION PAYABLE (LEVEL 3)

Fair value has been estimated by calculating the present value of the future expected cash flows. Expected cash inflows are estimated based on the terms of the sale and purchase contract, the entity's knowledge of the business and how the current economic environment is likely to impact it.

Changes in fair value of financial liabilities classified as level 3 in the hierarchy are as follows:

	2020 \$m	2019 \$m
Contingent consideration at fair value through profit or loss:		
At 1 January	13.0	21.4
Foreign exchange losses/(gains)	0.4	0.6
Additions	–	–
Profit and loss movement	–	(9.0)
At 31 December	13.4	13.0

INTEREST RATES USED FOR DETERMINING FAIR VALUE

The interest rates used to discount estimated cash flows, where applicable, are based on yield curves observable at the balance sheet date and contractual interest rates. The rates used were as follows:

	2020 %	2019 %
Borrowings	2.9–3.3	2.3–4.4

The following table shows amounts recognised in profit or loss in relation to financial assets and liabilities within the scope of IFRS 9:

	2020 \$m	2019 \$m
RECOGNISED IN PROFIT OR LOSS		
Interest income on bank deposits held at amortised cost	0.3	0.4
Fair value of cash flow hedges transferred from equity to the income statement	–	–
Financial income	0.3	0.4
Interest on bank loans	(22.6)	(23.7)
Fair value of cash flow hedges transferred from equity to the income statement	(0.9)	–
Fair value movement on derivatives not in hedging relationships	(10.2)	(1.4)
Interest on lease liabilities	(1.7)	(1.8)
Financial costs	(35.4)	(26.9)
Net financial costs	(35.1)	(26.5)

The following table shows amounts recognised directly in equity in relation to financial assets and liabilities within the scope of IFRS 9:

	2020 \$m	2019 \$m
RECOGNISED DIRECTLY IN EQUITY		
Effective portion of changes in fair value of cash flow hedge (gain / (loss))	(1.4)	(2.8)
Fair value of cash flow hedges transferred to income statement	0.9	–
Effective portion of change in fair value of net investment hedge	(3.6)	27.5
Foreign currency translation differences for foreign operations	25.0	(23.9)
Recognised in:		
Hedging reserve	(0.5)	(2.8)
Translation reserve	21.4	3.6

22. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

	Contract or underlying principal amount		Fair Value	
	Assets	Liabilities	Assets \$m	Liabilities \$m
At 31 December 2020:				
CURRENT:				
Interest rate swaps – cash flow hedges	–	€120m / \$100m	–	(2.6)
Commodity swaps – cash flow hedges	2,040 MT	–	1.4	–
Cross currency swaps	–	\$110m / €100m	–	(14.7)
TOTAL			1.4	(17.3)

	Contract or underlying principal amount		Fair Value	
	Assets	Liabilities	Assets \$m	Liabilities \$m
At 31 December 2019:				
CURRENT:				
Interest rate swaps – cash flow hedges	–	€30m / \$100m	–	(0.6)
Commodity swaps – cash flow hedges	0.2m MBTU	2,040 MT	0.1	(0.1)
Cross currency swaps	–	\$110m / €100m	–	(1.4)
TOTAL			0.1	(2.1)

HEDGING ACTIVITIES

The Group is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivative instruments are foreign currency risk, commodity price risk and interest rate risk.

The Group's risk management strategy is explained in Note 23.

DERIVATIVES DESIGNATED AS HEDGING INSTRUMENTS

Cash flow hedges

Commodity price risk

The Group enters into commodity swap contracts to reduce the volatility attributable to price fluctuations of aluminium and gas. To the extent they continue to meet the criteria for hedge accounting, the commodity forward contracts are accounted for as cash flow hedges.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the commodity swap contracts match the terms of the expected highly probable forecast transactions (i.e. notional amount and expected payment date). As all critical terms matched during the year, hedge ineffectiveness was immaterial. The hedge ratio is 1:1.

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22. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES CONTINUED

Interest rate risk

The Group enters into interest rate swaps to swap a portion of the interest arising from the Group's syndicated rolling credit facility from floating to fixed. Interest payments are highly probable, the hedged risk is the change in the market interest rate. The hedged items are the interest rate cash flows on \$100.0m of USD denominated debt and €120.0m of EUR denominated debt, the Group's total debt is shown in Note 19 to the financial statements.

The principal terms (notional, reset date, tenor) of the hedged items and the hedged instruments have been matched along with the contractual interest cash flows, therefore creating an exact offset for these transaction resulting in a net fixed interest payable. As the interest rate swaps and the hedged items are matched (equal and opposite terms of interest rate, date and maturity) this results in a designated hedge ratio of 1:1 or 100%.

Hedge ineffectiveness can arise from:

- Changes in timing of the hedged item
- A reduction in the amount of the hedged item considered to be highly probable
- A change in the credit risk of Elementis or the counterparty to the derivative contract
- Foreign currency basis spreads

The effect of cash flow hedges in the consolidated income statement and the consolidated statement of other comprehensive income is, as follows:

	Total hedging (loss)/gain recognised in OCI \$m	Amount reclassified from OCI to profit or loss \$m	Line item in the statement of profit or loss \$m
YEAR ENDED 31 DECEMBER 2020			
Interest rate swaps – cash flow hedges	(2.5)	0.5	Finance costs
Commodity forward contracts – cash flow hedges	1.1	0.4	Cost of sales
YEAR ENDED 31 DECEMBER 2019			
Interest rate swaps – cash flow hedges	(2.4)	(0.3)	Finance costs
Commodity forward contracts – cash flow hedges	(0.4)	0.3	Cost of sales

Amounts reclassified from other comprehensive income to profit or loss are due to the hedged item affecting profit or loss in the period. There were no instances of non-occurrence of hedged cashflows in either the current or comparative period.

IBOR reform

The Group has adopted the 'Interest rate benchmark reform – Phase 1' amendments in the current financial year. These allow the Group to continue hedge accounting for its benchmark interest rate exposures during the period of uncertainty arising from interest rate benchmark reforms. The Group will continue to apply these amendments until the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and amount of the interest rate benchmark cash flows. Phase 1 temporary relief is expected to cease, on a hedge-by-hedge basis, when the designated hedge relationship is amended and application of Phase 2 reliefs begins.

None of the Group's current USD LIBOR linked contracts include adequate and robust fallback provisions for a cessation of the referenced benchmark interest rate. The Group is monitoring the market and the output from various industry working groups managing the transition to new benchmark interest rates, and will look to implement fallback language for different instruments when appropriate. For the Group's derivatives, the International Swaps and Derivatives Association's (ISDA) fallback clauses were made available at the end of 2020 and the Group will begin discussion with its banks with the aim to implement this language into its ISDA agreements in 2021.

Details of the hedging relationships for which the Group has applied the 'Interest rate benchmark reform – Phase 1' amendments are given below.

Hedging instrument	Notional	Asset \$m	Liability \$m	Interest rate benchmark
USD Interest rate swaps – cash flow hedges	\$100m	–	(2.5)	USD-LIBOR

Hedge of net investments in foreign operations

The Group seeks to denominate the currency of its borrowings in Euros and US dollars in order to match the currency of its cash flows, earnings and assets which are principally denominated in those currencies.

The Euro and US dollar borrowings in Elementis Holdings Limited, are designated as net investment hedges, as the company's functional currency is GBP. The Group does not undertake derivative transactions to hedge the foreign currency translation exposures.

The Group analyses the Euro and US dollar net assets by subsidiary and the foreign currency borrowings in the name of Elementis Holdings Limited are allocated against certain tranches of net assets for a specific subsidiary. Therefore, the critical terms of the Euro and US dollar borrowings and their corresponding hedged items are the same.

The Group performs a qualitative assessment of effectiveness and it is expected that the value of the Euro and US dollar borrowings in GBP and the value of the corresponding hedged items in GBP will systematically move in the opposite direction in response to movements in the underlying exchange rates.

The main source of ineffectiveness in these hedging relationships is the impact of a decline in the carrying value of the hedged item compared to the Euro and US dollar borrowings with the result that the value of the hedged item is less than the value of hedging instrument.

Foreign currency revaluation on the Euro and US dollar borrowings in the name of Elementis Holdings Limited are recorded in other comprehensive income and deferred in the foreign currency translation reserve on the balance sheet as long as the hedge is effective. Any ineffectiveness is recognised in the Income Statement for that year.

The impact of the hedged items on the statement of comprehensive income is as follows:

	2020 Foreign currency translation reserve \$m	2019 Foreign currency translation reserve \$m
YEAR ENDED 31 DECEMBER		
Net investment in foreign subsidiaries	25.0	(23.9)

IMPACT OF HEDGING ON EQUITY

Set out below is the reconciliation of each component of equity and the analysis of other comprehensive income:

	Cash flow hedge reserve \$m	Foreign currency translation reserve \$m
AS AT 1 JANUARY 2019	(5.6)	(73.0)
Effective portion of changes in fair value arising from:		
Derivative cash flow hedging instruments	(2.8)	–
Amount reclassified to profit or loss	–	0.4
Foreign currency revaluation of the net foreign operations	–	(23.9)
Foreign currency revaluation of borrowings	–	27.5
Tax effect	–	–
AS AT 1 JANUARY 2020	(8.4)	(69.0)
Effective portion of changes in fair value arising from:		
Derivative cash flow hedging instruments	(1.4)	–
Amount reclassified to profit or loss	0.9	(0.2)
Foreign currency revaluation of the net foreign operations	–	25.0
Foreign currency revaluation of borrowings	–	(3.6)
Foreign currency revaluation of pension scheme actuarial movements	–	(1.1)
AS AT 31 DECEMBER 2020	(8.9)	48.9

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23. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT OBJECTIVES

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

TRADE AND OTHER RECEIVABLES

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less influence on credit risk. No single customer accounts for a significant proportion of the Group's revenue.

