ANNUAL REPORT AND ACCOUNTS 2018
REGISTERED NUMBER: 3299608

ELEMENTIS

Parent accounts

REIGNITE GROWTH
PORTFOLIO TRANSFORMATION

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ELEMENTIS TODAY

REIGNITE GROWTH
PORTFOLIO TRANSFORMATION

WE ARE A GLOBAL SPECIALTY CHEMICALS COMPANY SERVING CUSTOMERS IN SELECTED MARKETS WORLDWIDE. TO OUR CUSTOMERS WE DELIVER ENHANCED PRODUCT PERFORMANCE THROUGH APPLIED INNOVATION.

IN THE SECOND YEAR OF OUR REIGNITE GROWTH STRATEGY WE HAVE MADE MAJOR PROGRESS IN TRANSFORMING OUR PORTFOLIO, CAPABILITIES AND CUSTOMER SERVICE.

2016: Completed a business wide strategic review	✔
2017: Reignite Growth: Strengthening the foundations	✔
2018: Reignite Growth: Portfolio transformation	✔

Sales+
$822m

2016	2017	2018
$617m	$783m	$822m

Adjusted operating profit+Δ
$133m

2016	2017	2018
$97m	$123m	$133m

Adjusted operating margin+
16.1%

2016	2017	2018
15.8%	15.7%	16.1%

Profit before tax+
$65m

2016	2017	2018
$76m	$79m	$65m

Net (debt)/cash
($498m)

2016	2017	2018
$78m	($291m)	($498m)

Adjusted diluted earnings per share+Δ†
16.9c

2016	2017	2018
16.1c	17.0c	16.9c

Ordinary dividends per share†
8.4c

2016	2017	2018
7.7c	8.1c	8.4c

FOR MORE ON THIS TOPIC SEE THE FINANCE REPORT ON PAGES 36 TO 41

\+ Continuing operations.
Δ After adjusting items – see Note 5
† Rebased for the effects of the Rights Issue – see Note 9

A TRANSFORMED PORTFOLIO WITH IMPROVED FINANCIAL TRANSPARENCY

PERSONAL CARE

Business model
Our Personal Care business supplies rheology modifiers based on natural and synthetic ingredients to personal care manufacturers. We also supply the active ingredient for the production of anti-perspirant deodorants.

Elementis' competitive advantage is based on access to hectorite, a unique raw material, world class global research and development and a passion for delivering enhanced performance for our customers' products.

2018 revenue	2018 adjusted operating profit
$210m	**$52m**

Customers
Our customers include global and local manufacturers of personal care products such as cosmetics and anti-perspirants.

Competition
We are a leader in organoclay based rheology modifiers and anti-perspirant active ingredients.

Competition is based on formulation capabilities, customer service levels and price.

Market drivers
Demand for Personal Care products is driven primarily by disposable income levels, product innovation and consumer trends.

FOR MORE ON THIS TOPIC SEE PAGE 34

OUR PRODUCTS IN ACTION
Bentone® gel is used to create Personal Care products that thin upon the application of force and thicken once the force is removed. This flow behaviour enhances the aesthetics of a cream on the skin and allows flawless application of nail polish. Bentone® gel is based on hectorite, a naturally occurring clay sourced from our mine in California.

COATINGS

Business model
Our Coatings business supplies rheology modifiers and additives to manufacturers of decorative and industrial coatings.

Elementis' competitive advantage is based on access to hectorite, world class research and development capabilities and an unparalleled range of rheology solutions for Coatings customers.

2018 revenue
$362m

2018 adjusted operating profit
$53m

Customers
Our customers are manufacturers of decorative and industrial coatings.

Competition
We are a leader in the global rheology modifiers and additives segment.

Competition is based on quality of service, technological capabilities and price.

Market drivers
Demand for decorative coatings is influenced by disposable income, maintenance spend, housing transactions and construction activity. Demand for industrial coatings is driven by general macroeconomic activity levels and sector specific factors such as the level of automotive demand.

FOR MORE ON THIS TOPIC SEE PAGE 35

OUR PRODUCTS IN ACTION
Thixatrol® is an additive used by coatings and sealant customers to adhere very heavy objects to a surface via a single spray application. Thixatrol® is predominantly based on renewable raw materials and its usage needs relatively low heat input, making it environmentally friendly.

TALC

Business model
Talc supplies performance minerals with additive characteristics to a wide range of markets including coatings, plastics, life sciences and paper. Small quantities of other minerals, predominantly nickel and cobalt, are created as a byproduct of talc purification.

Talc's competitive advantage is based on access to a distinctive raw material, and the ability to consistently deliver tightly specified, high purity, tailored functional formulation components to customers around the globe.

2018 revenue*	2018 adjusted operating profit*
$158m	**$25m**

* Pro forma 12 months – see pro forma calculations on page 164

In the two month period of ownership in 2018, Talc generated $22m of revenue and $4m of adjusted operating profit.

Customers
Customers are global and regional producers of industrial and decorative coatings, long life plastics, pharmaceuticals, personal care products and paper based items such as magazines. Other minerals are sold to leading battery materials producers.

Competition
Mondo is the second largest producer of talc based additives globally with a market share of approximately 11%.

Competition is based on product quality, consistency, long term supply security and the degree of technical expertise and support provided.

Market drivers
Demand for talc is driven by general macro-economic conditions and by structural factors such as the increased penetration of talc in products (e.g. via light weighting of vehicles) and the increased use of talc in high value applications such as pharmaceuticals.

FOR MORE ON THIS TOPIC SEE PAGE 35

OUR PRODUCTS IN ACTION
Finntalc is used to strengthen products, without adding unnecessary weight, and is used for long life plastics including automotive parts and household appliances. Finntalc is a natural product made entirely from talc, the softest of all minerals, making it an environmentally friendly solution for our global customers.

CHROMIUM

Business model
We supply a range of chromium chemicals including dichromate, chrome oxide, chromic acid and chrome sulphate. These products are used by customers across a wide range of sectors and applications to make their products more corrosion resistant and durable.

Our competitive advantage is based on being the only domestic producer of chromium chemicals in North America and our unique delivery system that minimises the need for customer interaction with our products, with significant safety benefits.

2018 revenue	2018 adjusted operating profit
$184m	**$33m**

Customers
Our customers span a range of industries including pigments, chrome metal, refractory, metal finishing, timber treatment and leather tanning.

Competition
Elementis has approximately a 10% share of the global chromium chemicals market.

Competitors range from multinational companies to privately owned businesses.

Market drivers
Demand drivers vary across our three main product categories. The market for chrome oxide is driven by construction, coatings and aircraft demand, chrome acid by construction and infrastructure demand, and chrome sulphate by beef consumption.

FOR MORE ON THIS TOPIC SEE PAGE 35

OUR PRODUCTS IN ACTION
Chrome sulphate is used in the tanning of animal hides to make leather goods. Waynetan 180 is a product designed for faster penetration of chrome during hide preparation, resulting in higher quality leather products. Waynetan is produced in an environmentally friendly manner at our zero water discharge facility in Milwaukee.

ENERGY

Business model
Our Energy business supplies rheological modifiers and additives primarily 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.

Elementis' competitive advantage is based on offering a range of rheology modifiers, based on natural and synthetic ingredients, to Energy customers on a global basis, supported by world class technical support.

2018 revenue	2018 adjusted operating profit
$55m	**$7m**

Customers
Our customers are typically the global and large regional independent oilfield service companies who use our products in various oil and gas producing regions around the world.

Competition
We are a leader in organoclay based rheology modifiers for energy applications. Technical capability and supply chain footprint are top of the buyer criteria.

Market drivers
The oil price and the availability of adequate infrastructure are the primary drivers of drilling rig activity levels as well as the number of wells drilled. However, there are also other important drivers of drilling activity such as well head breakeven cost, the number of wells per rig, the length of lateral drilling and the drilled but uncompleted well count.

FOR MORE ON THIS TOPIC SEE PAGE 35

OUR PRODUCTS IN ACTION
Oil companies are increasingly working in harsh conditions which challenge drilling production rates. Our high purity hectorite-based rheological additives, such as Bentone® 38, are extremely efficient in such drilling environments. Bentone® 38 is highly resistant to contaminants, can withstand extreme high temperatures and helps to improve oil recovery.

ELEMENTIS OVERVIEW

Revenue split by business segment*

Personal Care	**22%**
Coatings	**38%**
Talc	**16%**
Chromium	**18%**
Energy	**6%**

Revenue split by geography*

North America	**31%**
Europe	**36%**
Rest of World	**33%**

* Pro forma 12 months – see pro forma calculations on page 164

Global manufacturing bases

Europe
Total number of sites: 6
3 Personal Care, Coatings, and Energy
3 Talc

Americas
Total number of sites: 13
8 Personal Care, Coatings, and Energy
5 Chromium

Asia
Total number of sites: 3
3 Personal Care, Coatings, and Energy

INVESTMENT PROPOSITION

Unique value chains
We combine competitively advantaged positions in hectorite, talc and chromium with our global asset base and distinctive technology to serve customers in the Americas, Europe and Asia.

Robust organic growth
We focus on additives that deliver enhanced performance at a relatively low cost to customers in attractive growth sectors such as personal care, long-life plastics, coatings and energy.

Attractive margins
Our operating margins are sustained through the quality of our products and the delivery to our customers of Enhanced Performance Through Applied Innovation.

Strong cash flow
A robust balance sheet, strong operating cash flow generation and capital expenditure discipline fund our Reignite Growth strategy while providing healthy and growing dividends.

Value creation
We are a growing and sustainable business. The implementation of our Reignite Growth strategy will further create value by consistently exceeding our cost of capital.

IN 2018 THE TRANSFORMATION OF OUR PORTFOLIO ACCELERATED. CENTRAL TO THIS CHANGE ARE OUR PEOPLE AND OUR COMMITMENT TO A CULTURE OF OPENNESS, TRANSPARENCY AND CUSTOMER FOCUS.

ANDREW DUFF
CHAIRMAN

As I reflect on the second year of the Reignite Growth strategy at Elementis, I am pleased to report a year of strategic progress.

The acquisition of Mondo, sale of the Surfactants business and investment in a new production facility in India are a clear reflection of the significant change taking place at Elementis.

At Elementis we are focused on enhancing our customers' product performance through the application of our expertise and innovation.

FINANCIAL RESULTS

In 2018, we experienced a mixed economic environment with good levels of growth in the Americas but some deterioration in Europe and Asia.

Against this backdrop, the business delivered a solid set of results. Adjusted operating profit from continuing operations rose 8% from $123m to $133m, with growth a result of improved profitability in Personal Care and Chromium. These positive factors more than offset declines in Coatings and Energy. We also saw a full year of profits from the SummitReheis acquisition as well as an initial contribution from Mondo. Reported operating profit fell 7% to $85m, due to an increase in non-recurring costs. Group adjusted diluted earnings per share+ declined 1% from 17.0 cents in 2017 to 16.9 cents as a result of higher tax, net finance costs and weighted average share count.

MONDO

The acquisition of Mondo in October represents a compelling value creation opportunity and a major step in our ambition to Reignite Growth at Elementis. Mondo is an attractive, high quality additives business with strong competitive advantages serving resilient, growing end markets. The business is highly differentiated with complementary product markets built on application driven research and development.

In Personal Care and Coatings, a total of $20m to $25m of revenue synergies are anticipated to arise by 2023 through the geographic expansion and increased customer penetration of Mondo, utilising the global sales and technical service relationships of Elementis. In addition, the combination is anticipated to unlock new business opportunities for the Group through the application of Elementis' expertise in surface chemistry modification to talc.

BREXIT

Whilst the timing and impact of the United Kingdom's exit from the EU (Brexit) remains uncertain, Elementis is well prepared to react to the potential outcome of a 'no deal' Brexit. Of Elementis' 22 manufacturing sites, one is located in the UK, and 96% of Group revenue is from outside of the UK. We recognise that there may be short term disruption to logistics, however steps have been taken to pro-actively manage our supply chain to mitigate any potential impact. This includes ensuring sufficient raw materials are held at our production site in Livingston, Scotland, as well as having sufficient finished goods throughout our global distribution network.

BALANCE SHEET

Following the acquisition of Mondo, Elementis' net debt position has increased from $291m at the end of 2017 to $498m, representing a net debt to adjusted pro forma EBITDA* of 2.5x. Looking forward we plan to rapidly deleverage the Group through organic cash generation and self-help initiatives. Our debt repayment profile will also be accelerated by the 2018 triennial review of the UK pension scheme which concluded that no cash top up payments will be required from Elementis until at least 2021. We anticipate net debt to EBITDA to be around 2x by the end of 2019.

DIVIDEND POLICY

Under the dividend policy introduced in 2018, it is our intention to pay progressive ordinary dividends, normally with a dividend cover of at least two times adjusted earnings, and to seek to make additional returns to shareholders when net debt is structurally below one times earnings (EBITDA).

This year the Board is recommending a total ordinary dividend of 8.65 cents per share, or 8.40 cents per share on an adjusted basis† (2017: 8.80 cents per share, 8.05 cents per share on an adjusted basis†), reflecting its confidence in the Group's business model and ability to generate cash, its medium term prospects and the levels of investment required over the short to medium term to deliver the Reignite Growth strategy.

The final dividend will be paid on 31 May 2019 in pounds sterling at an exchange rate of £1.00:$1.3377 (equivalent to a sterling amount of 4.2611 pence per share) to shareholders on the register at 3 May 2019. The Board declared an interim dividend at the time of the Interim Results announcement of 2.95 cents per share or 2.70 on an adjusted basis (2017: 2.70 cents, 2.47 on an adjusted basis).

GOVERNANCE AND BOARD

The Board leads an ongoing programme to ensure the highest standards of corporate governance and integrity right across Elementis. We regard this as critical to the Group's continued success and viability. The interactions and communication flows between Executives and Non-Executive Directors have been strong and as a result the Board is well placed to challenge, guide and support the Executives in the delivery of our Reignite Growth strategy. The Board considers that it has fully applied all of the principles and provisions of the UK Corporate Governance Code during 2018.