Each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, where available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Board of Directors. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group applies the IFRS 9 simplified approach in establishing an allowance for expected credit losses (ECLs). Therefore, the Group does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. A provision matrix is used to calculate lifetime ECLs which takes into account the Group's historical credit loss experience adjusted for historical conditions that are not relevant to future cashflows and forward looking factors specific to the debtor and economic environment.

INVESTMENTS

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

EXPOSURE TO CREDIT RISK

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2020 \$m	2019 \$m
Trade receivables	86.4	96.6
Cash and cash equivalents	111.0	103.9
	197.4	200.5

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

	Carrying amount	
	2020 \$m	2019 \$m
North America	27.7	32.6
Europe	29.9	30.5
Rest of the World	28.8	33.5
	86.4	96.6

EXPECTED CREDIT LOSSES

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Gross 2020 \$m	Expected credit loss rate	Expected credit loss 2020 \$m	Gross 2019 \$m	Expected credit loss rate	Expected credit loss 2019 \$m
Not past due	78.1	0.8%	(0.6)	87.0	1.3%	(1.1)
Past due 0-30 days	8.2	0.0%	–	8.5	3.5%	(0.3)
Past due 31-120 days	0.9	66.7%	(0.6)	2.1	4.8%	(0.1)
Past due > 121 days	1.0	60.0%	(0.6)	1.4	64.3%	(0.9)
Total	88.2		(1.8)	99.0		(2.4)

The movement in the allowance for expected credit losses during the year was as follows:

	2020 \$m	2019 \$m
Balance at 1 January	2.4	2.0
Charge to income statement – administrative expenses	(0.6)	0.4
Increase in provision on acquisition of Mondo	–	–
Balance at 31 December	1.8	2.4

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group's funding policy is to have committed borrowings in place to cover at least 125% of the maximum forecast net borrowings for the next 12 month period. At the year end the Group had \$314.1m (2019: \$267.0m) of undrawn committed facilities, of which \$280.0m (2019: \$245.3m) expires after more than 1 year.

EXPOSURE TO LIQUIDITY RISK

The maturity analyses for financial liabilities showing the anticipated remaining contractual undiscounted cash flows, including future interest payments, at current year exchange rates and assuming floating interest rates remain at the latest fixing rates are:

	31 December 2020				
	Within 1 year \$m	1 to 2 years \$m	2 to 5 years \$m	After 5 years \$m	Total \$m
Bank overdrafts	3.7	–	–	–	3.7
Secured bank loan	–	–	515.4	–	515.4
Trade and other payables	132.6	–	–	–	132.6
Lease liabilities	7.2	5.8	12.7	30.2	55.9
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	143.5	5.8	528.1	30.2	707.6
Interest rate swaps*	2.6	–	–	–	2.6
Commodity swap contracts	–	–	–	–	–
Cross currency swaps	14.7	–	–	–	14.7
TOTAL DERIVATIVE FINANCIAL LIABILITIES	17.3	–	–	–	17.3

* Assumes no change in interest rates from those prevailing at the balance sheet date.

	31 December 2019				
	Within 1 year \$m	1 to 2 years \$m	2 to 5 years \$m	After 5 years \$m	Total \$m
Bank overdrafts	2.2	–	–	–	2.2
Secured bank loan	–	–	393.1	162.8	555.9
Trade and other payables	134.5	–	–	–	134.5
Lease liabilities	7.4	6.0	14.8	31.4	59.6
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	144.1	6.0	407.9	194.2	752.2
Interest rate swaps*	0.6	–	–	–	0.6
Commodity swap contracts	0.1	–	–	–	0.1
Cross currency swaps	1.4	–	–	–	1.4
TOTAL DERIVATIVE FINANCIAL LIABILITIES	2.1	–	–	–	2.1

* Assumes no change in interest rates from those prevailing at the balance sheet date.

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23. FINANCIAL RISK MANAGEMENT CONTINUED

MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The Group uses derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board.

MARKET RISK – CURRENCY RISK

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a foreign currency other than the respective functional currencies of Group entities, primarily the US dollar and the euro. The Group hedges up to 100% of current and forecast trade receivables and trade payables denominated in a foreign currency. The Group uses forward exchange contracts to hedge its currency risk, with a maturity of less than one year from the reporting date.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily US dollar, but also euro and pounds sterling. This provides an economic hedge in instances where hedging derivatives are not entered into. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances.

The Group's net investment in overseas subsidiaries creates exposure to foreign exchange fluctuations. The risk is hedged by US dollar and euro denominated drawdowns under the syndicated facility designated as the hedged item in net investment hedge relationships. This mitigates the currency risk arising from the retranslation of a subsidiary's net assets into pounds sterling, the functional currency of the ultimate parent Elementis plc.

CURRENCY RISK SENSITIVITY ANALYSIS

The following table illustrates the effect on the income statement and items that are recognised directly in equity that would result from a 10% strengthening of US dollar against the following currencies, before the effect of tax. The analysis covers only financial assets and liabilities held at the balance sheet date and assumes that all other variables, in particular interest rates, remain constant.

	2020		2019	
	Income statement \$m	Equity \$m	Income statement \$m	Equity \$m
Gain/(loss) from US Dollar strengthening 10% against Euro	0.5	0.6	0.3	0.3
Gain/(loss) from US Dollar strengthening 10% against Sterling	(0.9)	(28.9)	0.3	(22.0)

MARKET RISK – INTEREST RATE

The Group's policy is to borrow at both fixed and floating interest rates and to use interest rate swaps to generate the required interest profile. These interest swaps are designated within cashflow hedging relationships with the interest payments on the borrowings they are hedging. The risk being hedged is the exposure of the Group to market rate volatility on a portion of the core Group debt. The Group policy does not require that a specific proportion of the Group's borrowings are at fixed rates of interest.

INTEREST RATE SENSITIVITY ANALYSIS

A change of 100 basis points (1%) in interest rates would have impacted profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	100bps increase \$m	2020 100bps decrease \$m	100bps increase \$m	2019 100bps decrease \$m
Variable rate instruments – (loss)/gain	(2.4)	1.2	(3.8)	1.9

MARKET RISK – COMMODITY PRICE RISK

The group is exposed to movements in the prices of commodities it purchases such as aluminium. The volatility in the price of aluminium has led to the decision to enter into commodity swap contracts. The swap contracts do not result in physical delivery of aluminium, but are designated as cash flow hedges to offset the effect of price changes in aluminium.

Commodity price sensitivity analysis

The following table details the Group's sensitivity to a 10% increase in aluminium prices, which is management's assessment of the reasonably possible change, on average, over any given year. In 2020 and 2019 the Group's aluminium purchases were fully hedged and all aluminium swap derivatives achieved hedge accounting, there was no impact on profit or loss.

The table does not show the sensitivity to the Group's total commodity exposure or the impact of changes in volumes that may arise from increase or decrease in the respective commodity prices. The sensitivity analysis determines the potential effect on profit or loss and equity arising from the Group's aluminium swap contract positions as a result of the reasonably possible increases or decreases of the respective aluminium price.

	Effect on profit before tax \$m	2020 Impact on total equity \$m	Effect on profit before tax \$m	2019 Impact on total equity \$m
10% increase in aluminium prices	–	–	–	–

OTHER MARKET PRICE RISK

Equity price risk arises from equity securities held within the Group's defined benefit pension obligations. In respect of the US schemes, management monitors the mix of debt and equity securities in its investment portfolio based on market expectations. The primary goal of the Group's investment strategy is to maximise investment returns, without excessive risk taking, in order to meet partially the Group's unfunded benefit obligations; management is assisted by external advisers in this regard. In respect of the UK scheme, the investment strategy is set by the trustees and the Board is kept informed.

CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence, sustain future development of the business and maximise shareholder value. The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent comprising capital, reserves and retained earnings. Financing for the recent acquisition of Mondo was part funded through a Rights Issue and part through drawdowns on the Group's syndicated borrowing facility.

The Group utilises a mix of debt funding sources including term loans and revolving credit facilities (RCF) from the Group's syndicated borrowing facility with differing maturities to ensure continuity and provide flexibility. The group is subject to two financial covenants which apply to the Group's syndicated borrowing facility. Following the covenant relaxations granted during 2020 the group is required to maintain a ratio of net debt to EBITDA (pre IFRS 16) of less than 3.75x for all measurement points up to and including 31 December 2021 and less than 3.25x for all periods thereafter and a minimum net interest cover of 3.0x (in relation to earnings before net interest expense and tax). The Net debt to EBITDA ratio stood at 3.2x times at 31 December 2020 (2019: 2.7x) and the Directors anticipate the strong cash generation of the Enlarged Group to drive a material deleveraging profile going forwards, with leverage reducing to a net debt to EBITDA ratio of around 1.5x in the medium term. Net interest cover at 31 December 2020 was 3.7x (2019: 5.5x).

The Board monitors the return on operating capital employed (ROCE) both including and excluding goodwill, as defined on page 184. The Group's target is to achieve a ROCE (including goodwill) in excess of our weighted average cost of capital.

The dividend policy is set out in the Chairman's statement on page 7.

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24. LEASES

GROUP AS LESSEE

The Group has lease contracts for various items of property, plant, machinery, vehicles and other equipment used in its operations. Disclosures in relation to Right of Use Assets are included within Note 11 – Property, plant and equipment.

The Group also has certain leases with lease terms of 12 months or less and leases of low-value assets to which the Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions.

The weighted average incremental borrowing rate applied to lease liabilities is 4% (2019: 4%).