In 2018 we completed an externally facilitated Board evaluation. The overall result was positive, concluding that the Board continues to perform effectively with good leadership, competent and engaged members and with the appropriate focus on both in-year performance and strategy for the future. Further detail on the evaluation process, together with the Board's remit, operations and the topics the Board regularly review can be found in the Corporate Governance Report.

PEOPLE AND CULTURE

We now have approximately 1,500 employees in the Group, spread over more than 20 manufacturing sites and offices, with 200 joining as part of the Mondo acquisition. As the Group increases in size, it is important to develop consistent and efficient working practices across our teams. We believe our values – Safety, Solutions, Ambition, Respect and Team – are core to our high performance culture and enable us to work effectively in partnership with our customers.

This year the Group has reported underlying profitability growth in a challenging and demanding market place. At the same time, we have achieved our best ever safety performance. The Board recognises the contribution made by all employees. Our drive for safe and sustainable growth remains unchanged and, on behalf of the Board, I would like to thank each and every employee for their commitment this year.

SUMMARY

The solid results and significant strategic progress made by the Group in 2018 are strong evidence that the Group is adopting the right strategy and creating a stronger platform for growth. Our priorities in 2019, the third year of the strategy, are to deliver safe, reliable operations, to integrate Mondo and to continue implementing the Reignite Growth strategy. We are looking forward to a year of further progress.

ANDREW DUFF
CHAIRMAN

+ Continuing operations
* On a 12 month pro forma basis – see pro forma calculations on page 164
† Rebased for the effects of the Rights Issue – see Note 9

OUR VALUES IN ACTION

Safety

Everyone returning home safely at the end of the day is our first consideration when doing business.

In 2018, we made great strides in this area with no lost time accidents (LTA) recorded. This reflects the high level of employee engagement and proactive thinking on safety at Elementis. A strong safety culture, alongside structured safety performance management, will contribute to making our operations safer.

Solutions

Our products provide valuable solutions for our customers and consumers. With cyclopentasiloxane to be banned in cosmetics formulas in Europe by 2020, our customers have been looking for alternative solutions for global cosmetic formulas

We were able to create a form of Bentone® gel that met their requirements while continuing to provide the excellent rheology modification, desired application and aesthetics of the original product formula.

Ambition

Our supply chain is constantly being challenged to supply our unique additives to customers in the quickest and most efficient manner.

In 2018, we made several strides in this area including investment in a new site in India to serve our Coatings, Personal Care and Energy customers in the region. We also took action to optimise our organoclay operations in North America and China.

Respect

Hurricane Florence caused severe damage in the Carolinas in September 2018 and required the safe shutdown of our Chromium facility.

During this period our focus was on the safety of our people, assisting the local community and providing clear communication with our customers. Following the disaster we donated $50,000 to support the local community's response and recovery efforts and an additional $25,000 to communities worldwide impacted by natural disasters.

Team

The acquisition of Mondo in October 2018 was a major step in our ambition to Reignite Growth. This project involved several months of close collaboration between our business units and areas of functional expertise across various geographies and cultures.

Since the acquisition, a dedicated team has been working together to welcome Mondo's staff and integrate them into Elementis and our culture.

Business Insight:
The Group's employees are guided by a strong corporate culture and common set of core values. These values are the essence of our identity and govern everything we do and, perhaps most importantly, how we engage with each other, our customers and our surroundings.

For more on our culture see page 50.

2018 WAS A YEAR OF PORTFOLIO TRANSFORMATION AND WE NOW HAVE A STRONGER PLATFORM FOR GROWTH.

PAUL WATERMAN
CEO

In 2018, the second year of our Reignite Growth strategy, we delivered good organic profit growth and made material strategic progress in transforming our portfolio, capabilities and customer service. Moving into 2019 we have a stronger platform from which to grow the value of Elementis.

RESULTS

Starting with the Group financial results, I am pleased to report a year of solid adjusted operating profit growth. Adjusted operating profit from continuing operations rose by 8% on the prior year to reach $133m, driven by an extra quarter of contribution from SummitReheis, two months contribution from Mondo and good growth in Personal Care and Chromium. These positive factors more than offset a decline in Coatings, where 7% organic growth in adjusted operating profit helped offset the impact of the Delden plant disposal, and in Energy where the market was impacted by infrastructure constraints in North America, leading to lower drilling volumes. Further details on each business segment's performance can be found on pages 34 and 35. Profit before tax+ fell 17% to $65m due to an increase in non-recurring items and higher net finance costs.

Following the acquisition of Mondo in October 2018, Elementis' net debt position has increased from $291m at the end of 2017 to $498m, representing a leverage ratio of 2.5x adjusted pro forma EBITDA*. Looking forward we see a rapid deleveraging profile for the Group as a result of strong underlying cash generation, the impact of our cash focused self-help initiatives and the positive outcome of the UK pension scheme triennial review.

SAFETY

Safety remains our top priority and in 2018 I am pleased to report significantly improved performance, with three recordable injuries (2017: 16) and a total recordable incident rate of 0.22 (2017: 1.1), the lowest on record at Elementis. This improvement was driven by investment to reduce operational risks, safety leadership training and the implementation of Elementis safety processes at former SummitReheis sites (see Q&A on page 12 for more information). Going forward, we will focus on maintaining and improving this record still further.

CSR AND SUSTAINABILITY

With wider consideration of how we do business, sustainability is a core value at Elementis, and here too we made strides in 2018. We continue to improve our CSR and sustainability performance across all aspects of the organisation. Examples include our Milwaukee leather tanning plant which is a zero water, air and solid wastes discharge plant, and an innovative R&D programme that is focusing on new products built around natural and sustainable ingredients. In addition, we have increased the transparency of our commitments by becoming a UN Global Compact signatory.

The green credentials of our products are foremost in our mind and we have verified the naturalness of our products against rigorous standards such as ISO, COSMOS and Ecolabel which enables our customers to make sustainability claims about their products.

Reflective of our progress, in 2018 Elementis was ranked by Ecovadis in the top 7% of companies for CSR in the global chemical manufacturing sector, up from 23% in 2014. This is a welcome achievement and more information on our initiatives in this area are available in our Resources and Relationships section.

PEOPLE

Our people and the culture that they embody are at the centre of our success. I am pleased to welcome all Mondo employees to Elementis. Mondo has an experienced management team with a proven track record of repositioning the business and delivering growth, and I am pleased to say Christian Kather, previously Mondo CEO, has joined our leadership team, as VP Talc.

After a career in the chemicals industry of 23 years, and with Elementis for ten years, Ken Smith, VP Technology retired at the

\+ Continuing operations
* On a 12 month pro forma basis – see pro forma calculations on page 164

end of 2018. Technology is a cornerstone of what we do and I would like to thank Ken for the huge contribution he has made to Elementis – his impact on the business will be felt for years to come. Whilst it is sad to see Ken go, I am pleased to welcome Joe Lupia to Elementis as his successor. Joe has a career of more than 30 years in the chemicals industry and joins Elementis from BASF where he most recently held the position of Director, Technical Innovations and Customer Support – Care Chemicals USA.

MONDO

The acquisition of Mondo, the second largest producer of premium talc based additives in the world, represents a great opportunity for Elementis. Our new Talc business segment will strengthen us as a higher quality, higher margin company with attractive growth potential, consistent with our Reignite Growth strategy.

Our Talc business has strong competitive advantages and a track record of growth. Aligned with Elementis' hectorite based value chain, Mondo leverages access to a distinctive, high quality natural resource to create high value additives that deliver exceptional product performance improvement to customers at a relatively low percentage of the end products cost. Premium talc follows a specialty additive logic driven by custom formulations, customer demand for quality, reliability and service and rigorous supplier qualification which results in value based pricing and high customer loyalty.

Demand for talc additives is anticipated to grow at around 5% per annum, sustained by favourable structural trends, including the light weighting of vehicles and fast growth in life sciences such as cosmetics and pharmaceuticals. Mondo is well positioned to grow at or above this rate, over the medium term, by further developing its position in high end talc markets.

We see significant opportunities in Coatings, Personal Care and the broader innovation space from combining Mondo with Elementis' surface chemistry expertise, global scale and relationships. These synergy opportunities, discussed in more detail on the next page, will unlock additional value for Elementis' stakeholders.

REIGNITE GROWTH

In November 2016, we launched our Reignite Growth strategy. In the second year of strategic implementation we have made significant progress against our four priorities. Key achievements are outlined in more detail on pages 20 to 29 but highlights in the year included the acquisition of a brownfield production site in India, the sale of our Surfactants business and acquisition of Mondo. Elementis now has a significantly stronger platform to grow value.

OUTLOOK

Going forward we will focus on actions that will create sustainable shareholder value. Maintaining our focus on safe, reliable operations will create a strong foundation for growth. The quality and commitment of our people is at the core of our success and at Elementis we are fortunate to have a talented, dedicated and improving team.

Whilst global market conditions remain challenging, particularly in coatings, we have entered 2019 with a strong platform to deliver long term growth and improved returns. In the year ahead we are confident of delivering further progress and this will be underpinned by the integration and synergies of the Talc segment, delivery on self-help initiatives and an unrelenting focus on cash generation and deleveraging.

PAUL WATERMAN
CEO

WELCOME TO MONDO EMPLOYEES

I want to extend a warm welcome to Christian Kather and everyone at Mondo.

The integration of Mondo is progressing at pace and the combination of our businesses will create significant opportunities for customers, staff and shareholders.

REIGNITE GROWTH OVERVIEW

At the end of the second year of our programme to Reignite Growth we have a platform to deliver tangible results.

2016
Completed a business wide strategic review

Nov 16
Capital Markets Day

Launch of Reignite Growth strategy

Dec 16
Introduction of global functions

↓

2017
Reignite Growth: Strengthening the foundations

Mar 17
Acquisition of SummitReheis

Mar 17
Sale of US Colourants business

May 17
Completed working capital review and identified $18m of reductions

Jun 17
Implemented key account management processes

Dec 17
Introduction of new global Coatings organisation

↓

2018
Reignite Growth: Portfolio transformation

Feb 18
Sale of Surfactants business

Aug 18
Disposal of Jersey City site

Oct 18
Completion of Mondo acquisition

Nov 18
Closure of Changxing organoclay site

Dec 18
Acquisition of India manufacturing site

Business Insight:
Elementis now has a broader, more diversified and better enabled platform to Reignite Growth but sustained success will come from a focus on customers, innovation and continuous improvement in everything we do. Growth means never standing still.

For more on our strategic pillars see pages 20 to 29.

Q&A

Q
What improvements have you made to safety in 2018?
A

During 2018 we rolled out Enablon, the industry's most comprehensive HSE software platform, undertook several capital investments to eliminate risks and progressed the implementation of our advanced safety audits and management safety interactions. We are encouraging our employees to become further engaged and thinking proactively about staying safe. An even stronger safety culture throughout the Group will drive further improvement in our already excellent safety performance – keeping everyone safe at the end of the day.

Q
What are Elementis' innovation priorities?
A

In innovation our focus is on creating products that deliver superior performance, improved efficiency and increased sustainability to our customers. Products such as our new Bentone Hydroclay™ for Personal Care applications tick all these boxes. Our innovation pipeline is in good shape and looking forward we will continue to prioritise the delivery of enhanced performance through applied innovation.

Q
What are the risks to your Reignite Growth strategy?
A

We consider both general and market specific risks, concentrating on the controllable and mitigating those that are beyond our direct influence. More detail can be found later in the Principal Risks and Uncertainties section. As we focus on execution of our growth plans and operational performance, the leadership teams in each of our businesses carefully consider all decisions in the risk context of their individual markets. I believe that we now have the right people in place, with the experience and expertise to do this, across the Group.

Q
What does the acquisition of Mondo mean for Elementis' shareholders?
A

In financial terms, the acquisition will be earnings per share accretive in the first full year of ownership and we expect return on invested capital to exceed our weighted cost of capital in year two. On top of that, we expect our net debt position to rapidly decline supported by our strong cash generation. In business terms, Mondo brings a complementary business, based on a unique value chain and with outstanding growth prospects, to our portfolio. This all adds up to value creation for our shareholders both in the short and in the long term.

MONDO MINERALS EXPLAINED

Plastics
Allows long life plastics to have similar properties to metal, at lower cost and lighter weight. **Applications:** Automotive plastics, household appliances.

Coatings
Increased sheen, mechanical resistance, barrier effects, opacity. **Applications:** industrial coatings, architectural coatings.

Life Sciences
Increased inertness, sheen, silkiness and anti-caking. **Applications:** Cosmetics, food and beverage, pharmaceuticals.

Technical Ceramics
Improved resistance to cracks and heat. **Applications:** Insulation, catalytic converters.

Paper
Enhanced printability and barrier effect. **Applications:** High end magazines and publications.

WHAT IS TALC?

Talc is a clay mineral composed of hydrated magnesium silicate with unique features: microscopic crystalline platelets which are strong yet soft, resistant to acids or alkalines, oxidation, radiation, or ageing. At the same time it is inert and odourless. Mondo operates four high quality talc mines in Finland with approximately 92 years of resources.

APPLIED INNOVATION

At facilities in Finland and the Netherlands, Mondo applies proprietary processing methods and formulation expertise to create customised talc based solutions for technology driven industries. Talc adds new features to products and makes processes more efficient across a range of industries.

ELEMENTIS AND TALC

OPPORTUNITIES FOR THE GROUP

Aligned with Elementis' hectorite based value chain, Mondo leverages access to a distinctive, high quality natural resource to create products that serve diverse end markets. Clear areas of complementarity range from formulation expertise to application driven research and development, through to end markets and customers, notably Coatings and Personal Care.

Coatings	Revenue synergies of approximately \$10-15m by 2023 are anticipated to arise primarily through geographic expansion of Mondo, using Elementis relationships to increase market share in industrial coatings in North America and Latin America, and also through deepening strategic relationships with existing Elementis customers for the sale of talc and a greater share of their materials spend.
Personal Care	Revenue synergies of approximately \$10m by 2023 are expected via enhanced access for Mondo to leading personal care formulators and distributors as well as an expansion to new markets in Asia and the Americas utilising local sales, distribution and logistics networks and greater sales coverage within Europe. Value will also be created through an extension of the product portfolio to attractive cosmetic applications.
Innovation	The potential applications of talc are considerable. New business opportunities are anticipated for Mondo through the leverage of Elementis' expertise in surface active chemistry, rheology and product formulation in the field of talc based additives.

PORTFOLIO TRANSFORMATION

CREATING A HIGHER QUALITY, HIGHER MARGIN GROUP WITH ATTRACTIVE GROWTH POTENTIAL

2016

Adjusted operating margin◊
14.7%

Specialty Products
$82m

Chromium
$27m

Surfactants
$(1)m

SUMMITREHEIS ACQUISITION

In March 2017, we acquired SummitReheis, the global leader in the manufacture and sale of active ingredients for anti-perspirants, for $360m. The acquisition creates an enlarged Personal Care business with annual sales of over $200m, significantly increasing the Group's presence in this attractive growth market.

US COLOURANTS DISPOSAL

Following a review of our operating assets, the US Colourants business was identified as non-core and the business was sold to Chromaflo Technologies Corp in March 2017 for an undisclosed fee. The previous site of the business in Jersey City was sold in August 2018 for $17m.

SURFACTANTS DISPOSAL

In February 2018, we sold the Surfactants business located in Delden, the Netherlands to Kolb Distribution AG for €39m. The sale generated cash, eliminated a strategically disadvantaged business, simplified our supply chain and enabled the reallocation of resources to higher margin growth opportunities.

MONDO ACQUISITION

The acquisition of Mondo, a leading producer of talc based additives, brings to Elementis a complementary and structurally advantaged business, with attractive financial characteristics, serving resilient and high growth end markets. Significant opportunities exist to apply Elementis' global knowledge, scale and relationships to unlock additional value and further growth.

2018

Adjusted operating margin*
16.0%

Personal Care
$52m

Coatings
$53m

Talc
$25m

Chromium
$33m

Energy
$7m

Graphic excludes corporate costs and shows Talc on 12 month pro forma basis.

◊ Total operations (both continuing and discontinued)
* On a 12 month pro forma basis – see pro forma calculations on page 164

OUR MARKET ENVIRONMENT

THE MACRO ECONOMIC TRENDS AFFECTING OUR BUSINESS

Business insight:
Demographic trends and economic growth will drive developing markets, particularly in Asia and Africa – while more mature markets increasingly look for more sustainable, premium products. Our products, and the way in which we conduct our business, must satisfy these requirements in an open, honest and ethical way – in all our markets.

For more on how our strategy is responding to these opportunities see page 20.

Related material
Resources and Relationships – pages 49 to 58

TREND

DEMOGRAPHICS

In developed economies people are living longer and have more income and better access to buy a wider range of products.

In the developing world, high birth rates are forecast to be the main factor behind a global population increase of roughly two billion from now to 2050, a significant driver of further urbanisation.

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

WHAT THIS MEANS FOR OUR INDUSTRY

- Growing demand for consumer products that use our additives and active ingredients
- Increasing demand for coatings for residential, construction and industrial purposes
- Demand increases for the commodities produced by our oil and gas customers

OUR OPPORTUNITIES

- Increasing demand in developing regions for products containing our innovative performance additives

OUR RESPONSE

- Capital investment in manufacturing assets in Asia to reduce supply chain length and bring our products closer to our customers
- Investment in our global key account management structures and processes to increase our ability to serve global customers

PREMIUMISATION	SUSTAINABILITY	TRANSPARENCY
All over the world, consumers are increasingly looking for more from their products. Premiumisation is bridging the gap between luxury and mass market to give all consumers access to unique, innovative and efficient products that promise and deliver more. The premium segment is experiencing strong growth – outpacing total category sales in many markets – with potential for continued growth as consumer buying power and spending rise around the world.	The combustion of fossil fuels has resulted in the accumulation of greenhouse gases in the atmosphere and is a cause of global warming, the consequences of which are rising sea levels and an increase in the frequency of extreme weather. Both impair the productivity of the land to supply food and water for the growing global population and bring an increased focus from organisations on restricting global warming and climate change.	In an ever more complex and interconnected world, consumers demand more transparency from the organisations that serve them. Organisations of all kinds must establish and maintain trust, taking a proactive, holistic approach to transparency.
– Demand for enhanced product performance – Demand for higher quality products – Increasing focus on innovation	– A move towards natural or naturally derived ingredients – Need to minimise social and environmental impact along supply chain – Increasing focus on sustainability – Increasing focus on a small carbon footprint	– Clear evidence of ethical and social considerations – Consistent and transparent disclosure of activities throughout the value chain – Provision of clear and concise privacy information to individuals
– More demand for high quality and multifunctional products containing our unique performance additives	– Opportunities to supply additives based on natural minerals such as hectorite and talc – Market expansion of our additives made from natural resources – Use our innovation expertise to create sustainable ingredients	– Opportunities to help our customers make informed decisions through the provision of clear scientific evidence – Opportunities to inform our customers and service users of our processing activities and privacy practice
– Established innovation platform focused on responding to customer needs – Focus on our supply chain efficiency to deliver novel solutions to customers at the best price possible – Increasing share of natural and sustainable products	– Investment in our hectorite and talc production network – Further develop in house regulatory and sustainability expertise – Report our progress and participate in the Carbon Disclosure Project (CDP) to enable stakeholders to understand our environmental impact – Conduct business in accordance with the Ten Principles of the UN Global Compact and publicly report our performance	– Ensure that all manufacturing sites are certified against appropriate Safety, Environment and Quality standards – Work with specialists to characterise the physical palm oil derivative supply chains, leading to transparency of provenance – Verify against demanding labelling standards such as ISO, COSMOS and ECOLABEL to highlight the natural aspects of our products – Establishment of Data Privacy Team to ensure compliance with applicable data privacy laws globally

INPUTS

People
Our engaged and skilled workforce are focused on customer collaboration and delivery of our strategy

Capital
We operate within a disciplined framework to invest in growth, productivity and maintenance to support our strategy

Relationships
We strive to build long term relationships with customers, suppliers and other stakeholders

Supply chain
Our global manufacturing footprint is aligned to operational performance

Assets
We own and operate the world's largest known source of high quality rheology grade hectorite clay and operate four talc mines with high quality long duration talc resources within one of only two known deposits of scale in Europe.

Expertise
Our technical service teams use their formulation expertise to work closely with our customers to deliver their needs

Product stewardship
We have dedicated resource to oversee comprehensive product safety, stewardship and regulatory compliance

OVERVIEW

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

Our primary purpose is to make our customers' formulations look, feel and perform at their best and enable distinctiveness in the market – Enhanced Performance Through Applied Innovation. Through operations, research and development, sales and marketing we apply innovation with purpose to provide value to our customers.

OUR VALUES

Safety

Solutions

Ambition

Respect

Team

Unique value chain

Robust organic growth

Strong cash flow

Attractive margins

Innovation and product development

VALUE CREATION

Shareholders
Strong balance sheet and cash generation delivering sustainable returns to shareholders

Dividends paid in 2018
$41.9m

Employees
Our total global workforce of c.1,500 is critical for the delivery of our strategy

2018 employee pay
$117.4m

Customers
Building relationships with our key customers ensures we are better placed to deliver the best growth opportunities

Total revenue from customers
$822.2m

Suppliers
We value our supplier relationships and take a long term strategic approach to relationship management

Raw materials
700

Communities
Acting responsibly better serves the communities where we operate

Carbon disclosure project
B rating

Link to Our Strategy
pages 20 to 29

Link to Principal Risks and Uncertainties
pages 42 to 48

Link to Viability Statement
page 59

Link to Directors' Remuneration Report
pages 78 to 92

FOR MORE ON OUR BUSINESS SEGMENTS SEE PAGES 34 TO 35

OUR SOURCES OF COMPETITIVE ADVANTAGE

UNIQUE VALUE CHAIN
We combine competitively advantaged positions in hectorite, talc and chromium with our global asset base and distinctive technology to serve customers in selected markets worldwide.

ROBUST ORGANIC GROWTH
We focus on additives that deliver enhanced performance to our customers in attractive growth sectors such as personal care, lightweight plastics, coatings and energy.

ATTRACTIVE MARGINS
Our operating margins are sustained through the quality of our products and the delivery to our customers of Enhanced Performance Through Applied Innovation.

STRONG CASH FLOW
A robust balance sheet, strong operating cash flow generation and capital expenditure discipline fund our Reignite Growth strategy while providing healthy and growing dividends.

CAPITAL EFFICIENCY
We are a growing and sustainable business. The implementation of our Reignite Growth strategy will further create value by consistently exceeding our cost of capital.

INNOVATION AND PRODUCT DEVELOPMENT
We have a global R&D function focused on strengthening the pipeline of new customer focused product development and innovation. We apply innovation with purpose to all parts of our business through operations and R&D.

HEALTH, SAFETY AND ENVIRONMENT
We are committed to providing a healthy and safe workplace for employees, contractors and site visitors and minimising our impact on the environment from our operations. We place a great emphasis on protecting people and operating responsibly.

PRODUCT STEWARDSHIP
Comprehensive product safety and product stewardship processes are in place which support product safety and regulatory compliance – we strive to provide innovative products that create value for customers that are safe for people and the environment when used for their intended purpose.

BUSINESS CONDUCT AND ETHICS
Our Code of Conduct sets out our core values and the standards of conduct expected of everyone who works for Elementis in any of its worldwide operations, including compliance with all applicable laws and regulation.

RISK MANAGEMENT
Effective risk management supports the successful delivery of our strategic objectives. We have an established risk management framework to identify, evaluate and mitigate the risks we face as a business.

THE INPUTS WE NEED TO CREATE VALUE

PEOPLE
We have strong leadership with a clear business strategy supported by functional teams and a skilled workforce focused on customer collaboration and operating safely and responsibly in the environments wherever we operate.

CAPITAL
We operate within a disciplined framework to support our strategy and invest in growth, productivity and maintenance.

RELATIONSHIPS
We build and maintain close relationships with our customers to meet their needs. Long term relationships with customers, suppliers and other stakeholders are built on trust and collaboration. We monitor trends and market developments to ensure our formulations meet the requirements not only of our customers but the end users of their products.

SUPPLY CHAIN
We have a global manufacturing footprint where safety is aligned to operational performance. We have manufacturing sites located in UK, US, Brazil, Germany, Finland, Netherlands, China and Taiwan. Quality controls, testing, procedures, certifications and compliance with applicable regulations drive consistent product quality.

ASSETS
We own and operate the world's largest known source of high quality rheology grade hectorite clay. This raw material, combined with a global production footprint and innovative leadership adds value to our customers through the creation of innovative, high performance products in Personal Care, Coatings and Energy sectors. In addition, we operate four talc mines in Finland for specialty (long-plastics, paints and diversified industrials) and non-specialty applications (paper). Our talc segment has a leading competitive position as a result of high quality, long duration talc resources combined with proprietary processing methods and formulation expertise.

In Chromium we are the only domestic producer in North America, and our unique delivery system minimises the need for customer interaction with our products, with significant safety benefits.

EXPERTISE
New product development and innovation pipeline is supported by technical service and expertise. Our technical service laboratories work closely with our customers to deliver their needs. In addition, the talc segment utilises proprietary flotation process know-how and formulation expertise to deliver superior product quality and consistency in a wide range of end markets.

OUR REIGNITE GROWTH STRATEGY IS BASED ON FOUR PILLARS OF ACTIVITY

Business insight:
There is always a better way.

Our strategy seeks to concentrate on growth markets supported by major global demographic and consumer trends.

But fundamentally our approach is based on the understanding that there is always a better way. Better ways to interact with our key customers. Better ways to run our businesses. Better products that improve our customers' products. Better ways to communicate. And better ways to empower, develop and motivate our people. Because ultimately it is our people who deliver our strategy.

STRATEGIC PRIORITY

PURSUE BEST GROWTH OPPORTUNITIES

1

Our strategic choices focus on the most attractive and material opportunities for Elementis

2018 ACHIEVEMENTS

- Acquisition of Mondo, the second largest producer of talc based additives in the world
- Launched global Coatings transformation
- Acquired a manufacturing site in Mumbai, India to serve fast growing Coatings, Personal Care and Energy markets in the surrounding regions
- Global key account revenue growth increased by 6% in 2018

2019 PRIORITIES

- Implement global Coatings transformation
- Asia growth: create a new platform in India
- Talc integration and synergy delivery

RISKS

- Uncertain global economic conditions
- Business interruption as a result of major event
- Business interruption as a result of supply chain failure
- Portfolio innovation and technology

PURSUE SUPPLY CHAIN TRANSFORMATION

2

Elementis has a number of quality manufacturing assets; however, some are disadvantaged. We are transforming our supply chain to unlock cash and deliver increased financial performance

- Completed the sale of Delden and New Jersey sites, previously home to our Surfactants and US Colourants businesses respectively
- Consolidation of organoclay operations in North America and China
- Delivered $12m of working capital savings
- Qualified new sources of supply for 10% of raw materials

- Execution of working capital optimisation programme
- Continued pursuit of procurement savings and improved manufacturing productivity
- Improved Chromium operations reliability

- Uncertain global economic conditions
- Business interruption as a result of major event
- Business interruption as a result of supply chain failure
- Major regulatory enforcement action

INNOVATE FOR HIGH MARGINS AND DISTINCTIVENESS

3

Innovation is at the heart of what we do. Focusing on significant innovation opportunities will continue to enhance our customers' performance

- Winner of Sensory Gold award at in-cosmetics Global 2018 for Rheoluxe® skin care experience
- 9% growth of our Thixatrol® organic thixotropes in the Americas

- Focus on fewer, more material opportunities across the Group
- Deliver Personal Care products for skincare applications such as Bentone Hydroclay™
- Leverage R&D expertise to support Talc growth

- Increasing regulatory and product stewardship challenges
- Intellectual property and know-how
- Portfolio innovation and technology

CREATE A CULTURE OF HIGH PERFORMANCE

4

Achieving the right organisation is essential to grow the business

- Creation of global Coatings organisation
- Commenced integration of Mondo
- Launch of new digital strategy
- Improved working capital management
- Roll out of comprehensive safety information management system

- Quality of earnings focus: margin and cash flow
- Roll out new digital capability
- Embed the new Elementis values

- Intellectual property and know-how
- Talent management and succession
- Cyber security incident

PURSUE BEST GROWTH OPPORTUNITIES

1

STRATEGY IN ACTION
COATINGS ASIA

In Asia, we have a strong presence centred upon China. In 2018, under the direction our new global Coatings team, we began to transform our business through rigorous evaluation of our product offering, routes to market and cost base. This has resulted in moves to improve product differentiation, rationalise our product portfolio and implement standardised service level agreements to reduce working capital and improve supply efficiency. Our global Coatings transformation will continue at pace in 2019.