The following are the amounts recognised in profit or loss:

	2020 \$m	2019 \$m
Depreciation expense on right-of-use assets	5.2	6.7
Interest expense on lease liabilities	1.7	1.8
Expense related to short-term leases and low-value assets	1.0	0.3
Expense relating to variable lease payments not included in lease liabilities	0.9	1.2

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2020 \$m	2019 \$m
As at 1 January 2020	46.9	53.3
Additions	1.4	0.6
Disposals	–	(0.5)
Interest expense	1.7	1.8
Payments	(6.7)	(7.8)
Foreign exchange movements	1.1	(0.5)
AS AT 31 DECEMBER 2020	44.4	46.9

The maturity analysis of lease liabilities is as follows:

	2020 \$m	2019 \$m
Within one year	7.2	7.1
In the second to fifth years inclusive	16.5	18.4
After five years	20.7	21.4
	44.4	46.9

25. RETIREMENT BENEFIT OBLIGATIONS

The Group has a number of contributory and non-contributory post retirement benefit plans providing retirement benefits for the majority of employees and Executive Directors. At 31 December 2020 the main schemes in the UK and US were of the defined benefit type, the benefit being based on number of years of service and either the employee's final remuneration or the employee's average remuneration during a period of years before retirement. The assets of these schemes are held in separate trustee administered funds or are unfunded but provided for on the Group balance sheet.

The UK defined benefit scheme had a surplus under IAS 19 of \$7.9m (2019: \$7.4m). In accordance with the requirements of IFRIC 14 management have concluded that the right to reduce the minimum funding contributions when the deficit falls below \$10.4m in conjunction with the unconditional right to a refund of any surplus under any winding up of the plan provides sufficient evidence that an asset ceiling does not exist and as such the full surplus has been recognised.

In addition the Group operates an unfunded post retirement medical benefit (PRMB) scheme in the US. The entitlement to these benefits is usually based on the employee remaining in service until retirement age and completion of a minimum service period.

Other employee benefit schemes included in the table overleaf relate to two unfunded pension schemes, a long term service award scheme in Germany and a special benefits programme for a small number of former employees of the Eaglescliffe plant. The Group also acquired two further unfunded pension schemes and two long term service award schemes all in Germany as part of the SummitReheis acquisition in 2017. These are included within this category.

The Group also operates a small number of defined contribution schemes and the contributions payable during the year are recognised as incurred. The pension charge for the defined contribution pension schemes for the year is \$3.1m (2019: \$4.1m).

NET DEFINED BENEFIT LIABILITY

The net liability was as follows:

	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Other \$m	Total \$m
2020					
Total market value of assets	788.9	130.7	–	–	919.6
Present value of scheme liabilities	(781.0)	(142.5)	(6.5)	(9.8)	(939.8)
Net asset/(liability) recognised in the balance sheet	7.9	(11.8)	(6.5)	(9.8)	(20.2)
	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Other \$m	Total \$m
2019					
Total market value of assets	724.2	122.5	–	–	846.7
Present value of scheme liabilities	(716.8)	(132.4)	(6.0)	(8.6)	(863.8)
Net asset/(liability) recognised in the balance sheet	7.4	(9.9)	(6.0)	(8.6)	(17.1)

Employer contributions in 2020 were \$nil (2019: \$nil) to the UK scheme and \$0.8m (2019: \$2.1m) to US schemes. Top up contributions to the UK scheme in 2020 will be nil based on the 2017 triennial valuation. Under this agreement top up contributions are no longer required until at least 2021. Expected contributions to the US schemes in the next year are \$0.4m.

Notes to the consolidated financial statements

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For the year ended 31 December 2020

25. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

MOVEMENT IN NET DEFINED BENEFIT LIABILITY

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

	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Other \$m	Total \$m
2020					
Balance at 1 January	7.4	(9.9)	(6.0)	(8.6)	(17.1)
INCLUDED IN PROFIT OR LOSS					
Current service cost	(0.6)	(0.8)	(0.1)	0.1	(1.4)
Past service cost	–	(1.1)	–	–	(1.1)
Running costs	(1.2)	(0.4)	–	–	(1.6)
Net interest income/(expense)	0.1	(0.3)	(0.1)	(0.1)	(0.4)
	(1.7)	(2.6)	(0.2)	–	(4.5)
INCLUDED IN OTHER COMPREHENSIVE INCOME					
Re-measurements:					
Return on plan assets excluding interest income	61.6	12.3	–	–	73.9
Actuarial gains arising from demographic assumptions	–	0.3	–	–	0.3
Actuarial losses arising from financial assumptions	(65.4)	(11.9)	(0.4)	(0.6)	(78.3)
Actuarial (losses)/gains arising from experience adjustment	5.9	(0.4)	(0.3)	(0.3)	4.9
Exchange differences	0.1	–	–	(0.8)	(0.7)
	2.2	0.3	(0.7)	(1.7)	0.1
Contributions:					
Employers	–	0.4	0.4	0.5	1.3
SURPLUS / (DEFICIT) IN SCHEMES AT 31 DECEMBER	7.9	(11.8)	(6.5)	(9.8)	(20.2)
	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Other \$m	Total \$m
2019					
Balance at 1 January	22.1	(15.7)	(5.6)	(10.7)	(9.9)
INCLUDED IN PROFIT OR LOSS					
Current service cost	(0.6)	(0.6)	(0.1)	(0.3)	(1.6)
Running costs	(1.1)	(0.4)	–	–	(1.5)
Net interest expense	0.6	(0.6)	(0.2)	(0.3)	(0.5)
Business disposal	–	–	–	4.0	4.0
	(1.1)	(1.6)	(0.3)	3.4	0.4
INCLUDED IN OTHER COMPREHENSIVE INCOME					
Re-measurements:					
Return on plan assets excluding interest income	43.8	16.9	–	–	60.7
Actuarial gains arising from demographic assumptions	–	1.0	–	–	1.0
Actuarial gains arising from financial assumptions	(56.2)	(12.2)	(0.4)	(2.2)	(71.0)
Actuarial losses arising from experience adjustment	(1.5)	0.2	(0.4)	–	(1.7)
Exchange differences	0.3	–	–	0.3	0.6
	(13.6)	5.9	(0.8)	(1.9)	(10.4)
Contributions:					
Employers	–	1.5	0.7	0.6	2.8
SURPLUS / (DEFICIT) IN SCHEMES AT 31 DECEMBER	7.4	(9.9)	(6.0)	(8.6)	(17.1)

PLAN ASSETS

Plan assets comprise:

	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Total \$m
2020				
Equities	289.1	56.1	–	345.2
Bonds*	436.9	13.8	–	450.7
Cash/liquidity funds	62.9	60.8	–	123.7
	788.9	130.7	–	919.6
	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Total \$m
2019				
Equities	248.1	52.8	–	300.9
Bonds*	397.8	57.3	–	455.1
Cash/liquidity funds	78.3	12.4	–	90.7
	724.2	122.5	–	846.7

* Including LDI repurchase agreement liabilities.

To reduce volatility risk a liability driven investment (LDI) strategy forms part of the Trustees' management of the UK defined benefit scheme's assets, including government bonds, corporate bonds and derivatives. The bond assets category in the table above includes gross assets of \$845.3m (2019: \$774.9m) and associated repurchase agreement liabilities of \$408.4m (2019: \$377.1m).

Repurchase agreements are entered into with counterparties to better offset the scheme's exposure to interest and inflation rates, whilst remaining invested in assets of a similar risk profile. Interest rate and inflation rate derivatives are also employed to complement the use of fixed and indexed linked bonds in matching the profile of the scheme's liabilities.

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

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For the year ended 31 December 2020

25. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Within the UK pension scheme, the current asset allocation is approximately 28% in a liability matching fund consisting of gilts (fixed interest and index linked), bonds, cash and swaps, 19% in a buy and maintain fund and 53% in an investment fund that includes various equity and equity like funds. The aim of the trustees is to manage the risk relative to the liabilities associated with the scheme's investments through a combination of diversification, inflation protection and hedging of risk (currency, interest rate and inflation risk). The US scheme currently has approximately 43% of its asset value invested in a range of equity funds designed to target higher returns and thus reduce the pension deficit, with the balance invested in fixed income bonds and cash. The strategy is that as the deficit reduces, a greater proportion of investments will be made into liability matching funds. Changes in the fair value of plan assets for the major schemes are as follows:

	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Total \$m
2020				
Opening fair value of plan assets	724.2	122.5	–	846.7
Expected return	13.6	3.5	–	17.1
Running costs	(1.2)	(0.4)	–	(1.6)
Actuarial gains	61.6	12.3	–	73.9
Contributions by employer	–	0.5	–	0.5
Contributions by employees	0.1	–	–	0.1
Benefits paid	(35.2)	(7.7)	–	(42.9)
Exchange differences	25.8	–	–	25.8
Closing fair value of plan assets	788.9	130.7	–	919.6
	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Total \$m
2019				
Opening fair value of plan assets	671.3	108.3	–	779.6
Expected return	18.3	4.2	–	22.5
Running costs	(1.1)	(0.4)	–	(1.5)
Actuarial gains	43.8	16.9	–	60.7
Contributions by employer	–	1.5	–	1.5
Contributions by employees	0.1	–	–	0.1
Benefits paid	(36.0)	(8.0)	–	(44.0)
Exchange differences	27.8	–	–	27.8
Closing fair value of plan assets	724.2	122.5	–	846.7

DEFINED BENEFIT OBLIGATION

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

	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Total \$m
2020				
Opening defined benefit obligation	(716.8)	(132.4)	(6.0)	(855.2)
Service cost	(0.6)	(0.8)	(0.1)	(1.5)
Past service cost	–	(1.1)	–	(1.1)
Interest cost	(13.5)	(3.9)	(0.1)	(17.5)
Contributions by employees	(0.1)	–	–	(0.1)
Actuarial gains/(losses)				
– demographic assumptions	–	0.3	–	0.3
– financial assumptions	(65.4)	(11.9)	(0.5)	(77.8)
– experience adjustments	5.9	(0.4)	(0.3)	5.2
Benefits paid	35.2	7.7	0.5	43.4
Exchange differences	(25.7)	–	–	(25.7)
Closing defined benefit obligation	(781.0)	(142.5)	(6.5)	(930.0)
	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Total \$m
2019				
Opening defined benefit obligation	(649.2)	(124.0)	(5.6)	(778.8)
Service cost	(0.6)	(0.6)	(0.1)	(1.3)
Past service cost	–	–	–	–
Interest cost	(17.7)	(4.8)	(0.2)	(22.7)
Contributions by employees	(0.1)	–	–	(0.1)
Actuarial gains/(losses) arising from:				
– demographic assumptions	–	1.0	–	1.0
– financial assumptions	(56.2)	(12.2)	(0.4)	(68.8)
– experience adjustments	(1.5)	0.2	(0.4)	(1.7)
Benefits paid	36.0	8.0	0.7	44.7
Exchange differences	(27.5)	–	–	(27.5)
Closing defined benefit obligation	(716.8)	(132.4)	(6.0)	(855.2)

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25. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

ACTUARIAL ASSUMPTIONS

A full actuarial valuation was carried out on 30 September 2017 for the UK scheme and at 31 December 2015 for the US schemes.