In December 2018 we acquired a production facility in Mumbai for $4m, a key step in developing a direct presence in India. This facility will allow us to bring our distinctive technology to the market and enable us to strengthen our customer proposition. The plant, which will start production in 2019 and ramp up in 2020, will serve the Coatings, Personal Care and Energy markets in India and beyond, and is an exciting development for Elementis in Asia.

WHY THIS IS IMPORTANT FOR ELEMENTIS

Our strategic choices focus on the most attractive and material opportunities for Elementis

PERSONAL CARE GLOBAL GROWTH

Owning the only commercial high quality rheology grade hectorite mine in the world provides access to a raw material that is natural, white and an outstanding rheology modifier. In 2018, we continued to grow our hectorite based business and made progress diversifying our product portfolio. Rheoluxe®, our new polymer based thickener, won Sensory Gold at the in-Cosmetics Global exhibition and is building momentum with customers – revenue rose 13% in 2018. Our natural, Meadowfoam based ingredients also made good progress in 2018, seeing incorporation into ground breaking skin care products such as Supergoop!® Unseen Sunscreen.

In the first full year of ownership, our antiperspirant active business has demonstrated the ability to balance cost recovery and the strength of our customer relationships in the face of significant raw material price increases.

In 2019 we will roll out new products targeted at skin care including Bentone Hydroclay™, drive penetration of our Bentone® gel product range and introduce more customers to our wide range of natural ingredients.

GLOBAL KEY ACCOUNT MANAGEMENT

Key account management is about improving how we work with our most important global customers. In 2018, we leveraged our new processes and systems, repositioned our thinking from a regional to global perspective and engaged with our customers at the most senior levels possible. As a result, our dialogue with key customers has improved and we are seeing increased technical collaboration. In 2018, revenue from these key accounts rose by 6%.

+6%

PURSUE SUPPLY CHAIN TRANSFORMATION

2

STRATEGY IN ACTION
MANUFACTURING PRODUCTIVITY

Production within our network of assets is being optimised to improve efficiency and reduce cost. In 2018, we made significant progress at our organoclay operations. In China, we closed the Changxing site and consolidated capacity at the nearby Anji facility, whilst in the US we relocated our flash dryer capacity from Charleston to St Louis. Both of these moves allowed us to improve utilisation rates and lower operating costs.

During the year we vigorously pursued our $18m working capital improvement target by 2020. Standardised service level agreements, new inventory management systems and the removal of low sales and low margin items that create excess inventory, resulted in $12m of savings. We have increased our overall ambition from $18m to a $25m sustainable reduction in working capital, and are well placed to deliver the rest of the target in 2019 and 2020.

WHY THIS IS IMPORTANT FOR ELEMENTIS

We are transforming our supply chain to reduce costs, unlock cash and thus deliver enhanced financial performance.

ADDRESS DISADVANTAGED ASSETS

In 2018, we exited two significant assets. In February, we completed the sale of our Surfactants business, including the Delden production site, for €39m and in August we agreed to sell the Jersey City site, previously home to the US Colourants business, for $17m. Exiting these assets has generated cash, simplified our supply chain, significantly reduced ongoing maintenance capex and allowed the re-allocation of capital to higher margin growth opportunities. In November, we closed our organoclay site in Changxing.

In 2019, we will continue to focus on continuous improvement of our assets across sectors and geographies.

Our former Surfactants plant in Delden, Netherlands.

PURSUE PROCUREMENT SAVINGS

Procurement optimisation continues to create shareholder value. In 2018, we qualified new raw material sources for more than 10% of our raw material spend and achieved more than $6m of cost savings. Smarter procurement enabled the partial mitigation of raw material cost inflation, particularly within the antiperspirant actives business. Finally, we rationalised our logistics network and re-negotiated utility suppliers. In 2019, we will be focused on further improvement in this area.

$6m

INNOVATE FOR HIGH MARGINS AND DISTINCTIVENESS

3

STRATEGY IN ACTION
DELIVER NEW PRODUCT PIPELINE
Our innovation pipeline contains many new projects coming to market in 2019. In Personal Care, natural functional ingredients are in demand, and consumers also want products that have great application aesthetics. Our new Bentone Hydroclay™ product line delivers these requirements, enabling cosmetic formulators to create natural skin care products that also deliver novel sensory experiences.

Greener technology, improved performance and efficiency are also key drivers in the Coatings industry. Our Thixatrol® organic thixotropes allow customers to formulate products at lower temperatures, saving energy and increasing product throughput time. Thixatrol® is comprised of a high percentage of renewable materials and can be used for the most demanding applications.

With the acquisition of Mondo, the addition of Talc opens up an exciting new pillar in our technology portfolio. Looking forward, we will continue to leverage our core competencies to drive innovation and identify opportunities to transfer our technologies between industry segments.

WHY THIS IS IMPORTANT FOR ELEMENTIS

Innovation is at the heart of what we do. Delivering significant innovations enhances both our customers' product performance and our competitive market position.

SUSTAIN INNOVATION LEADERSHIP

We drive innovation to meet our customers' needs and the trends impacting our business segments, to deliver superior performance, improved efficiency and increased sustainability. Leveraging our core competencies in natural mineral-based technologies and polymer architecture, we create innovative solutions aimed at transforming the markets which we serve. To increase the speed and success of our innovation pipeline, we work with strategic partners around the world.

OUR STRATEGY
CONTINUED

CREATE A CULTURE OF HIGH PERFORMANCE

4

STRATEGY IN ACTION
STRUCTURE
In 2018, we accelerated the shift from a regional to a global Coatings organisation with the creation of a cross functional leadership team and a number of personnel changes in key account management, service delivery and within our Asian business. We are confident that our team in Coatings now has the talent and drive to propel the organisation forwards.

Following the acquisition of Mondo in October 2018 we established a specific project team and the integration of Mondo has begun at pace.

WHY THIS IS IMPORTANT FOR ELEMENTIS

Achieving the right organisation and performance management processes is essential to build our culture and grow the business.

PROCESSES

In 2018, improved demand planning, inventory management and performance management tracking were some of the areas in which we made progress as part of our commitment to deliver a targeted $25m of sustainable working capital improvement.

Our digital strategy aims to make it easier for customers to do business with Elementis. In 2018, we commenced the improvement of our CRM systems and customer facing websites, and increased the resources dedicated to data protection and transparency – a key part of our commitment to customers and staff seeking assurance and visibility.

To further improve our safety performance we rolled out Enablon, a comprehensive safety information management system. Enablon improves our ability to both track, trend and analyse safety data, and implement corrective and preventative actions.

As part of our employee development offer, we continue to utilise workday®, our automated human resources system, to improve our performance culture and performance management.

Looking to 2019, priorities include increased employee engagement and the integration of Mondo.

$25m

MEASURING OUR PERFORMANCE

WE MEASURE OUR PERFORMANCE AGAINST OUR REIGNITE GROWTH STRATEGY

Through both financial and non-financial key performance indicators (KPIs).

We report on these KPIs on a monthly basis. We consider that our KPIs represent meaningful and relevant measures of our performance and are an important illustration of our ability to achieve our objectives under each of our strategic pillars.

Link to remuneration
Our short term performance related pay incentives include targets against the annual operating plan for adjusted Group profit before tax, adjusted operating profit and average trade working capital to sales ratio.

Our long term incentives include targets against earnings per share and total shareholder return that are subject to a return on capital employed (ROCE) underpin. These targets are a subset of the Group's financial KPIs. Further details can be found in the Directors' Remuneration Report on pages 78 to 92.

Link to strategic priority

Pursue best growth opportunities	✔
Pursue supply chain transformation	✔
Innovate for high margins and distinctiveness	✔
Create a culture of high performance	✔

Related material
Our business segments – pages 34 to 35
Resources and Relationships – pages 49 to 58
Directors' Remuneration Report – pages 78 to 92

	MEASURE
SAFETY Safety remains our top priority and we aim for an injury free work place so that all our employees go home safely every day. By monitoring our total recordable incident rate (TRIR) and lost time accidents (LTA) we can manage our safety performance and make improvements as necessary. **Link to strategic priority** ✔✔✔✔	TRIR LTA
ENVIRONMENT We recognise our responsibility for sustaining the quality of the environment in the communities in which we operate. **Link to strategic priority** ✔✔✔✔	Environmental impact
CAPITAL EFFICIENCY How we generate returns from our assets is an important indicator of the successfulness of our capital allocation decisions. **Link to strategic priority** ✔✔✔✔	ROCE
CASH GENERATION By monitoring our cash flow we can optimise our operations to maximise the cash we generate **Link to strategic priority** ✔✔✔✔	Adjusted operating cash flow
PROFITABILITY Our profitability is a critical indicator of our performance as it reflects the degree of value customers place on our products and the efficiency of our operations. **Link to strategic priority** ✔✔✔✔	Adjusted Group profit before tax Contribution margin Adjusted operating profit/adjusted operating margin
WORKING CAPITAL OPTIMISATION We acknowledge that the proper management of working capital is essential to our financial health and operational success. **Link to strategic priority** ✔✔✔✔	Average trade working capital to sales ratio

DESCRIPTION	HOW WE PERFORMED IN 2018	HAVE WE IMPROVED?
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.	2017: 1.1 2018: 0.22	↑ **0.22** 80% reduction FURTHER INFORMATION CAN BE FOUND ON PAGE 56
LTA is an injury or illness that requires greater than 3 days away from work not including the day of incident.	2017: 2 2018: 0	↑ **0** 100% reduction FURTHER INFORMATION CAN BE FOUND ON PAGE 56
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.	2017: 0 2018: 0	= **0** No change FURTHER INFORMATION CAN BE FOUND ON PAGE 57
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.	2017: 22%, 12% 2018: 15%, 8%	↓ **15%** -7pts ROCE including goodwill **8%** -4pts FURTHER INFORMATION CAN BE FOUND ON PAGE 125
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.	2017: $107.1m 2018: $77.7m	↓ **$77.7m** -27% FURTHER INFORMATION CAN BE FOUND ON PAGE 39
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.	2017: $115.2m 2018: $112.4m	↓ **$112.5m** -2% FURTHER INFORMATION CAN BE FOUND ON PAGE 124
Contribution margin, is defined as total revenue less all variable costs, divided by total revenue and expressed as a percentage. ◊ Total operations (both continuing and discontinued)	2017: 47%◊ 2018: 46%◊	↓ **46%◊** -1pts FURTHER INFORMATION CAN BE FOUND ON PAGE 125
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.	2017: $122.7m, 15.7% 2018: $132.6m, 16.0%	↑ **$132.6m** +8% Operating margin **16.1%** +0.4pts FURTHER INFORMATION CAN BE FOUND ON PAGE 125
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.	2017: 19% 2018: 21%	↓ **21%** -2pts FURTHER INFORMATION CAN BE FOUND ON PAGE 125

NON-FINANCIAL INFORMATION STATEMENT

WE MEASURE NON-FINANCIAL PERFORMANCE ALONGSIDE OUR REIGNITE GROWTH STRATEGY

This table follows the requirements of the Companies Act 2016 sections 414C(7), 414CA and 414CB and is intended to help stakeholders understand our position on key non-financial matters. Most of our reporting on these topics is contained within our Risk Management and Resources and Relationships sections on pages 42 to 48 and 49 to 58 respectively. Cross references to sections containing further information about risk management, policy outcomes, targets in specific areas are provided.

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

Related material
Resources and Relationships – pages 49 to 58

ENVIRONMENTAL MATTERS

Related policies which govern our approach
- Code of Conduct
- Health, Safety and Environment policy
- Product testing policy

ASSOCIATED RISKS AND KPIs

Principal risks
- Business interruption due to a major event or system interruption
- Regulatory and product stewardship challenges

KPI
Manufacturing carbon intensity ratio (kg CO_2e/tonnes product)

2018
0.89

2017
0.73

EMPLOYEES

Related policies which govern our approach
- Code of Conduct
- Life saving rules
- Data protection and privacy policies
- Equality and diversity policies
- Whistleblowing policies

ASSOCIATED RISKS AND KPIs

Principal risks
- Talent management and succession planning

KPI
Proportion of internal promotions

2018
68

2017
52

HUMAN RIGHTS	SOCIAL AND COMMUNITY MATTERS	ANTI-BRIBERY AND CORRUPTION
Related policies which govern our approach – Code of Conduct – Equality and diversity policies – Data protection and privacy policies – Whistleblowing policies	Related policies which govern our approach – Code of Conduct – Product testing policy – Social media policy	Related policies which govern our approach – Code of Conduct – Anti-corruption policy – Anti-competition policy
ASSOCIATED RISKS AND KPIs	**ASSOCIATED RISKS AND KPIs**	**ASSOCIATED RISKS AND KPIs**
Principal risks – Legal and regulatory	**Principal risks** – Regulatory and product stewardship challenges	**Principal risks** – Regulatory and product stewardship challenges – Legal and regulatory
KPI Number of online training courses made available to employees on Human Rights	**KPI** Total number of substances registered under EU REACH	**KPI** Total number of hours compliance training completed by employees
2018 5	**2018** 115	**2018** 1,800
2017 6	**2017** 29	**2017** 2,000

AGAINST A MIXED ECONOMIC ENVIRONMENT IN 2018 OUR BUSINESS SEGMENTS DELIVERED A SOLID SET OF RESULTS.

Adjusted operating profit increased by 6% on an organic basis to $132.6m, driven by growth in Personal Care, Coatings and Chromium.