The principal assumptions used by the actuaries for the major schemes have been updated by the actuaries at the balance sheet date and were as follows:

	UK %	US %
2020		
Rate of increase in salaries	3.9	3.0
Rate of increase in pensions in payment	2.9	N/A
Discount rate	1.3	2.2
Inflation	2.9	2.3
2019		
Rate of increase in salaries	4.0	3.0
Rate of increase in pensions in payment	2.9	N/A
Discount rate	2.0	3.1
Inflation	3.0	2.3

The assumed life expectancies on retirement are:

	UK		US	
	2020	2019	2020	2019
	years	years	years	years
Retiring at 31 December				
Males	22	22	20	20
Females	24	24	22	22
Retiring in 20 years				
Males	24	24	21	21
Females	26	25	23	23

The main assumptions for the PRMB scheme are a discount rate of 2.20% (2019: 3.05%) per annum and a health care cost trend of 6.4% (2019: 6.5%) per annum for claims pre age 65 reducing to 4.4% per annum by 2022 (2019: 4.5%). Actuarial valuations of retirement benefit plans in other jurisdictions have either not been updated for IAS 19 purposes or disclosed separately because of the costs involved and the considerably smaller scheme sizes and numbers of employees involved.

At 31 December 2020, the weighted average duration of the defined benefit obligations for the major schemes was as follows:

UK: 14 years

US: 11 years.

SENSITIVITY ANALYSIS

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on UK scheme	Impact on US scheme
Discount rate	Increased/decreased by 0.5%	Decreased/increased by 7%	Decreased/increased by 5%
Rate of inflation	Increased/decreased by 0.5%	Increased/decreased by 5%	Increased/decreased by 0%
Rate of salary growth	Increased/decreased by 0.5%	Increased/decreased by 0%	Increased/decreased by 0%
Rate of mortality	Increased by 1 year	Increased by 6%	Increased by 4%

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. These sensitivities have been calculated to show the movement of the defined obligation following a change in a particular assumption in isolation, assuming no other changes in market conditions.

26. SHARE BASED PAYMENTS

The Group maintains a number of active share option and award plans and schemes for its employees. These are as follows:

SAVINGS-RELATED OPTIONS

Options are granted under the tax-advantaged Save As You Earn (SAYE) share option scheme in the UK. The SAYE allows UK-based eligible employees to acquire options over the Company's shares at a discount of up to 20% of their market value at the date of grant. Options are normally exercisable during the six month period following either the third or fifth anniversary of the start of the relevant savings contract. Savings contracts are subject to the statutory savings limit of £500 per month.

US-based employees can enter into a similar share save scheme (Share Save). Employees can enter into two year savings contracts saving up to a maximum of \$2,000 per month, allowing eligible employees to acquire options over the Company's shares at a discount of up to 15% of their market value at the date of grant.

LONG-TERM INCENTIVE PLAN (LTIP) AWARDS

The LTIP is a discretionary employee share scheme for Executive Directors and senior managers. The vesting of the awards are subject to performance conditions over a three year period at the discretion of the Remuneration Committee. The performance conditions of the LTIP are detailed in the Remuneration Report on pages 92 and 93. As approved at the 2018 AGM, restricted shares (i.e. shares that vest based on time only) are awarded to participants below Board level. Shadow LTIPs are in place for senior managers based in China and Malaysia.

DEFERRED SHARE BONUS PLAN (DSBP) AWARDS

The DSBP operates exclusively for the Executive Directors. Under this scheme, 50% of any cash bonus payable is awarded in shares and deferred for two years. There are no other performance conditions other than continued employment.

LEGACY SCHEMES

Prior to the introduction of the LTIP for senior managers, certain employees participated in the Executive Share Option Scheme ('ESOS'). The ESOS which (except for outstanding awards which will run their course) has been discontinued. The Company operated shadow ESOS for a number of senior managers, who were employed or based in China or Malaysia.

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

	2020	2019
Fair value per option (pence)	38.0	115.6
Expected volatility (%)	59	31
Risk free rate (%)	0.0	0.5
Expected dividend yield (%)	4.3	4.3

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous five years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The Group recognised total expenses of \$3.5m (2019: \$3.0m) related to share based payment transactions during the year.

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26. SHARE BASED PAYMENTS CONTINUED

At 31 December 2020 the following options/awards to subscribe for ordinary shares were outstanding:

Year of grant	Exercise price (p) ¹	Exercisable		At 1 January 2020 '000	Granted '000	Exercised '000	Expired '000	At 31 December 2020 '000
		From	To					
UK SAVINGS RELATED SHARE OPTION SCHEME								
2016	160.89	01/10/19	01/04/20	110	–	(4)	(106)	–
2017	207.40	01/10/20	01/04/21	12	–	–	(1)	11
2018	163.91	01/01/22	01/07/22	66	–	–	(37)	29
2019	121.33	01/11/22	01/05/23	342	–	–	(321)	21
2019	121.33	01/11/24	04/05/25	25	–	–	(25)	–
2019	58.00	01/11/23	01/05/24	–	972	–	(31)	941
2019	58.00	01/11/25	01/05/26	–	52	–	–	52
				555	1,024	(4)	(521)	1,054
US SAVINGS RELATED SHARE OPTION SCHEME								
2017	217.18	07/09/19	07/12/19	7	–	–	(7)	–
2018	160.14	05/12/20	05/03/21	377	–	–	(182)	195
2019	133.96	11/09/21	11/12/21	578	–	–	(318)	260
2020	63.11	16/09/22	16/12/22	–	1,372	–	–	1,372
				962	1,372	–	(507)	1,827
EXECUTIVE SHARE OPTION SCHEMES/AWARDS GRANTED UNDER THE LTIP²								
2010	52.16	06/04/13	06/04/20	94	–	–	(94)	–
2011 ³	137.18	04/04/14	04/04/21	96	–	–	(13)	83
2012 ³	177.81	27/06/15	27/06/22	196	–	–	(43)	153
2017 ³	Nil	07/03/17	07/03/27	92	–	–	–	92
2017 ³	Nil	07/03/19	07/03/27	7	–	–	–	7
2017 ³	Nil	07/03/20	07/03/27	17	–	–	–	17
2017 ³	264.66	03/04/20	03/04/27	788	–	–	(788)	–
2017 ³	Nil	03/04/20	03/04/27	1,403	–	–	(1,403)	–
2018 ³	Nil	05/03/20	05/03/28	233	–	(160)	–	73
2018 ³	Nil	30/04/21	30/04/21	629	–	–	(79)	550
2018 ³	Nil	30/04/21	30/04/28	1,273	–	–	(79)	1,194
2018 ³	Nil	27/06/21	27/06/21	7	–	–	–	7
2018 ³	Nil	29/10/21	29/10/21	36	–	–	–	36
2018 ³	Nil	21/12/21	21/12/21	209	–	(209)	–	–
2018 ³	Nil	21/12/21	21/12/21	361	–	–	–	361
2019	Nil	03/01/21	30/01/29	124	–	–	(124)	–
2019	Nil	03/01/22	30/01/29	124	–	–	–	124
2019	Nil	03/01/22	03/01/22	33	–	–	–	33
2019 ³	Nil	06/03/21	06/03/21	110	–	–	–	110
2019 ³	Nil	06/03/21	06/03/29	49	–	–	–	49
2019 ³	Nil	01/04/22	01/04/29	2,467	–	–	(194)	2,273
2019 ³	Nil	01/04/22	01/04/22	1,334	–	(71)	(194)	1,069
2019	Nil	01/04/22	01/04/22	5	–	–	–	5
2019	Nil	19/10/22	19/10/22	–	16	–	–	16
2020	Nil	04/01/23	04/01/23	–	20	–	–	20
2020 ³	Nil	05/03/23	05/03/23	–	188	–	–	188
2020 ³	Nil	05/03/23	05/03/30	–	76	–	–	76
2020 ³	Nil	07/04/23	07/04/30	–	5,203	–	(118)	5,085
2020	Nil	07/04/22	07/04/22	–	106	–	–	106
2020 ³	Nil	07/04/23	07/04/23	–	2,890	–	(170)	2,720
2020 ³	Nil	03/08/23	03/08/23	–	178	–	–	178
2020	Nil	11/09/23	11/09/23	–	27	–	(11)	16
2020 ³	Nil	30/12/23	30/12/23	–	137	–	–	137
				9,687	8,841	(440)	(3,310)	14,778

FOOTNOTES TO TABLE ON PAGE 170

1 Where necessary option prices were adjusted for by a factor of 1.092715 to reflect the dilutive effects of the 2018 Rights Issue.

+ These options include cash settled shadow executive options granted to a number of executives on the same basis as the executive options (with the same performance conditions and exercise provisions). These shadow options are included in the calculation of the total expenses recognised by the Group related to share based payments. The closing balance of the 2011 and 2017 options shown above include no shadow options.

Δ Awards made as one-off agreements that borrow from the terms of the LTIP.

† These options include cash settled shadow LTIPs granted to a number of executives on the same basis as the LTIP (with the same performance conditions and exercise provisions). These shadow LTIPs are included in the calculation of the total expenses recognised by the Group related to share based payments.

Conditional share award under the Deferred Share Bonus Plan.

- Awards made as one-off agreements under the Deferred Share Bonus Plan (nil cost options).

* The closing balance of 2018, 2019 and 2020 LTIPs shown above include approximately 26,876, 52,772 and 195,856 shadow LTIPs respectively.

□ Conditional share award under the Deferred Share Bonus Plan (nil cost award, structured as restricted share units).

The weighted average remaining contractual life of the above shares outstanding at 31 December 2020 was 5.3 years (2019: 7.9 years).

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

	2020 Average exercise price (p)	2019 Average exercise price (p)
At 1 January	44.4	79.8
Granted	13.0	23.0
Exercised	1.3	57.4
Expired	83.8	100.5
At 31 December	14.6	44.4
Exercisable at 31 December	114.1	116.8

The weighted average share price at the date of exercise of share options exercised during the year was 32 pence (2019: 126 pence).

The number of exercisable options outstanding as at 31 December 2020 was 631,868 (31 December 2019: 540,821).

27. RELATED PARTY TRANSACTIONS

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

The Group consists of the Parent Company, Elementis plc, incorporated in the United Kingdom and its subsidiaries and associates. In accordance with Section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation and the effective percentage of equity owned as at 31 December 2020 is disclosed in Note 11 to the parent company financial statements.

The remuneration of key management personnel of the Group, which is defined as the Board of Directors, is shown below:

	2020 \$m	2019 \$m
Salaries and short term employee benefits	2.1	2.4
Other long term benefits	0.3	0.3
Share based payments	0.7	0.6
	3.1	3.3

Full details of all elements of the remuneration of Directors is set out in the Directors' Remuneration report on pages 87 to 113.

28. MOVEMENT IN NET CASH/(BORROWINGS)

	2020 \$m	2019 \$m
Change in net cash resulting from cash flows:		
Increase in cash and cash equivalents	3.2	8.8
(increase)/decrease in borrowings repayable within one year	(1.4)	0.6
Decrease in borrowings repayable after one year	57.7	29.7
	59.5	39.1
Currency translation differences	(13.4)	4.8
Decrease in net borrowings	46.1	43.9
Net borrowings at beginning of year	(454.2)	(498.1)
NET BORROWINGS AT END OF YEAR	(408.1)	(454.2)

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28. MOVEMENT IN NET CASH/(BORROWINGS) CONTINUED

	Bank and other borrowings \$m	Lease liabilities \$m	Total financing liabilities \$m	Cash and cash equivalents \$m	Net debt and lease liabilities \$m
AT 1 JANUARY 2019	(594.2)	–	(594.2)	96.1	(498.1)
ADOPTION OF IFRS 16	–	(53.3)	(53.3)	–	(53.3)
REVISED 1 JANUARY 2019	(594.2)	(53.3)	(647.5)	96.1	(551.4)
Exchange rate adjustments	5.8	0.5	6.3	(1.0)	5.3
Business disposed (see note 32)	–	0.5	0.5	(2.1)	(1.6)
Cash flows from financing activities	30.4	6.0	36.4	(30.4)	6.0
Other movements	(0.1)	(0.6)	(0.7)	41.3	40.6
AT 31 DECEMBER 2019	(558.1)	(46.9)	(605.0)	103.9	(501.1)
Exchange rate adjustments	(17.3)	(1.1)	(18.4)	3.9	(14.5)
Business disposed (see note 32)	–	–	–	0.5	0.5
Cash flows from financing activities	56.3	5.0	61.3	(56.3)	5.0
Other movements	–	(1.4)	(1.4)	59.0	57.6
AT 31 DECEMBER 2020	(519.1)	(44.4)	(563.5)	111.0	(452.5)

29. DIVIDENDS

An interim dividend was not paid in 2020 (2019: 2.80 cents per share paid on 27 September 2019) and the Group is not proposing a final dividend (2019: nil) for the year ended 31 December 2020. The total dividend for the year is nil cents per share (2019: 2.80 cents).

The amount payable for the final dividend is \$nil.

	2020			2019		
	Interim	Final	Full-year	Interim	Final	Full-year
Dividend per share (cents)	–	–	–	2.80	–	2.80

30. 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.

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.

31. EVENTS AFTER THE BALANCE SHEET DATE

The ongoing EU state aid case is discussed in note 30. There were no other significant events after the balance sheet date.

32. BUSINESS EXITS

On 30 November the Group disposed of Elementis Specialties (Changxing) Ltd for consideration of RMB 12.6m (\$1.9m).

The results of Elementis Specialties (Changxing) Ltd, which have been included in the consolidated income statement were as follows:

	Year ended 31 December 2020 \$m
Revenue	-
Expenses	-
Profit before tax	-
Attributable tax expense	-
Net profit	-

Revenue includes \$nil related to inter-segment sales in 2020 (2019: \$nil).

During the year, Elementis Specialties (Changxing) Ltd contributed \$nil (2019: \$nil) to the Group's net operating cash flows and paid \$nil (2019: \$nil) in respect of investing activities.

The Group recognised a total loss on current year disposal of:

	Year ended 31 December 2020 \$m
Consideration received	1.9
Net assets disposed of (see table below)	(1.7)
Disposal costs	(0.1)
Recycling of deferred foreign exchange gains	0.2
Profit on disposal	0.3

Details of assets and liabilities at the date of disposal are provided in the following table:

	2020 \$m
Property, plant and equipment	0.4
Cash and bank balances	1.3
Total assets	1.7
Net assets	1.7

Notes to the consolidated financial statements

continued

For the year ended 31 December 2020

32. BUSINESS EXITS CONTINUED

2019 BUSINESS EXITS – DISCONTINUED OPERATIONS

On 10 December 2019 the Group disposed of SRL Dental GmbH which comprised the Dental plant at Ludwigshafen, Germany for consideration of \$0.2m.

The results of SRL Dental GmbH, which have been included in the consolidated income statement were as follows:

	Year ended 31 December 2019 \$m
Revenue	17.9
Expenses	(17.9)
Profit before tax	–
Attributable tax expense	(0.1)
Net profit attributable to discontinued operations (attributable to owners of the Company)	(0.1)

Revenue includes \$nil related to inter-segment sales in 2019.

During 2019, SRL Dental GmbH contributed \$1.8m to the Group's net operating cash flows and paid \$nil in respect of investing activities.

The Group recognised a total loss on disposal of:

	Year ended 31 December 2019 \$m
Consideration received	0.2
Net assets disposed of (see table below)	(7.8)
Disposal costs	(1.0)
Recycling of deferred foreign exchange gains	(0.4)
Loss on disposal	(9.0)

Net assets disposed of are analysed as follows:

	2019 \$m
Goodwill	–
Intangible assets	8.7
Property, plant and equipment	1.9
Inventories	1.6
Trade and other receivables	2.3
Cash and bank balances	1.3
Total assets	15.8
Trade and other payables	(1.1)
Pensions	(4.0)
Tax liabilities	(2.9)
Total liabilities	(8.0)
Net assets	7.8

Company balance sheet

at 31 December 2020

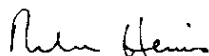
	Note	2020 £m	2019 £m
FIXED ASSETS			
Investments	6	776.6	773.9
NON-CURRENT ASSETS			
Debtors	7	12.7	12.7
Creditors: amounts falling due within one year			
Creditors	8	(0.6)	(0.6)
NET CURRENT ASSETS		12.1	12.1
TOTAL ASSETS LESS CURRENT LIABILITIES		788.7	786.0
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Amounts due to subsidiary undertakings		(188.5)	(188.2)
NET ASSETS		600.2	597.8
CAPITAL AND RESERVES			
Called up share capital	9	28.9	28.9
Share premium account		176.5	176.5
Capital redemption reserve	9	83.3	83.3
Other reserves		250.5	250.5
Share option reserve	9	20.4	17.7
Profit and loss account		40.6	40.9
EQUITY SHAREHOLDERS' FUNDS		600.2	597.8

The Company recognised a loss for the financial year ended 31 December 2020 of £0.3m (2019: £3.1m).

The financial statements of Elementis plc, registered number 3299608, on pages 175 to 182 were approved by the Board on 23 March 2021 and signed on its behalf by:



PAUL WATERMAN
CEO



RALPH HEWINS
CFO

Statement of changes in equity

for the year ended 31 December 2020

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Share options reserve £m	Retained earnings £m	Total £m
Balance at 1 January 2019	28.9	176.4	83.3	250.5	15.6	82.8	637.5
Comprehensive income							
Loss for the year	-	-	-	-	-	(3.1)	(3.1)
Total other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	(3.1)	(3.1)
Transactions with owners							
Issue of shares by the Company	-	0.1	-	-	-	-	0.1
Share based payments	-	-	-	-	2.1	-	2.1
Dividends received	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	(38.8)	(38.8)
Total transactions with owners	-	0.1	-	-	2.1	(38.8)	(36.6)
Balance at 31 December 2019	28.9	176.5	83.3	250.5	17.7	40.9	597.8
BALANCE AT 1 JANUARY 2020	28.9	176.5	83.3	250.5	17.7	40.9	597.8
Comprehensive income							
Loss for the year	-	-	-	-	-	(0.3)	(0.3)
Total other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	(0.3)	(0.3)
Transactions with owners							
Issue of shares by the Company	-	-	-	-	-	-	-
Share based payments	-	-	-	-	2.7	-	2.7
Dividends received	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	2.7	-	2.7
BALANCE AT 31 DECEMBER 2020	28.9	176.5	83.3	250.5	20.4	40.6	600.2

The Company's distributable reserves amount to £40.6m (2019: £40.9m) at the end of the period. The Company regularly reviews its distributable reserves and makes dividend recapitalisations as and when necessary to ensure it can make all expected dividend payments. The Company has sufficient subsidiary reserves to enable such recapitalisations in 2021 and going forward.