Related material

Elementis today – pages 2 to 6
Finance report – pages 36 to 41

Δ After adjusting items – see Note 5
* On a 12 month pro forma basis – see pro forma calculations on page 164
** Adjusted for FX (where constant currency reflects prior year results translated at current year exchange rates) and the impact of M&A
‡ M&A impact includes the impact of business acquisitions (SummitReheis in Personal Care and Talc) and business disposals (US Colourants business and Surfactants, Coatings and Personal Care portfolio elimination following the Delden asset sale)

PERSONAL CARE

Headlines

- Revenue increased 17% to $210.3m, primarily as a result of an extra quarter of contribution from SummitReheis and improved H2 performance in cosmetics and antiperspirant (AP) actives
- Adjusted operating profit up 17% to $52.2m with robust margins of 25%

Financial Performance

In Personal Care, revenue was $210.3m compared with $179.3m last year, a 17% increase on a reported basis. Excluding the impact of FX and M&A (i.e. on an organic basis), revenue rose by 1% following a weak first half performance due to distributor de-stocking in cosmetics and volume declines in antiperspirant (AP) actives in response to raw material related pricing actions. In the second half of the year, cosmetics and AP actives returned to growth, achieving 6% and 5% organic** growth respectively versus the prior year period. Cosmetics and AP actives represent approximately 90% of Personal Care profitability.

Adjusted operating profit rose 17% to $52.2m, with adjusted operating margins solid at 25% despite significant price inflation for two key raw materials, aluminium and zirconium. On an organic** basis adjusted operating profit rose by 8% driven by the delivery of SummitReheis related cost synergies and underlying price increases.

Group performance – Revenue

	Revenue 2017 $m	Effect of exchange rates $m	Impact of M&A‡ $m	Increase/ (decrease) 2018 $m	**Revenue 2018 $m**
Personal Care	179.3	5.4	24.4	1.2	**210.3**
Coatings	372.9	7.5	(19.3)	1.1	**362.2**
Talc	–	–	21.5	–	**21.5**
Chromium	186.7	–	–	(2.4)	**184.3**
Energy	58.8	0.4	(0.1)	(4.2)	**54.9**
Inter-segment	(15.0)	–	–	4.0	**(11.0)**
Revenue from continuing operations	782.7	13.3	26.5	(0.3)	**822.2**
Discontinued operations – Surfactants	47.8	–	(43.0)	–	**4.8**
Inter-segment from discontinued operations	(0.2)	–	–	0.2	**–**
Total revenue from continuing and discontinued operations	830.3	13.3	(16.5)	(0.1)	**827.0**

Group performance – Adjusted operating profit

	Operating profit 2017Δ $m	Effect of exchange rates $m	Impact of M&A‡ $m	Increase/ (decrease) 2018 $m	**Operating profit 2018Δ $m**
Personal Care	44.6	1.3	2.6	3.7	**52.2**
Coatings	54.7	1.8	(7.6)	3.6	**52.5**
Talc	–	–	3.9	–	**3.9**
Chromium	30.1	–	–	2.9	**33.0**
Energy	9.7	0.1	(0.2)	(2.5)	**7.1**
Central costs	(16.4)	–	–	0.3	**(16.1)**
Adjusted operating profit from continuing operations	122.7	3.2	(1.3)	8.0	**132.6**
Discontinued operations – Surfactants	5.4	–	(6.0)	–	**(0.6)**
Total adjusted operating profit from continuing and discontinued operations	128.1	3.2	(7.3)	8.0	**132.0**

COATINGS

Headlines
- Revenue** flat at $362.2m due to weaker second half growth in Europe and Asia
- Adjusted operating profit of $52.5m, representing 7% organic growth

Financial performance
In Coatings, revenue declined 3% to $362.2m primarily driven by portfolio elimination following the Surfactants business sale and the continued upgrading of the product portfolio, in line with the value over volume strategy of our global Coatings transformation programme. Excluding the impact of FX and business disposals, Coatings revenue was flat on 2017 at $362.2m. Whilst Coatings America performed well with organic revenue** growth of 3% due to customer wins and positive momentum with direct customers, the rest of the world experienced tougher trading conditions. Revenue in Coatings Asia finished the year flat**, with a managed decline in low value resins and lower overall activity levels, primarily in China, offset by improved pricing and mix. Coatings EMEA finished down 2%** as a result of a deterioration in demand, particularly in the fourth quarter.

On an organic** basis, adjusted operating profit rose by 7% to $52.5m, reflective of initial efficiency gains as part of the global Coatings transformation programme. Initiatives launched in 2018 include the streamlining of the product portfolio and cost base, implementation of more efficient routes to market and creation of a global Coatings organisation.

TALC

Headlines
- Revenue contribution of $21.5m in the two months of ownership
- Adjusted operating profit contribution of $3.9m at a margin of 18%

Financial performance
Following the acquisition of Mondo on 23 October 2018, the Talc division contributed $21.5m of revenue in approximately 2 months of ownership. On a 12 month pro forma and constant currency basis, the Talc business grew by 10% to reach $158.4m of revenue, driven by continued momentum in the industrial talc business, serving high value applications, and the monetisation of other minerals, namely nickel and cobalt.

In the two months of ownership, Talc contributed $3.9m of adjusted operating profit, at a margin of 18%. As expected at the time of the acquisition, on a 12 month, constancy currency basis, adjusted operating profit rose 26% to $24.6m as a result of top line growth, better utilisation levels and improved mix, representing a margin of 16%.

CHROMIUM

Headlines
- Revenue down 1% to $184.3m with production outages largely offset by improved pricing
- Adjusted operating profit up 10% on 2017 to $33.0m with outages offset by insurance recovery and pricing benefits

Financial performance
In Chromium, revenue was $184.3m compared to $186.7m in the previous year, a decrease of 1%. As a result of production outages at our Castle Hayne plant in February (extreme cold weather) and September (Hurricane Florence) totalling five weeks, volumes fell by 6%. Outages aside, demand levels in North America and the rest of the world were strong and drove global industry utilisation levels to above 90%. As a result, average selling prices increased by 5% on 2017.

Adjusted operating profit rose 10% to $33.0m, with the impact of production outages largely offset by insurance recovery and upside provided by improved pricing.

ENERGY

Headlines
- Revenue down 7% to $54.9m as a result of lower drilling activity in North America
- Adjusted operating profit down 27% to $7.1m due to lower volumes and weaker mix

Financial performance
In Energy, revenue declined by 7% on a constant currency basis to $54.9m. Whilst oil prices were on average 28% above the levels of 2017, drilling activity levels were negatively impacted by infrastructure constraints in North America and a one time inventory reduction as two of our key customers merged. In the second half of 2018 activity levels modestly improved with 3% reported revenue growth on the first half of the year.

Adjusted operating profit declined by 27% to $7.1m, and margins fell from 17% to 13% due to lower volumes and weaker product mix.

THE SUCCESSFUL COMPLETION OF THE MONDO ACQUISITION AND SALE OF OUR SURFACTANTS BUSINESS REPRESENT SIGNIFICANT MILESTONES IN OUR STRATEGY TO REIGNITE GROWTH.

RALPH HEWINS
CHIEF FINANCIAL OFFICER

GROUP RESULTS

In 2018 revenue from continuing operations rose 5% to $822.2m due to an extra quarter's contribution from SummitReheis and two months contribution from the recently acquired Talc business. Revenue in the Personal Care segment rose 1% on an organic basis, with growth in cosmetics and antiperspirant actives impacted by customer destocking and raw material price inflation respectively. Coatings revenue remained flat on an organic basis with strong performance in the Americas offset by weaker demand in the rest of the world. Energy faced headwinds in 2018 from infrastructure constraints in North America with sales decreasing by 7% on a constant currency basis to $54.9m in 2018. Sales in Chromium decreased by 1% to $184.3m in 2018 due to weather related production outages at our Castle Hayne plant in North Carolina. The new Talc segment formed following the acquisition of Mondo performed in line with expectations in the first two months of ownership with revenue of $21.5m.

Reported Group operating profit for 2018 was $84.9m compared to $91.4m in the previous year, a decrease of 7.0%, due to an increase in non-recurring items. Adjusted operating profit from continuing operations rose to $132.6m compared with $122.7m in 2017, an increase of 8%. This was driven by growth in Personal Care and Chromium, and a first contribution from Talc, partially offset by declines in Coatings and Energy. Profit after tax decreased from $117.6m in 2017 to $41.4m in 2018 mainly due to the impact in 2017 of the one off tax credit of $51.0m in relation to US tax reforms, and increased interest expense as a result of higher borrowings in relation to the Mondo acquisition alongside the decrease in Group operating profit.

REVENUE

	2018 $m	2017 $m	Change
Personal Care	**210.3**	179.3	17%
Coatings	**362.2**	372.9	-3%
Talc	**21.5**	–	n/a
Chromium	**184.3**	186.7	-1%
Energy	**54.9**	58.8	-7%
Inter-segment	**(11.0)**	(15.0)	-27%
Revenue from continuing operations	**822.2**	782.7	5%
Discontinued operations – Surfactants	**4.8**	47.8	-90%
Inter-segment from discontinued operations	**–**	(0.2)	n/a
Total revenue from continuing and discontinued operations◊	**827.0**	830.3	0%

OPERATING PROFIT

	2018			2017		
	Operating profit $m	**Adjusting items $m**	**Adjusted operating profit $mΔ**	Operating profit $m	Adjusting items $m	Adjusted operating profit $mΔ
Personal Care	**40.4**	**11.8**	**52.2**	29.2	15.4	44.6
Coatings	**57.6**	**(5.1)**	**52.5**	54.6	0.1	54.7
Talc	**(0.2)**	**4.1**	**3.9**	–	–	–
Chromium	**15.8**	**17.2**	**33.0**	28.8	1.3	30.1
Energy	**7.1**	**–**	**7.1**	9.7	–	9.7
Central costs	**(35.8)**	**19.7**	**(16.1)**	(30.9)	14.5	(16.4)
Operating profit from continuing operations	**84.9**	**47.7**	**132.6**	91.4	31.3	122.7
Discontinued operations – Surfactants	**(10.4)**	**9.8**	**(0.6)**	5.8	(0.4)	5.4
Operating profit from continuing and discontinued operations◊	**74.5**	**57.5**	**132.0**	97.2	30.9	128.1

ADJUSTING ITEMS

In addition to the statutory results the Group uses alternative performance measures such as adjusted operating profit and adjusted diluted earnings per share to provide additional useful analysis of the performance of the business. The Board considers these non-GAAP measures as an alternative way to measure the Group's performance so it is comparable to the prior year. Adjusting items in 2018 resulted in a charge of $57.5m before tax, an increase of $26.6m 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	Continuing operations $m	Discontinued operations $m	**Total $m**
Restructuring	–	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Business transformation	–	(5.6)	–	–	–	–	(5.6)	–	(5.6)
Environmental provisions	–	–	–	(17.0)	–	0.5	(16.5)	–	(16.5)
Costs related to acquisition activities	(0.2)	–	–	–	–	(16.3)	(16.5)	–	(16.5)
Uplift due to fair value of Mondo inventory	–	–	(2.9)	–	–	–	(2.9)	–	(2.9)
Sale of Colourants business and closure of Jersey City site	–	12.7	–	–	–	–	12.7	–	12.7
Sale of Surfactants business	–	–	–	–	–	(0.5)	(0.5)	–	(0.5)
Amortisation of intangibles arising on acquisition	(11.6)	(2.0)	(1.2)	(0.2)	–	–	(15.0)	–	(15.0)
GMP Pension	–	–	–	–	–	(3.2)	(3.2)	–	(3.2)
Surfactants commercial settlement	–	–	–	–	–	–	–	(9.8)	(9.8)
Total	**(11.8)**	**5.1**	**(4.1)**	**(17.2)**	–	**(19.7)**	**(47.7)**	**(9.8)**	**(57.5)**

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

Restructuring
In 2018, restructuring costs relate to the tail end of the IFRS 2 cost of buyouts associated with the CEO's and CFO's appointments in 2016.

Business transformation
In 2018 a programme to transform the Coatings segment has been implemented focusing on re-engineering our approach to markets (direct vs distributor), our underlying asset base and our product offerings in order to leverage our international networks and key account management. It is anticipated this will continue through 2019 driving a step change in Coatings segment performance.

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. Assessments with our external advisers at the end of 2018 have resulted in a $16.5m provision increase. As these costs relate to non-operational facilities the costs associated are classed as adjusting items.

Costs related to acquisition activities
These are one-off costs predominantly associated with the acquisition of Mondo in October 2018 including financing costs, legal fees and retention incentives for key Mondo employees.

Uplift due to fair value of Mondo inventory
In accordance with IFRS 3, inventory held within Mondo was revalued to fair value on acquisition, representing an uplift of $2.9m over the book value. As all stock acquired with Mondo was sold by the year end, the additional expense recognised in cost of sales due to this fair value uplift has been classed as an adjusting item.

Sale of Surfactants business
The loss on sale of the Surfactants business has been treated as an adjusting item in 2018 and the one-off associated costs incurred in 2017 were also classed as adjusting items.

Sale of Jersey City site
The Group completed the sale of the site of the US Colourants business in August 2018 for consideration of $17.0m. After disposal costs of $4.3m the profit recognised on disposal was $12.7m. The US Colourants business was disposed of in March 2017 to Chromaflo Technologies.

Amortisation of intangibles arising on acquisition
Amortisation of $15.0m (2017: $11.8m) 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.

GMP Pension
On 26 October 2018, the High Court ruled on the Lloyds Bank Guaranteed Minimum Pension inequalities case. In response to this our actuaries have included in their calculations a past service cost of $3.2m for the estimated costs arising from the judgement.

Surfactants Commercial Settlement
These are costs incurred in settlement of a commercial dispute relating to the Surfactants business disposed of in 2018.

CURRENCY HEDGING
The Group transacts in multiple currencies including US dollars, euros, pounds sterling and Chinese renminbi. Cash flow hedges are used as part of a programme to manage our exposure to foreign exchange risk particularly associated with EUR denominated sales. In 2018, overall currency movements were such that the net impact of these hedge transactions was a credit to operating profit of $0.1m (2017: charge of $0.3m).

CENTRAL COSTS
Central costs are those costs that are not identifiable as expenses of a particular business and comprise expenditures of the Board of Directors and corporate head office. In 2018, central costs were $16.1m broadly similar to the $16.4m of central costs for the previous year.

OTHER EXPENSES
Other expenses are administration costs incurred and paid by the Group's pension schemes, which relate primarily to former employees of legacy businesses, and were $1.6m in 2018 compared to $1.2m in the previous year.

NET FINANCE COSTS

	2018 $m	2017 $m
Finance income	**0.3**	0.2
Finance cost of borrowings	**(16.8)**	(9.7)
	(16.5)	(9.5)
Net pension finance costs	**(0.4)**	(1.1)
Discount unwind on provisions	**(1.0)**	(1.1)
	(17.9)	(11.7)

Net finance costs for 2018 were $17.9m, an increase of $6.2m on last year. The increase was primarily due to the acquisition of Mondo completed in October 2018 which was part funded by an increase in borrowings. Finance costs comprise interest payable on borrowings calculated using the effective interest rate method, facility arrangement fees and the unwinding of discounts on the Group's environmental provisions. Pension finance costs which are a function of discount rates under IAS 19 and the value of schemes' deficit or surplus positions were $0.7m lower in 2018 at $0.4m as a result of changes in the discount rate. The discount unwind on provisions relates to the annual time value of the Group's environmental provisions which are calculated on a discounted basis and at $1.0m for 2018 is broadly similar to the previous year.

TAXATION

Tax charge

	2018 $	2018 Effective rate %	2017 $m	2017 Effective rate %
Reported tax charge	**15.6**	**23.9**	(34.2)	(43.6)
Adjusting items	**8.8**	**–**	56.7	–
After adjusting items	**24.4**	**21.6**	22.5	20.5

The Group incurred a tax charge of $24.4m (2017 $22.5m) on adjusted profit before tax excluding discontinued operations resulting in an effective tax rate of 21.6% (2017: 20.5%). The group operates across several jurisdictions internationally and is therefore subject to a variety of overseas tax rates and laws, changes to which will affect the future tax charges of the Group. The Group's tax rate in 2018 was impacted by the updated US s163(j) TCJA regulations in respect of the treatment of depreciation capitalised within inventory; resulting in a less favourable financing position compared to prior periods. Tax on adjusting items primarily related to the acquisition of Mondo and the disposal of the Group's Delden operations.

EARNINGS PER SHARE

Note 9 to the 'Consolidated financial statements' sets out a number of calculations of earnings per share. To better understand the underlying performance of the Group, earnings per share reported under IFRS is adjusted for items classified as adjusting and includes profits from both continuing and discontinued operations.

During the year the Group undertook a rights issue as part of the funding strategy for the Mondo acquisition. In accordance with IAS 33 the earnings per share figures for all comparative periods shown have been rebased to reflect the effects of the rights issue.

Adjusted diluted earnings per share was 16.9 cents◊ for 2018 compared to 17.9 cents◊† in the previous year, a decrease of 6% due to higher tax and net finance costs as well as the increased weighted average number of shares following the rights issue in October 2018. Basic earnings per share before adjusting items was 7.9 cents◊ compared to 23.3 cents◊† in 2017. Adjusting items◊ increased basic earnings per share by 9.1 cents in 2018 (reduced by 5.2 cents† in 2017).

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

DISTRIBUTIONS TO SHAREHOLDERS

During 2018, the Group paid a final dividend in respect of the year ended 31 December 2017 of 6.10 cents per share (2017: 5.75 cents). An interim dividend of 2.95 cents per share (2017: 2.70 cents) was paid on 28 September 2018 and the Board is recommending a final dividend of 5.70 cents per share which will be paid on 31 May 2019.

ADJUSTED CASH FLOW

The adjusted cash flow which excludes the cash effect of adjusting items from cash generated from operations is summarised below. A reconciliation of statutory operating profit to EBITDA is shown in Note 5.

	2018 $m	2017 $m
EBITDA[1]	**162.9**	156.0
Change in working capital	**(29.9)**	0.4
Capital expenditure	**(50.8)**	(41.6)
Other	**(4.5)**	(7.7)
Adjusted operating cash flow	**77.7**	107.1
Pension payments	**(1.2)**	(6.3)
Interest and tax	**(21.2)**	(17.0)
Adjusting items	**(21.8)**	(10.5)
Other	**(0.3)**	(1.4)
Free cash flow	**33.2**	71.9
Issue of shares	**223.3**	–
Dividends paid	**(41.9)**	(77.8)
Acquisitions and disposals	**(426.7)**	(361.8)
Currency fluctuations	**5.1**	(0.9)
Movement in net debt	**(207.0)**	(368.6)
Net debt/cash at start of year	**(291.1)**	77.5
Net debt at end of year	**(498.1)**	(291.1)

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

Adjusted operating cash flow has decreased by $29.4m to $77.7m for 2018 as a result of changes in working capital, predominantly a result of inventory planning decisions in our Chromium segment and anti-perspirant actives business. Capital expenditure increased to $50.8m compared to $41.6m in 2017. This is primarily due to the inclusion of our new Talc segment for two months and spend on our new production site in India which is anticipated to commence production in 2019.

Free cash flow decreased from $71.9m to $33.2m as a result of working capital increases, predominantly in relation to raw material planning decisions, increased interest on borrowings used to part fund the Mondo acquisition and the increased cash flow impact of adjusting items. Pension payments decreased from $6.3m in 2017 to $1.2m in 2018 as a result of the cessation of pension top up payments into the UK pension scheme. The September 2017 triennial review of the UK pension scheme concluded that no cash top up payments will be required from Elementis until at least 2021.

Net debt to pro forma adjusted EBITDA* was 2.5x compared to 1.9x in 2017, the increase is due to the acquisition of Mondo which was part funded by increased borrowings.

◊ Total operations (both continuing and discontinued)
Δ After adjusting items – see Note 5
† Rebased for the effects of the Rights Issue – see Note 9
* On a 12 month pro forma basis – see pro forma calculations on page 164

BALANCE SHEET

	2018 $m	2017 $m
Intangible fixed assets	**976.6**	717.2
Tangible fixed assets	**478.2**	219.5
Working capital	**189.5**	151.4
Net tax liabilities	**(131.6)**	(86.8)
Provisions and retirement benefit obligations	**(58.7)**	(43.2)
Financial liabilities	**(40.3)**	–
Net cash	**(498.1)**	(291.1)
Asset held for sale	**–**	35.3
Total equity	**915.6**	702.3

Group equity increased by $213.3m in 2018 (2017: increase of $75.2m). Intangible fixed assets increased by $259.4m with intangibles and goodwill associated with Mondo contributing $88.3m and $200.5m respectively on acquisition. As part of the Reignite Growth strategy a production site has been acquired in Mumbai at a cost of $4.0m. Tangible fixed asset additions resulting from the Mondo acquisition include mineral rights and production and warehouse facilities in Finland and Amsterdam.

The funding put in place to complete the acquisition of Mondo has increased net debt from $291.1m in 2017 to $498.1m in 2018. As referenced in the Chairman's statement on pages 8 and 9 we see a material deleveraging profile for the Group going forward further aided by self help business improvement initiatives, capital expenditure discipline and working capital improvements.

Working capital comprises inventories, trade and other receivables, trade and other payables and derivatives. Working capital increased by $38.1m driven primarily by underlying growth of the business, the acquisition of Mondo and raw material planning decisions. Inventories rose from $143.6m in 2017 to $188.7m in 2018 as a result of procurement decisions to purchase raw material inputs for Chromium and anti-perspirant actives businesses in advance. Trade and other receivables and trade and other payables have increased by $14.8m and $22.9m respectively primarily due to inclusion of Mondo.

Net tax liabilities increased by $44.8m, as the tax charge on profits for the year after adjusting items and including discontinued operations of $24.1m and currency translation adjustments exceeded actual cash tax paid. Movements in provisions and retirement benefit obligations are discussed elsewhere in this report.

ROCE has fallen from 22% in 2017 to 15% due to the increase in capital employed (excluding goodwill) arising on the acquisition of Mondo.

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

	2018 Year end	2018 Average	2017 Year end	2017 Average
Pounds sterling	**0.79**	**0.75**	0.74	0.78
Euro	**0.87**	**0.84**	0.83	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 2018, the Group held provisions of $48.8m (2017, excluding provisions within liabilities classified as held for sale: $32.7m), consisting of environmental provisions of $43.3m (2017: $27.8m), self insurance provisions of $1.5m (2017: $2.2m) and restructuring and other provisions of $4.0m (2017: $2.7m).

Environmental provisions have increased by $18.8m in 2018, with $16.5m taken through adjusting items and $2.3m capitalised within fixed assets. The increase of $16.5m is due to the results of assessments carried out during the year at our legacy sites which indicated that remedial activities would be required over a longer time horizon than previously forecast. 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 $4.0m balance includes the remaining liability under a right of first refusal agreement and costs of adjusting head count, training, relocation and other costs of restructuring where a need to do so has been identified by Management.

PENSIONS AND OTHER POST RETIREMENT BENEFITS

	2018 $m	2017 $m
Net (surplus)/liability:		
UK	**(22.1)**	(21.9)
US	**21.3**	21.1
Other	**10.7**	11.3
	9.9	10.5

UK PLAN

The largest of the Group's retirement plans is the UK defined benefit pension scheme ('UK Scheme') which at the end of 2018 had a surplus, under IAS 19, of $22.1m (2017: $21.9m). The UK Scheme is relatively mature, with approximately two thirds of its gross liabilities represented by pensions in payment, and is closed to new members. Liability adjustments of $45.7m (2017: $(12.9)m) which arose due to higher discount rates based on real corporate bond yields outweighed a lower return on plan assets of $(21.8)m (2017: $42.1m). Company contributions of $0.5m reflect the funding agreement reached with the UK Trustees following the September 2017 triennial valuation. Under this agreement top up contributions are no longer required for a period of at least 3 years.

US PLANS

In the US, the Group reports two post retirement plans under IAS 19: a defined benefit pension plan with a deficit value at the end of 2018 of $15.7m (2017: $14.9m), and a post retirement medical plan with a liability of $5.6m (2017: $6.2m). The US pension plan is smaller than the UK plan, in 2018 the overall deficit value of this plan increased by $0.2m as the financial cost of the liability of $4.6m (2017: $5.2m) and a negative return on plan assets of 4% (2017: improvement of 16%) exceeded the actuarial decreases on the liability of $8.2m (2017: increases of $5.5m) and employer contributions of $1.2m (2017: $2.6m).

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

OTHER PLANS

Other liabilities at 31 December 2018 amounted to $10.7m (2017: $11.3m) and relate to pension arrangements for a relatively small number of employees in Germany, certain UK legacy benefits and two pension schemes acquired as part of the SummitReheis transaction in 2017.

FINANCIAL LIABILITIES

Financial liabilities at 31 December 2018 include $21.4m of contingent consideration in respect of Mondo ($22.3m per Note 31 revalued at year end rates) and $18.9m due to the previous owner of Mondo on resolution of an outstanding tax case in Finland.

BREXIT

Our assessment of the impact of Brexit on our business and customers has been monitored throughout the year and whilst the specific details and timing of Brexit remain unclear, we have proactively managed our supply chain in order to minimise the impact on our customers. In addition, we continue to monitor the impact of sterling in respect of interest rate and cost of capital and are taking steps to ensure there is continuity in the REACH registrations which apply to our manufactured and imported products. The Board's assessment remains that the impact of Brexit on the Group is expected to be of low materiality, however, we will continue to monitor political developments and modify plans accordingly. Further information on how we have assessed and are mitigating the risks associated with Brexit can be found in the principal risks section on page 43.

EVENTS AFTER THE BALANCE SHEET DATE

On 26th February 2019 the Group received notice of a payment due in settlement of a commercial dispute with a customer of the Surfactants business disposed of in 2018. The total amount payable of $9.8m has been recognised as a liability at 31 December 2018. This amount was not recognised in previous accounts.

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

RALPH HEWINS
CFO
5 March 2019

PRINCIPAL RISKS AND UNCERTAINTIES

RISK MANAGEMENT

Elementis faces a number of risks and uncertainties in the course of its operations and the effective management of those risks supports the successful delivery of our strategic objectives. A risk management framework is in place to identify, assess, mitigate and monitor the risks we face as a business.

Risk management framework

Monitoring and reporting

Response

Identify

Evaluate

OUR APPROACH TO RISK MANAGEMENT

The Board has overall responsibility for risk management and sets the Group's policies, culture and tone on risk, as well as providing support and oversight to management. The Audit Committee plays an important role in supporting the work of the Board and has specific responsibility for monitoring financial reporting, as well as the internal and external audit programmes, one of the primary purposes of which is to provide assurance on financial, operational and compliance controls. The CEO, supported by the ELT, is responsible for implementing Group policies, risk management performance, identifying principal risks and ensuring resources are allocated for effective risk management and mitigation. 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. On an annual basis, the ELT reviews operational risks and the Board carries out a review of the principal risks and uncertainties.

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 the systems and processes, leadership and behaviours and specific standards such as the Code of Conduct and other Group policies. Engagement in risk management is carried out by various teams who undertake risk management responsibilities: the Global Product Stewardship and Regulatory Affairs team, the Manufacturing Council and HSE leadership team, HSE corporate audit programme, Elementis Compliance Team, Insurance Property Survey programme and Internal Audit programme.

Types of risk that the Board keeps under regular review include the following:

Commercial and supply chain risks

Financial risks

Strategic risks

Operational and HSE risks

Litigation and compliance risks

The Board maintains a 12 months forward planner to ensure that appropriate focus is given at its formal scheduled meetings to discuss, review and monitor business performance, strategic priorities, governance, compliance and risk matters. This approach allows the Board to engage directly with each of the business units and functional department leaders. In addition, specific agenda items on risk are scheduled throughout the year, for example, legal and compliance risk, operations and HSE, insurance as well as the Board's formal risk review.

RISK APPETITE

In terms of risk appetite, the amount of risk that the Board is prepared to accept in return for reward or investment return can vary depending on strategy as well as guidance from management and advisers based on appropriate risk analysis. For example, strategic risk appetite may be decided on a case by case basis at Board level and delegated to the ELT to implement as appropriate.