For more information on the dividend issued and the dividend per share please see Note 29 of the Group financial statements.

Notes to the company financial statements of Elementis plc

for the year ended 31 December 2020

1. GENERAL INFORMATION

Elementis plc is a public company limited by shares and is incorporated and domiciled in England. The address of its registered office is Caroline House, 55-57 High Holborn, London, WC1V 6DX. The principal activity of the Company is to act as the ultimate holding company of the Elementis Group of companies.

2. BASIS OF PREPARATION

The Company's financial statements have been prepared under the historical cost convention, in compliance with applicable United Kingdom accounting standards, including Financial Reporting Standard 101 'Reduced disclosure framework – Disclosure exemptions from EU-adopted IFRS for qualifying entities' (FRS 101), and with the Companies Act 2006. The Company has presented its results under FRS 101.

As a qualifying entity whose results are consolidated in the Elementis plc Consolidated financial statements on pages 128 to 174, the Company has taken advantage of the exemption under FRS 101 from preparing a statement of cashflows and associated notes, the effects of new but not yet effective IFRSs, disclosures in respect of transactions and the capital management of wholly owned subsidiaries and key management personnel compensation disclosures.

As the consolidated financial statements include equivalent disclosures, the Company has also taken the disclosure exemptions under FRS 101 in respect of group settled share-based payments under IFRS 2 Share based payment, IFRS 16 leases, disclosures required by IFRS 7 Financial Instruments Disclosures and by IFRS 13 Fair Value Measurement.

By virtue of section 408 of the Companies Act 2006 the company is exempt from presenting an income statement and disclosing employee numbers and staff costs.

As a consequence of the majority of the Company's assets, liabilities and expenses originating in UK pound sterling, the Company has chosen the UK pound sterling as its reporting currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Company has adopted FRS 101 in these financial statements.

FOREIGN CURRENCIES

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

INVESTMENTS

Investments in subsidiaries are included in the balance sheet at cost less accumulated impairment losses.

Potential indicators of impairment including the market capitalisation of the group dropping below the net assets of Elementis plc have been considered. The recoverable amounts of cash generating units as determined for the impairment testing of goodwill also support the recoverable amounts of the parent company's investments.

DIVIDENDS ON SHARES PRESENTED WITHIN SHAREHOLDERS' FUNDS

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company.

PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The Company participates in the Elementis Group defined benefit pension scheme. The assets of the scheme are held separately from those of the Company. Details of the latest actuarial valuation carried out in September 2017 can be found in the 2018 Elementis plc Annual report and accounts. Following the introduction of the revised reporting standard, any surplus or deficit in the Elementis Group defined benefit pension scheme is to be reported in the financial statements of Elementis UK Ltd, which employs the majority of active members of the scheme and is responsible for making deficit contributions under the current funding plan.

TAXATION

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Advance corporation tax recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors as appropriate.

There were no significant judgements or estimates necessary in 2020.

CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of IFRS 16 Leases. There has been no impact from this standard on the Company's financial statements.

SHARE BASED PAYMENTS

The fair value of share options granted to employees is recognised as an expense with a corresponding increase in equity. Where the Company grants options over its own shares to the employees of its subsidiaries it recognises in its individual financial statements an increase in the cost of investment in its subsidiaries equivalent to the equity settled share based payment charge recognised in its subsidiaries' financial statements, with the corresponding credit being recognised directly in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

CLASSIFICATION OF FINANCIAL INSTRUMENTS ISSUED BY THE COMPANY

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- They include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company.
- Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Notes to the company financial statements of Elementis plc continued

For the year ended 31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

4. PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO SHAREHOLDERS

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. A loss of £0.3m (2019: £3.1m loss) is dealt with in the financial statements of the Company.

5. DIRECTORS' REMUNERATION

Details of Directors' remuneration for the Company are included in the Directors' Remuneration report within the Elementis plc Annual Report and Accounts on pages 87 to 113.

6. INVESTMENTS

	Unlisted shares at cost £m	Unlisted loans £m	Capital contributions £m	Total £m
Cost at 1 January 2020	0.1	759.0	14.8	773.9
Additions	–	–	2.7	2.7
NET BOOK VALUE 31 DECEMBER 2020	0.1	759.0	17.5	776.6
Net book value 31 December 2019	0.1	759.0	14.8	773.9

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

The trading subsidiaries and associates of Elementis plc, all of which are wholly owned, excluding Alembic Manufacturing Limited, where the Group holds a 25% interest, are as follows:

Subsidiary undertakings		Country of incorporation and operation
Adentatec GmbH Competence in Dental	Personal Care products	Germany ¹
Alembic Manufacturing Ltd	Personal Care products	United Kingdom ²
Deuchem Co., Ltd	Additives and resins	Taiwan ³
Deuchem (HK) Trading Co Ltd	Additives and resins	People's Republic of China – Hong Kong Special Administrative Region ⁴
Deuchem (Shanghai) Chemical Co. Ltd	Additives and resins	People's Republic of China ⁵
Eisenbacher Dentalwaren ED GmbH	Personal Care products	Germany ⁶
Elementis Chromium Inc	Chromium chemicals	United States of America ⁷
Elementis Chromium LLP	Chromium chemicals	United Kingdom ⁸
Elementis Deuchem (Shanghai) Chemical Ltd	Additives and resins	People's Republic of China ⁵
Elementis LTP Inc	Chromium chemicals	United States of America ⁷
Elementis Minerals BV	Talc products	Netherlands ⁹
Elementis Specialties (Anji) Ltd	Organoclays	People's Republic of China ¹⁰
Elementis Specialties do Brasil Quimica Ltda	Coatings additives	Brazil ¹¹
Elementis Specialties Inc	Rheological additives, colourants, waxes, other specialty additives	United States of America ⁷
Elementis SRL Inc	Personal Care products	United States of America ⁷
Elementis UK Limited trading as: Elementis Specialties	Rheological additives, colourants, waxes, other specialty additives	United Kingdom ⁸
Elementis Pharma GmbH	Personal Care products	Germany ¹²
Mondo Minerals Deutschland GmbH	Talc products	Germany ¹³
Elementis Minerals Nickel Oy	Talc products	Finland ¹⁴
Mondo Trading (Beijing) Company Ltd	Talc products	People's Republic of China ¹⁵

1 Registered office Konrad-Adenauer-Straße 13, 50996 Köln, Germany.

2 Registered office Unit 6 Wimbourne Buildings, Atlantic Way, Barry Docks, Barry, South Glamorgan CF63 3RA, UK.

3 Registered office 92, Kuang-Fu North Road, Hsinchu Industrial Park, Hukou, Hsinchu Taiwan, ROC.

4 Registered office Flat P, 14/F, Haribest Industrial Building, 45-47 Au Pui Wan Street, Fotan, Shatin N.T Hong Kong.

5 Registered office 99 Liyang Road, Songjiang Industrial Zone, Shanghai, China.

6 Registered office Dr.-Konrad-Wiegand-Str. 9, 63939 Wörth a.Main, Germany.

7 Registered office 1209 Orange Street, Wilmington, Delaware, 19801, US.

8 Registered office Caroline House, 55-57 High Holborn, London WC1V 6DX, UK.

9 Registered office: Kajuitweg 8, 1041 AR, Amsterdam, Netherlands.

10 Registered office Huibutai, Majiadu Village, Dipu Town, Anji County, Huzhou City, Zhejiang Province, China.

11 Registered office Rodovia Nelson Leopoldino, SP 375, Km 13.8, s/n, Bairro Rural, Palmital, São Paulo, Brazil.

12 Registered office Giulinistr.2, 67065 Ludwigshafen, Germany.

13 Registered office Friedrichsallee 14, 42117, Wuppertal, Germany.

14 Registered office Talkkitie 7, 83500, Outokumpu, Finland.

15 Registered office Nan Zhugan Hutong no.6, floor 9, 01-007, Dongcheng District, 100010, Beijing, China.

Notes to the company financial statements

continued

For the year ended 31 December 2020

6. INVESTMENTS CONTINUED

Non-trading and dormant subsidiaries of Elementis plc, all of which are wholly owned within the Group, are as follows:

Subsidiary undertakings		Country of incorporation and operation
Agriochrome Ltd	Non-trading	United Kingdom ¹
American Chrome & Chemicals Inc	Dormant	United States of America ²
Deuchem Holding Inc	Dormant	Samoa ³
Deuchem International Inc	Dormant	Samoa ³
Elementis America Shared Services Inc	Dormant	United States of America ²
Elementis Australia Ltd	Dormant	United Kingdom ¹
Elementis Benelux NV	Non-trading (in liquidation)	Belgium ⁴
Elementis Catalysts Inc	Dormant	United States of America ²
Elementis Chemicals Inc	Dormant	United States of America ²
Elementis Chromium America Inc	Dormant	United States of America ²
Elementis Export Sales Inc	Non-trading	United States of America ²
Elementis Finance (Australia) Ltd	Dormant	United Kingdom ¹
Elementis Finance (Europe) Ltd	Non-trading	United Kingdom ¹
Elementis Finance (Germany) Ltd	Non-trading	United Kingdom ¹
Elementis Finance (India) Ltd	Non-trading	United Kingdom ¹
Elementis Finance (Ireland) Ltd	Non-trading	Ireland ⁵
Elementis Finance (Jersey) Ltd	Non-trading	Jersey ⁶
Elementis Finance (US) Ltd	Non-trading	United Kingdom ¹
Elementis Germany GmbH	Non-trading	Germany ⁷
Elementis Germany Ltd	Dormant	United Kingdom ¹
Elementis Global LLC	Non-trading	United States of America ²
Elementis GmbH	Non-trading	Germany ⁷
Elementis Group (Finance) Ltd	Non-trading	United Kingdom ¹
Elementis Group BV	Non-trading	Netherlands ⁸
Elementis Group Ltd	Dormant	United Kingdom ¹
Elementis Holdings Ltd	Non-trading	United Kingdom ¹
Elementis London Ltd	Dormant	United Kingdom ¹
Elementis Minerals Holding BV	Non-trading	Netherlands ⁹
Elementis Nederland BV	Non-trading	Netherlands ⁸
Elementis New Zealand Ltd	Dormant	United Kingdom ¹
Elementis NZ Ltd	Non-trading	New Zealand ¹⁰
Elementis Overseas Investments Ltd	Non-trading	United Kingdom ¹
Elementis Pigments Inc	Dormant	United States of America ²
Elementis S.E.A. (Malaysia) Sdn Bhd	Non-trading	Malaysia ¹¹
Elementis Securities Ltd	Non-trading	United Kingdom ¹
Elementis Services GmbH	Non-trading	Germany ⁷
Elementis Specialties (India) Private Ltd	Non-trading	India ¹²
Elementis US Holdings Inc	Non-trading	United States of America ²
Elementis US Ltd	Non-trading	United Kingdom ¹
H & C Acquisitions Ltd	Dormant	United Kingdom ¹
H & C Lumber Inc	Dormant	United States of America ²
Harcros Chemicals Canada Inc	Dormant	Canada ¹³
Iron Oxides S.A. de CV	Dormant	Mexico ¹⁴
Mondo Minerals International BV	Dormant	Netherlands ⁸

Subsidiary undertakings		Country of incorporation and operation
NB Chrome Ltd	Dormant	United Kingdom ¹
Reheis, Inc.	Non-trading	United States of America ²
SRL Coöperatief U.A.	Non-trading	Netherlands ⁹
SRLH Holdings Inc	Non-trading	United States of America ²
SRL International Holdings, LLC	Non-trading	United States of America ²
Talc Holding Finance Oy	Non-trading	Finland ¹⁵
Talc Holding Oy	Non-trading	Finland ¹⁵
WBS Carbons Acquisitions Corp	Non-trading	United States of America ²

1 Registered office: Caroline House, 55-57 High Holborn, London WC1V 6DX, UK.

2 Registered office: 1209 Orange Street, Wilmington, Delaware, 19801, US.

3 Registered office: Maystar Chambers, P.O. Box 3269, Apia, Samoa.

4 Registered office: Regus Brussels Airport, Pegasuslaan 5, 1831 Diegem, Belgium.

5 Registered office: 8th Floor, Block E, Iveagh Court, Harcourt Road, Dublin 2, Ireland.

6 Registered office: 3rd Floor, 44 Esplanade, St Helier, Jersey, JE4 9WG.

7 Registered office: Stolberger Str.370, 50933, Köln, Germany.

8 Registered office: Strawinskylaan 411, 1077XX Amsterdam, Netherlands.

9 Registered office: Kajuitweg 8, 1041 AR, Amsterdam, Netherlands.

10 Registered office: KPMG, P O Box 1584, 18 Viaduct Harbour Avenue, Maritime Square, Auckland, New Zealand.

11 Registered office: 10th Floor, Menara Hap Seng, No. 1 & 3 Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia.

12 Registered office: Unit-B, Ground Floor, Jaswanti Landmark, Mehra Industrial Estate, L.B.S. Marg, Vikhroli (W), Mumbai 400079, India.

13 Registered office: C/o Stewart McKelvey Stirling Scales, 44 Chipman Hill, Suite 1000 ON E2L 4S6, Canada.

14 Registered office: Calle San Ignacio N 105, 22106 Tijuana, Baja California Mexico.

15 Registered office: Kajaanintie 54, 88620, Korholaanmaki, Finland.

Notes:

- Other than Elementis Export Sales Inc, Elementis Group BV and Elementis Overseas Investments Ltd, none of the undertakings is held directly by the Company. Equity capital is in ordinary shares and voting rights equate to equity ownership.
- All undertakings listed above have accounting periods ending 31 December, with the exceptions of (i) Elementis Specialties (India) Private Ltd for which the relevant date is 31 March; and (ii) Elementis Finance (Germany) Limited for which the relevant date is 30 September.
- Undertakings operating in the United Kingdom are incorporated in England and Wales. In the case of corporate undertakings other than in the United Kingdom their country of operation is also their country of incorporation.
- All undertakings listed above have been included in the Consolidated financial statements of the Group for the year.

7. DEBTORS

	2020 £m	2019 £m
Group relief receivable	12.7	12.7

8. CREDITORS: AMOUNT FALLING DUE WITHIN ONE YEAR

	2020 £m	2019 £m
Accruals and deferred income	0.6	0.6

Notes to the company financial statements

continued

For the year ended 31 December 2020

9. SHARE CAPITAL AND RESERVES

	2020 Number '000	2020 £m	2019 Number '000	2019 £m
CALLED-UP ALLOTTED AND FULLY PAID:				
Ordinary shares of 5 pence each				
At 1 January	580,518	28.9	580,394	28.9
Issue of shares	283	~	124	~
At 31 December	580,801	28.9	580,518	28.9

During the year a total of 282,914 ordinary shares with an aggregate nominal value of £14,146 were allotted and issued for cash to various employees at subscription prices between 0 pence and 161 pence on the exercise of options under the Group's share option schemes. The total subscription monies received by the Company for these shares was £0.0m.

The Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The Capital redemption reserve represents the nominal value of the shares redeemed.

The share options reserve comprises amounts accumulated in equity in respect of share options and awards granted to employees.

Details of the shared based payments in the year are set out in Note 26 to the Elementis plc consolidated financial statements.

10. RELATED PARTY TRANSACTIONS

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

11. UK REGISTERED SUBSIDIARIES EXEMPT FROM AUDIT

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 December 2020. Unless otherwise stated, the undertakings listed below are all 100% owned, either directly or indirectly, by Elementis plc. The Company will guarantee the debts and liabilities of the UK subsidiaries listed below at the balance sheet date in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company Number
Agrichrome Limited	100	~	2228826
Elementis Finance (Germany) Limited	100	~	5531634
Elementis Finance (India) Limited	100	~	12521304
Elementis Finance (US) Limited	100	~	9303101
Elementis Germany Limited	100	~	48664
Elementis Group (Finance) Limited	100	~	9303017
Elementis Group Limited	100	~	4048541
Elementis Overseas Investments Limited	100	~	8008981
Elementis Securities Limited	100	~	597303
Elementis US Limited	100	~	8005226
Elementis Finance (Europe) Limited	100	~	11717371

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 on pages 45 to 50.

	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) on pages 30 and 31, 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 FROM TOTAL OPERATIONS 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.

Alternative performance measures and unaudited information continued

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 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 ¹	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 IFRS 16 basis, is the definition of Net Debt/EBITDA for Elementis' core banking covenants.

¹ See Note 28 – Net Debt excludes lease liabilities.

Five year record

	2020 \$m	2019 \$m	2018 \$m	2017 \$m	2016 restated ² \$m
TURNOVER					
Continuing operations	759.3	883.4	833.2	797.7	629.2
Discontinued operations	–	–	4.8	47.8	43.1
Group turnover	759.3	883.4	838.0	845.5	672.3
OPERATING PROFIT AFTER ADJUSTING ITEMS					
Continuing operations	81.6	123.0	132.6	122.7	97.3
Discontinued operations	–	–	(0.6)	5.4	(0.3)
	81.6	123.0	132.0	128.1	97.0
Adjusting items before interest	(109.5)	(31.1)	(57.5)	(30.9)	(12.5)
(LOSS)/PROFIT BEFORE INTEREST	(27.9)	91.9	74.5	97.2	84.5
Other expenses	(1.6)	(1.5)	(1.6)	(1.2)	(1.4)
Net interest payable	(39.3)	(29.4)	(17.9)	(11.7)	(7.6)
(LOSS)/PROFIT BEFORE TAX	(68.8)	61.0	55.0	84.3	75.5
Tax	1.8	(14.6)	(13.6)	33.3	(7.4)
(LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	(67.0)	46.4	41.4	117.6	68.1
	2020 \$m	2019 \$m	2018 \$m	2017 \$m	2016 restated ² \$m
BASIC					
(Loss)/earnings per ordinary share (cents)	(11.5)	8.0	7.9	23.3	14.7
Earnings per ordinary share after adjusting items (cents)	6.6	12.6	17.0	18.1	17.6
DILUTED					
(Loss)/earnings per ordinary share (cents)	(11.3)	7.9	7.9	23.0	13.5
Earnings per ordinary share after adjusting items (cents)	6.5	12.4	16.9	17.9	16.1
DIVIDEND PER ORDINARY SHARE (CENTS)	–	8.55	8.65	8.80	16.80
DIVIDEND PER ORDINARY SHARE REBASED³ (CENTS)	–	8.55	8.40	8.05	15.38
INTEREST COVER (TIMES)¹	3.7	5.5	8.0	13.5	138.6
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	860.4	906.2	915.6	702.3	627.1
NET (DEBT)/CASH	(408.1)	(454.2)	(498.1)	(291.1)	77.5
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES IN ISSUE DURING THE YEAR (MILLION)	593.7	588.5	526.3	513.0	510.0

1 Ratio of operating profit after adjusting items to interest on net borrowings.

2 Restated following the adjustment for amortisation of intangibles, 2016 restated but not prior years. This is not expected to be material.