KEY AREAS OF FOCUS DURING THE YEAR

During 2018, the Board carried out a robust assessment of the key risks and has taken them into consideration when assessing the long term viability of the Company on page 59. As a result of the review, three risks were re-designated to better reflect the nature of the risk, as reflected on pages 47 and 48. In addition, several development areas were identified which include: improvement of the quality of risk reporting, multi-category risk scenario planning, climate change risk assessment and review of risk management policies and procedures.

The Board considered the risk profile of the Mondo business prior to and during the acquisition in terms of strategic, operational, litigation and compliance, reputational, HSE and financial risk. During 2019, Mondo will be integrated into the Group's risk management programme in line with integration plans.

EMERGING RISKS

Brexit

The impact of Brexit has been kept under review by the Board since 2016. In 2018, in response to the growing political uncertainty, a cross-functional working group was established to focus on a 'no deal' outcome. Analysis included supply chain footprint, regulatory and export controls, VAT, international trade compliance and customs, financial and people/communications. Our UK manufacturing site, Livingston, receives raw materials and manufactures goods for onward transport to EU customers. In the short to medium term and in the event of a 'no deal' Brexit, our supply chain is well positioned to mitigate the potential impact to customers. This includes holding sufficient raw materials at Livingston as well as having adequate finished goods throughout our global distribution network.

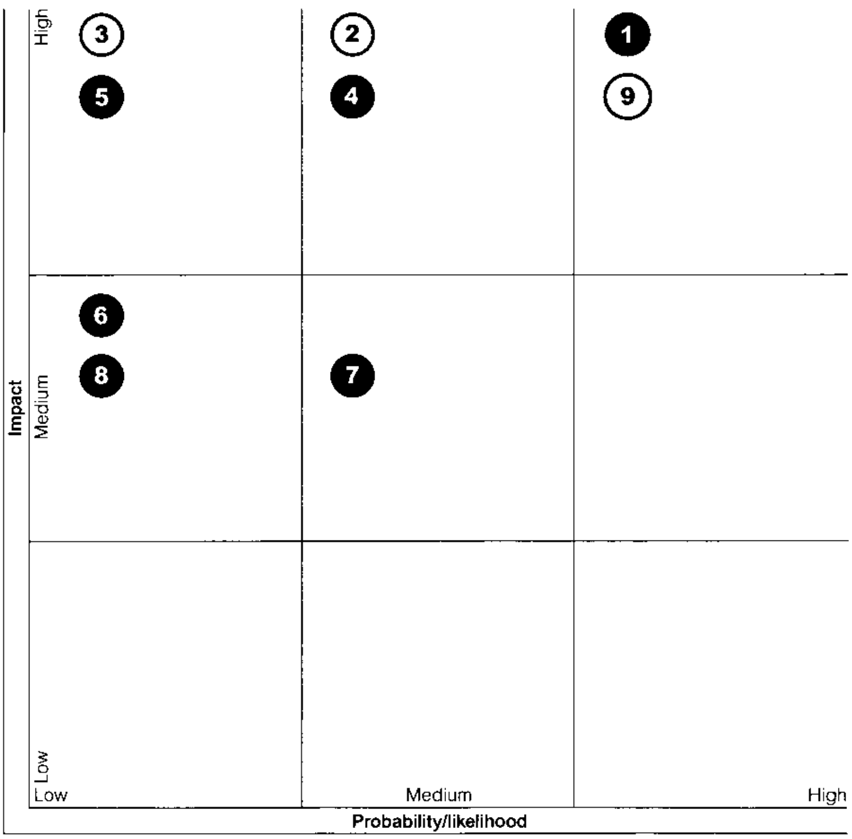
Steps are being taken to ensure continuity in the REACH registrations which apply to our manufactured and imported products. Management remain of the view that the impact of Brexit on the Group is expected to be of low materiality, however, we will continue to monitor political developments and modify plans accordingly.

Climate change

During 2018, climate related risk impacted our Chromium operations in North Carolina as a result of two distinct climate related weather events: sustained freezing and winter conditions and Hurricane Florence which resulted in property damage and business interruption. We continue to ensure our operations are protected and have sufficient business interruption plans in place to deal with these types of events as and when they occur. Awareness and monitoring of developing global climate related policy and regulatory developments inform strategic decision making. In addition, we recognise that our customers continue to look for sustainable product solutions which reduce their carbon footprint and our R&D and Product Stewardship teams work closely with customers to achieve this. In 2019, we will conduct a specific climate change risk assessment and develop mitigation plans and internal controls.

RISK HEAT MAP (BEFORE MITIGATION)

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



Increase in risk

No movement in risk

Decrease in risk

OUR PRINCIPAL RISKS AND UNCERTAINTIES

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

Description of risk

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

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

Controls and mitigating activities

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

2018 developments

- Strategic purchases of raw materials helped to mitigate variability of higher raw material costs
- Cross-functional workstreams analysed risks associated with Brexit
- Supply Chain continue to monitor the retaliatory political situation between the US and China
- Acquisition of manufacturing site in India is expected to provide a strong platform for optimisation of supply chain and growth

Link to strategy

- Pursue best growth opportunities ✔
- Pursue supply chain transformation ✔
- Innovate for high margins and distinctiveness ✔
- Create a culture of high performance ✔

Link to business model

SEE PAGES 18 TO 19

Link to KPIs

SEE PAGES 30 TO 31

Increasing risk profile

Decreasing risk profile

No change in risk profile

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

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

Controls and mitigating activities
- Preventative maintenance, critical spares, process and other safety procedures to mitigate the effects of a major incident
- Property damage and business interruption insurance coverage
- 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

2018 developments
- During 2018, our Castle Hayne site was impacted by two key weather events, sustained freezing weather conditions and Hurricane Florence. In response to the freezing weather conditions, and to protect assets from unusually low temperatures, a winter hazard plan has been established. Business continuity plans were enacted on both occasions.
- Insurance in place to mitigate the business interruption impact caused by the hurricane.
- Safety leadership training carried out at sites
- Review of distributor channels and routes to market
- Implementation of Enablon (HSE management software)

Link to strategy
- Pursue best growth opportunities
- Create a culture of high performance

Link to business model
SEE PAGES 18 TO 19

Link to KPIs
SEE PAGES 30 TO 33

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

Description of risk
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
- Majority of raw materials are procured on long term supply agreements or sourced from mines owned by the Group
- 75% of raw materials can be readily sourced from more than one supplier
- Procurement strategies in place to manage the cost of certain materials including contracts, hedging and spot buying
- Strategic stocking of high risk materials
- Transport and carrier plans and business interruption insurance in place
- Due diligence, selection and audits/reviews of major suppliers
- Quality assurance standards and controls

2018 developments
- Supply chain footprint workstream established to assess the impact of Brexit on raw materials, finished goods, logistics and customs tariffs
- Strategic purchases of raw materials helped to mitigate variability of higher raw material costs
- Improved demand planning, and performance management tracking
- Qualification of new raw material sources

Link to strategy
- Pursue best growth opportunities
- Pursue supply chain transformation

Link to business model
SEE PAGES 18 TO 19

Link to KPIs
SEE PAGES 30 TO 33

Increasing regulatory and product stewardship challenges

Description of risk

New regulations restricting the use or carriage of chemicals can lead to loss of applications and sales and/or add to operating costs and slower delivery of reported strategic priorities. The Group is subject to extensive and evolving environmental, occupational safety and product safety regulation at international, national and local levels in multiple jurisdictions. The costs of compliance with these requirements and operating costs may continue to increase and any non-compliance or suspected non-compliance could lead to regulatory investigations or enforcement actions.

Controls and mitigating activities

- Product Stewardship team oversees, manages and monitors regulatory developments, compliance and sustainability
- R&D team develops new products and technologies for use in evolving market to meet the changing needs of customers in response to regulatory changes
- Under the Global Harmonized System for safety classification of products and substances, we provide Safety Data Sheets and labels in over 23 languages

2018 developments

- Regulatory and export control workstream established to assess the potential impact of Brexit associated with product stewardship.
- EU REACH registration programme concluded in May 2018 having registered 115 chemical substances found in our products sold in the EU.
- The Frank R. Lautenberg Chemical Safety for the 21st Century Act (USA) list was reset in 2018, over 300 products containing 400 chemical substances were reviewed in order to maintain active listing and compliance
- 30 products qualified under ISO 16128 (naturalness of products)
- Nine products certified as natural under the Cosmos standard

Link to strategy

- Pursue best growth opportunities ✔
- Innovate for high margins and distinctiveness ✔

Link to business model

SEE PAGES 18 TO 19

Link to KPIs

SEE PAGES 30 TO 33

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

Description of risk

The global nature of the Group's operations means that the Group is subject to a wide range of legislation and regulation, including for example, anti-bribery and anti-competition legislation, taxation, data privacy, employment and import/export controls.
Failure to comply can lead to litigation, claims, damages, fines and penalties. The Group may be involved in legal proceedings and claims within the ordinary course of business including legacy claims from businesses that have since been acquired 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

2018 developments

- Online training modules rolled out relating to: General Data Protection Regulation, anti money laundering, preventing workplace violence, sexual harassment, protecting intellectual property, sustainable supply chain management and global corruption, gifts and entertainment and information security

Link to strategy

- Pursue best growth opportunities ✔
- Pursue supply chain transformation ✔

Link to business model

SEE PAGES 18 TO 19

Link to KPIs

SEE PAGES 30 TO 33

Increasing risk profile

Decreasing risk profile

No change in risk profile

Intellectual property and know-how

Redesignation from 2017 'Industrial espionage, workplace security and loss/theft of intellectual property'

Description of risk

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

Controls and mitigating activities

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

2018 developments

- Online training module rolled out relating to protecting intellectual property
- Integration of talc proprietary flotation technology and other talc related knowhow

Link to strategy

- Pursue best growth opportunities
- Pursue supply chain transformation

Link to business model

SEE PAGES 18 TO 19

Portfolio innovation and technology

Redesignation from 2017 'Disruptive technology advances – failure to identify and mitigate threat posed by new or imitation technology'

Description of risk

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

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

Controls and mitigating activities

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

2018 developments

- In anticipation of a pending ban of Cyclopentasiloxane used in cosmetics in Europe, the Group developed Bentone gel VS 1V for our customers enabling them to respond to this regulatory driven opportunity.
- Increasing portfolio of natural based high value adding products enhances our environmentally responsible global footprint
- New launches of Thixatrol®, Bentone® and Mondana® products

Link to strategy

- Pursue best growth opportunities
- Innovate for high margins and distinctiveness

Link to business model

SEE PAGES 18 TO 19

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

Talent management and succession planning

↓

Description of risk

The Group operates in highly competitive markets and depends on the expertise of services of certain key, highly skilled personnel. Loss of key people without timely replacement could result in disruption of business operations.

Controls and mitigating activities

- Formal talent and succession management programmes are in place both at ELT level and below ELT levels to identify rising talent and formalise development plans
- ELT succession plans are reviewed by Board
- Experienced Chief HR Officer supported by in-house teams
- workday® functionality is being utilised to include job-grading, performance management and compensation planning
- Remuneration packages are reviewed in line with market rates with external consultants who provide guidance on best practice
- Individual development goals are set as part of formal performance management

2018 developments

- Orderly transition and succession plans in place for retiring ELT members, Ken Smith and Rob Mangold
- Formal talent and succession launched within each of the business segments and global functions
- Personal development plans implemented below ELT level
- Development and launch of values enabled a cross-section of employees to contribute to defining our values through interactive workshops
- Extended leadership group conference

Link to strategy

- Pursue best growth opportunities ✔
- Create a culture of high performance ✔

Link to business model

SEE PAGES 18 TO 19

Link to KPIs

SEE PAGES 32 TO 33

IT, Cyber and GDPR

Redesignation from 2017 'Cyber security incident (systems, security breach, loss of network connectivity, loss of business and personal data)

↑

Description of risk

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

Controls and mitigating activities

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

2018 developments

- Data Privacy Steering Committee was established comprising of the General Counsel and Chief Compliance Officer, Chief HR Officer and Chief Information Officer to oversee compliance with applicable data privacy laws
- Data Privacy Network was established, increasing the visibility and reach of data privacy across our functions/locations
- GDPR training has been implemented and policies and procedures have been revised
- Data retention manager and data privacy specialist hires

Link to strategy

- Pursue best growth opportunities ✔
- Create a culture of high performance ✔

Link to business model

SEE PAGES 18 TO 19

AS A GLOBAL SPECIALTY CHEMICALS COMPANY WE RECOGNISE THAT THE PRODUCTS WE PRODUCE AND HOW WE PRODUCE THEM HAS AN IMPACT ON EVERYDAY LIFE.

Our behaviours impact the people who work for us as well as the wider environment.

Effective stakeholder management goes hand in hand with operational performance and we continually strive to improve the ways we work.

RESOURCES AND RELATIONSHIPS
CONTINUED

PEOPLE

We recognise our people are our greatest asset for our success, and deliver value to customers, shareholders and the communities we impact. Our teams are innovative, agile and responsive to the ever changing needs of customers and the world. We believe in a culture driven by strong values and an environment that promotes safety, accountability and high performance.

Highlights for 2018

- Engagement with our employees in launching our renewed values
- Completed GDPR assessment and implemented key actions
- Reinforced performance culture, performance management processes and systems and expanded our implementation of workday®
- Further developed talent and succession processes

Priorities for 2019

- Further embed our culture and values
- Roll-out talent process focused on development and diversity
- Launch employee experience monitor to enhance employee engagement

Culture and values

Safety is at the heart of everything we do and is at the forefront of every decision we make and every action we take.

Our culture is driven by a strong set of values that unify the entire organisation. In 2018, we engaged more than 200 employees from across the organisation to refresh our values. This resulted in a launch of new values this year.

Values

Safety

Solutions

Ambition

Respect

Team

Diversity and inclusion

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

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

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

Gender diversity statistics

	31 December 2018			
	Male		Female	
Board	5	62%	3	38%
Executive leadership team (ELT)[1]	9	82%	2	18%
Senior management[2]	43	81%	10	19%
All employees	1,159	76%	360	24%

1 Excluding the CEO and CFO.
2 Defined as grade 10 and above, excluding CEO, CFO and the ELT.
Employees are defined as those employed by Elementis Group companies.