3 Following the rights issue in October 2018, dividend per share for periods prior to this have been rebased to reflect the bonus element resulting from this rights issue.

SHAREHOLDER INFORMATION

Shareholder Services

SHAREHOLDERS BY TYPE

Nominee – 4.66%	Trust – 0.01%
Limited Company – 2.78%	Bank – 0.02%
Other Organisation – 0.64%	Private individuals – 91.89%

SHAREHOLDERS BY NUMBER OF SHARES

1 to 499 – 50.63%	50,000 to 99,999 – 0.68%
500 to 999 – 12.65%	100,000 to 499,999 – 1.48%
1,000 to 4,999 – 24.84%	500,000 to 999,999 – 0.44%
5,000 to 9,999 – 5.05%	1,000,000 to Highest – 0.96%
10,000 to 49,999 – 3.27%	

SHAREHOLDER PROFILE (BY CATEGORY) AS AT 31 DECEMBER 2020

Category	Number of shareholders	Percentage of total	Ordinary shares (million)	Percentage of issued share capital
Private individuals	7,934	91.89%	14,102,509	2.43%
Nominee Companies	402	4.66%	435,532,654	74.99%
Limited and public limited companies	240	2.78%	100,320,958	17.27%
Other corporate bodies	55	0.64%	30,662,806	5.28%
Pension funds, insurance companies and banks	3	0.03%	182,314	0.03%

SHAREHOLDER PROFILE (BY SIZE) AS AT 31 DECEMBER 2020

Range of holdings	Number of shareholders	Percentage of total	Ordinary shares (million)	Percentage of issued share capital
1-499	4,371	50.63%	770,215	0.13%
500-999	1,092	12.65%	778,669	0.13%
1,000-4,999	2,145	24.84%	4,625,837	0.80%
5,000-9,999	436	5.05%	2,950,571	0.51%
10,000-49,999	282	3.27%	5,475,699	0.94%
50,000-99,999	59	0.68%	4,059,942	0.70%
100,000-499,999	128	1.48%	29,904,554	5.15%
500,000-999,999	38	0.44%	26,445,301	4.55%
1,000,000 Plus	83	0.96%	505,790,453	87.08%

REGISTRARS

Enquiries concerning shares or shareholdings, such as the loss of a share certificate, consolidation of share certificates, amalgamation of holdings or dividend payments, should be addressed to the Company's registrars:

Equiniti Group plc
Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA
Tel: 0371 284 2379 or +44 (0) 121 415 7043

For shareholders with hearing difficulties:
Tel: 0371 384 2255 or +44 (0) 121 415 7028

Lines are open between 8.30am and 5.30pm Monday to Friday (excluding public holidays in England and Wales).

In any correspondence with the registrars, please refer to Elementis plc and state clearly the registered name and address of the shareholder. Please notify the registrars promptly of any change of address.

WEBSITE

Our website (www.elementis.com) provides the following information:

- company news and information;
- details of our strategy;
- the Company's approach to sustainability and innovation
- a dedicated Investors' section on the website which contains up to date information for shareholders including:
 - share price and index chart information;
 - financial results
 - history of dividend payment dates and amounts
 - access to current and historical shareholder documents such as the Annual Report and Accounts.

SHARE DEALING SERVICES

Equiniti provides a share dealing service that enables shares to be brought or sold by UK shareholders by telephone or over the internet. For telephone share dealing, please call 0345 603 7037 between 8.30am and 4.30pm (lines are open until 6.00pm for enquiries) and for internet share dealing, please visit: www.shareview.co.uk/dealing

ELECTRONIC COMMUNICATIONS

Shareholders can elect to receive shareholder documents electronically by registering with Shareview at www.shareview.co.uk. This will save on printing and distribution costs, creating environmental benefits. When you register, you will be sent an email notification to say when shareholder documents are available on our website and you will be provided with a link to that information. When registering, you will need your shareholder reference number which can be found on your share certificate or proxy form. Please contact Equiniti if you require any assistance or further information.

SHARE FRAUD

Share or investment scams are often run from 'boiler rooms' where fraudsters cold call investors offering them worthless, overpriced or even non-existent shares, or offer to buy their shares in a company at a higher price than the market value. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the company. Even seasoned investors have been caught out by such fraudsters. The FCA have some helpful information.

REPORT A SCAM

If you are contacted by a cold caller, you should inform the Company Secretary by email and also the FCA by using their share fraud reporting form at www.fca.org.uk/scams or calling their Consumer Helpline on 0800 111 6768.

If you have already paid money to a share fraudster, please contact Action Fraud on 0300 123 2040 or www.actionfraud.police.uk.

Corporate Information

FINANCIAL CALENDAR

13 May 2021	Annual General Meeting
May 2021	Q1 Trading Update
July 2021	Interim results announcement for the half year ending 30 June 2021
October 2021	Q3 Trading Update

ANNUAL GENERAL MEETING

The Annual General Meeting of Elementis plc will be held on 13 May 2021 at 2.00pm at the Company's registered office: Caroline House, 55-57 High Holborn, London, WC1V 6DX. The notice of meeting is included in a separate document.

COMPANY SECRETARY

Laura Higgins

REGISTERED NUMBER

03299608

REGISTERED OFFICE

Caroline House
55-57 High Holborn
London
WC1V 6DX
UK

PRINCIPAL OFFICES

Elementis plc
Caroline House
55-57 High Holborn
London
WC1V 6DX
UK

Tel: +44 (0)20 7067 2999

Elementis Global
469 Old Trenton Road
East Windsor
NJ 08512
US

Tel: +1 609 443 2000

INDEPENDENT AUDITORS

Deloitte LLP
1 Little New Street, London, EC4A 3TR

JOINT CORPORATE BROKER

JP Morgan Cazenove
60 Victoria Embankment, London, EC4Y 0JP

JOINT CORPORATE BROKER

Numis
Cheapside House, 138 Cheapside, London, EC2V 6LH

PUBLIC RELATIONS

Tulchan Communications
2nd Floor, 85 Fleet Street, London, EC4Y 1AE

SOLICITORS

Herbert Smith Freehills LLP
Exchange House, Primrose Street, London, EC2A 2EG

EMAIL

company.secretariat@elementis.com

WEBSITE

www.elementis.com

Glossary

ACT	Advance Corporation Tax
AGM	Annual General Meeting
AP	Anti-perspirant
ART	Annual Report team
AWC	Average working capital
AWS	Alliance of Water Stewardship
Board	Board of Directors of Elementis plc
Brexit	The withdrawal of the UK from the EU
CapEx	Capital expenditure
CCPA	California Consumer Privacy Act
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash generating unit
CHRO	Chief Human Resources Officer
CO₂	Carbon dioxide
CO₂e	Carbon dioxide equivalent
Code	UK Corporate Governance Code
Company	Elementis plc
COSMOS	Cosmetic Organic and Natural Standard
COVID-19	Coronavirus pandemic
DEI	Diversity, Equality and Inclusion
DNED	Designated Non-Executive Director
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECL	Expected credit losses
ELT	Executive Leadership Team
EPS	Earnings per share
ESC	Elementis Sustainability Council
ESG	Environmental, Social and Governance
ESOS	Executive share option scheme
ESOT	Employee share ownership trust
EU	European Union
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FRS	Financial Reporting Standards
FTSE	Financial Times Stock Exchange
GAAP	Generally Accepted Accounting Principles
GDP	Gross domestic product
GDPR	General Data Protection Regulation
GHG	Greenhouse gases
GJ	Gigajoule
Group	Elementis plc and its subsidiaries
HMRC	HM Revenue and Customs
HSE	Health, safety and environment
IAS	Investment Association Standards
IASB	International Accounting Standards Board

IEA	International Energy Agency
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IRS	Internal Revenue Service
ISDA	International Swaps and Derivatives Association
KPI	Key performance indicator
kWh	Kilowatt per hour
LPG	Liquefied Petroleum Gas
LTA	Lost time accident
LTIP	Long term incentive plan
LTP	Leather tanning plant
M³	Cubic metres
M&A	Merger and acquisitions
MBTU	Thousand British Thermal Units
Mondo	Mondo Minerals Holdings B.V. and its subsidiaries
NED	Non-Executive Director
OECD	Organisation for Economic Co-operation and Development
OSHA	Occupational Safety and Health Administration
PBT	Profit before tax
PPE	Personal protective equipment
PRMB	Post retirement medical benefit
R&D	Research & Development
RCF	Revolving credit facility
REACH	Registration, Evaluation, Authorisation and restriction of Chemicals
Rights Issue	A one to four Rights Issue that was undertaken by the Company in October 2018
ROCE	Return on capital employed
SAYE	Save as you earn
SID	Senior Independent Director
SummitReheis	SRLH Holdings, Inc. and its subsidiaries
SVP	Senior Vice President
TCFD	The Task Force on Climate-related Financial Disclosures
te	Tonnes
TRIR	Total recordable incident rate
TSR	Total shareholder return
UK	United Kingdom
UN	United Nations
UN SDGs	United Nations Sustainable Development Goals
US	United States
VOC	Volatile organic compound

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Designed by Luminous
+44 (0)20 7101 1677
www.luminous.co.uk

Elementis plc
Caroline House
55-57 High Holborn
London
WC1V 6DX
UK

Tel: +44 (0)20 7067 2999
www.elementis.com