Employee locations

33% located in Europe

43% located in Americas

24% located in Asia

Employees

c.1,500

2017: c.1,600

Building stronger teams

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

A number of our employees have participated in external development programmes in 2018 and we will continue to expand this in the future.

People drive performance

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

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

HR systems and processes

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

Roadmap for 2019

In 2019 we will continue to create a culture of high performance, with focus being on strengthening our organisation, supporting the effectiveness of our teams and reinforcing our culture that will lead to continued transformation in the way we work and succeed together.

Initiatives will include measuring and enhancing employee engagement, creating additional value from our HR tools and data, simplifying and standardising our policies and processes and further advancing talent development and diversity. Our renewed values will be an intrinsic part of all these initiatives.

BUSINESS CONDUCT AND ETHICS

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

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

The Code is translated from English into seven languages and supported with interactive online training to help employees stay up to date with their responsibilities. All new employees are required to undertake training on the Code and refresher training is given regularly.

Compliance training hours

+1,800

Compliance training programme

Training courses assigned to employees in 2018
- Preventing sexual harassment (California specific)
- Anti money laundering
- Data privacy and protection (GDPR)
- Intellectual property: trade secrets
- Avoiding workplace harassment
- Sustainable supply chain management

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

Bribery and corruption

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

RESOURCES AND RELATIONSHIPS
CONTINUED

INNOVATION

Innovation is at the heart of what we do across the business. We have a dedicated technology organisation structured around combined technical service and research and development functions that is directed at our customers' needs and the trends impacting our business segments. Leveraging our core competencies in natural mineral-based technologies and polymer architecture, we create innovative solutions aimed at transforming the markets which we serve. We apply stage gate processes and pipeline management tools to focus on the most attractive and material innovation opportunities available.

We have 93 scientists at seven locations around the world providing global innovation and technical support to a global customer base. During the year, we spent over $9m on research and development activities and launched several new products. Our product pipeline is healthy with a range of active projects in late stage development, reflecting the variety of global customers' formulations and needs.

In 2018, we were awarded a significant contract to supply our newly developed rheology modifier for a premium interior paint line. This was due in part to our expanded customer relationship through deeper product development partnerships, ongoing technical support and consistent quality of delivery and service.

Joe Furano
Senior Account Manager
California, USA

Elementis has developed a strong portfolio of additives that are extremely effective in waterborne industrial coatings. In 2018, we have seen an increase in interest in the use of waterborne coatings for industrial uses – especially in China where the market has seen a shift to lower environmental impact products.

Xu (Frank) Chunfeng
Coatings Marketing Manager
Songjiang, China

Natural, clean and green are very important trends for colour cosmetics and skin care. Consumers also demand performance and a nice sensory experience as well. Our R&D team has developed unique organo clays and emulsifying gels that allow skin care and colour cosmetic formulators to create new and inspiring textures and product concepts. In fact, we won the Gold Sensory Award from InCosmetics this year.

Kate Watermann
Consumer Applications Manager, EMEA and Asia
Cologne, Germany

Scientists around the world

93

OUR SUPPLY CHAIN

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

Suppliers

500+

Raw materials

700+

Manufacturing locations

20+

Customers and local distributors

1,500+

Our Supply Chain transformation strategic pillar focuses on sustained improvements across every aspect of how we run our business.

Our initiatives

Assets

↓

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

Process optimisation

↓

- Automisation across operations
- Driving utilisation
- Process simplification

Cost

↓

- Higher efficiency equipment
- Materials delivery
- Equipment reliability

Procurement

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

In 2018, we qualified new raw material sources for greater than 10% of our raw material spend and achieved more than $6m of savings. Smarter procurement and the utilisation of hedging and pre-buys enabled the partial mitigation of raw material cost inflation, including the impact of new tariff regulation particularly within the antiperspirant actives business. Improved planning processes and strong supplier relationships enabled timely delivery of raw materials enabling our plants to produce reliably even through several market force majeures and weather related events. We also made improvements in our warehouse networks globally, ensuring that we have the right assets in the right places and that we are prepared for the changing global landscape with regards to new regulations and trade tariffs.

Payment terms

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

RESOURCES AND RELATIONSHIPS
CONTINUED

Mines

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

Hectorite mine

Location: California, US

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

Markets served: personal care, coatings and energy

Resource life: +50 years

Talc mines

Location: two mines in Vuonos, Finland

Location: two mines in Vuonos, Finland

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

Markets served: Long life plastics, coatings, life sciences, personal care and paper

Resource life: +90 years

Trade and tariff impacts

Following US and Chinese trade negotiations alongside the UK's proposed withdrawal from the EU we have taken a proactive and collaborative approach internally and with our customers and suppliers. In some cases, we have built inventories to mitigate supply risks, and where appropriate we have shifted certain production to new locations to minimise the cost of new tariffs. We continue to monitor developments and to date have incurred minimal cost and no supply disruptions.

Supplier community and human rights

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

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

Product stewardship, sustainability and compliance

Product safety, sustainability and compliance are core values at Elementis and how we do business. We intend that our products are safe for people and the environment and contribute to a more sustainable planet. In developing new products we consider hazards and risks at all points in a product life cycle, the utilisation of natural and renewable resources, and compliance with global regulations. To support these ideals we have comprehensive programmes in place that adhere to the principles of the UN Global Compact. We are committed to improving our corporate social responsibilities scoring and proactively registering our products to deliver global growth to both Elementis and our customers.

Reflective of our programmes and progress, in 2018, Elementis received improved and above average ratings in recognised third party evaluations such as CDP and Ecovadis, and attained natural certifications for a significant number of products in our growing natural product portfolio. In addition, we completed all of our EU REACH registrations which brought a close out to a programme began in 2008.

STEWARDSHIP AND SUSTAINABILITY ACHIEVEMENTS

Ecovadis

Ecovadis is a tool to enable customers to evaluate the sustainability of their suppliers.

We were awarded a silver medal by Ecovadis – putting us in the top 7% of Ecovadis reporting companies in our sector.

CDP

The Carbon Disclosure Project is a global disclosure system that enable us to manage our environmental impacts.

In 2018, we received a score of B, higher than the Chemicals industry average of C. Through improvement programmes and unique solutions to everyday obstacles, we have demonstrated a decrease in our manufacturing's environmental footprint and enhanced reporting transparency.

FTSE4Good

The FTSE4Good Index is a leading global responsible investment index.

We are recognised as having met the corporate responsibility criteria for inclusion in the membership of the index.

UN Global Compact

The UN Global Compact is the world's largest corporate sustainability initiative to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals.

In 2018, we signed the commitment letter to the UN Global Compact and agreed to annually report on our sustainability performance and improvements.

ECOCERT

Cosmos Natural is a certification for natural and biological products. The ECOCERT is a certification programme for natural products used in cosmetics.

In 2018, five additional products were certified under Cosmos and Ecocert, bringing the total number of approved Personal Care products to nine.

RSPO

RSPO was started in 2014 in order to contribute to the conservation and protection of the rain forests and its inhabitants.

We continue to remain a member of the Roundtable for Sustainable Palm Oil (RSPO) programme and use sustainable palm oil derived products in our manufacturing.

ISO 16128

Products qualified under this standard **30**

ISO 16128 was launched in 2018 and is a standard for evaluating the naturalness of products. More than 30 of our Personal Care products have qualified under this standard.

REACH

Substances registered in 2018 **86**

REACH is an EU regulation in respect to the production and use of chemical substances, regulating their potential impacts on both human health and the environment.

The EU REACH phase-in period concluded on 31 May 2018.

A total of 86 substances were successfully registered in 2018 concluding this programme, with 115 product substances registered in total since 2008. These registrations support over 360 products.

Global Harmonized System (GHS)

Translated into 23 languages **23**

The GHS is an international programme, under the auspices of the UN, with the goal of harmonising product label warnings across the globe. Over 50 countries have adopted this standard.

We now provide product safety data information and labels in over 23 languages in accordance with this programme.

RESOURCES AND RELATIONSHIPS
CONTINUED

HEALTH, SAFETY AND ENVIRONMENT

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

Global HSE programmes

Internal auditing

Incident investigation

Process safety management

Global HSE framework

External risk assessments

Injury prevention

Environmental sustainability

Continuous improvement cycle

Raise awareness

Recognise performance

Engage people

Measure results

Identify risk

Take action

Our performance

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

Our operations without a recordable injury or illness

Corpus Christi, US

15 **years**

Milwaukee, US

6 **years**

Hsinchu, Taiwan

5 **years**

Anji, China

6 **years**

2018 safety performance

	2018	2017 Elementis excluding SummitReheis	2017 Elementis including SummitReheis
TRIR (incidents per 200,000 hours worked)	0.22	0.88	1.10

Of these incidents 0 resulted in an LTA.

2018 safety initiatives

- We continued our execution and training of our initiatives such as the Life Saving Rules and Stop Work Authority and DuPont's Take Two... for Safety™ programme
- We rolled out a comprehensive HSE information management software solution that allows for better tracking and trending of our HSE data
- We initiated several capital investments at our plants to eliminate risks and improve production safety
- We implemented advanced safety audits and increased management's HSE interactions with our people

Our HSE capital expenditure programmes in 2018

These new machines at Livingston, Scotland, UK improve the ergonomics around the filling areas, reducing manual handling of intermediate bulk containers.

This railcar unloading platform at Amarillo, Texas, US provides safe access and fall protection to our employees.

2018 environmental performance

Greenhouse gas (GHG) emissions

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

For the year ended 31 December 2018, the data has been impacted by the addition of three sites from the Mondo acquired business (pro-rated for our period of ownership) as well as the inclusion of the SummitReheis sites for the first time. Two weather related events (extreme freezing conditions and Hurricane Florence) affected our Castle Hayne site and as we managed through these outages and enacted business interruption plans, the sites continued to contribute to carbon emissions.

We continue to implement initiatives to improve our emissions. For example, our Anji site uses biofuels for production of chemicals which has resulted in reduced emission levels, and our Chromium leather tanning plants have installed air scrubbers operating at > 99.95% resulting in the control of unwanted pollutants to the environment.

Greenhouse gas emissions

GHG emissions are calculated from energy purchased and process calculations. Energy units are converted into CO_2e using the official data provided by the UK Department for Environment, Food and Rural Affairs (Defra). Please note that Scope 1 and 2 emissions, and the intensity ratios, are subject to variations due to changes in the mix of products manufactured, volumes and energy efficiency improvements.

	2018	2017	Base year 2013
Scope 1: Combustion of fuel and operation facilities (tonnes CO_2e)	**242,476**	218,198	221,076
Scope 2: Electricity, heat, steam and cooling purchased for own use (tonnes CO_2e)	**96,059**	92,390	89,500
Total			
Scope 1 and 2 (tonnes CO_2e)	**338,535**	310,588	310,576
Intensity ratio:			
(tonnes CO_2e/tonne production)	**0.89**	0.73	0.77
Supplementary intensity ratio:			
(kg CO_2e/kWh energy consumed)	**0.22**	0.26	0.27
Out of Scope:			
Biofuel (tonnes CO_2e)	**5,753**	7,248	0

CO_2e values were derived using DEFRA published factors (2018) and data from IEA (2017)

Note: Scope 1 and 2 CO_2e emissions are affected by production volume, product mix and weather conditions.

Energy consumption

We consume energy from oil, electricity (both wind and solar), natural gas, coal and biomass.

Our performance is outlined below.

	2018		2017	
	Absolute ('000s)	**Per tonne of production**	Absolute ('000s)	Per tonne of production
Energy consumed (GJ)	**5,753**	**14.7**	5,333	12.6

RESOURCES AND RELATIONSHIPS
CONTINUED

Biodiversity programmes

Milwaukee Harbor District fish hotels
Our Milwaukee plant neighbours Lake Michigan. We currently sponsor three habitat hotels on the lake with ten more planned for 2019.

These habitat hotels are part of an initiative from the National Fish and Wildlife Foundation and provide shelter, in an area devoid of habitat, for fish on their journey between Lake Michigan and Milwaukee rivers.

Desert tortoise preservation
Our hectorite mine is situated in the Mojave Desert in California which is home to desert tortoises, a protected species. We have erected special fences to keep the tortoises away from our operations at the mine. We have a certified biologist on call should a tortoise make its way behind the fencing, to be safely returned to its own habitat.

GOING CONCERN AND VIABILITY STATEMENT

GOING CONCERN

The Directors have assessed the Group as a going concern, having given consideration to factors likely to affect its future performance and development, the Group's financial position and the principal risks and uncertainties facing the Group, including the Group's exposure to credit, liquidity and market risk and the mechanisms for dealing with these risks.

The Group's net debt position at the year end of 2018 was $498.1m. It has access to a syndicated revolving credit facility of $375m and long term loan facilities of $200m and €172m which have an expiry date of September 2023.

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

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

BUSINESS VIABILITY ASSESSMENT

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

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

BUSINESS VIABILITY STATEMENT

In accordance with the UK Corporate Governance Code provision C.2.2, the Directors have reviewed the Group's current position and carried out a robust assessment of the principal risks and uncertainties that might threaten the business model, future performance, solvency and liquidity of the Group, including resilience to such threats, and consider that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a period of at least three years.

A period of three years was chosen as being consistent with the Group's business and financial planning models, R&D plans, a number of key supply contracts and external borrowing facilities. In addition, three years is the period used for mid-term business planning purposes. Whilst the Directors have no reason to believe that the Group will not be viable over a longer period, a three year period allows the Directors to make the viability statement with a reasonable degree of confidence whilst providing shareholders with an appropriate longer term outlook. The Directors' viability assessment of the Group's prospects is based on reviews of annual operating and three year business plans, bank covenant compliance forecasts, including sensitivities, the Group's strategy and strategic priorities, principal risks and how these are managed and mitigated. How these reviews were carried out, the principal risks and how they are being managed are more fully described and explained in the Principal Risks and Uncertainties section on pages 42 to 48, together with relevant assumptions and qualifications.

STRATEGIC REPORT

The Strategic report was approved by the Board of Directors on 5 March 2019 and is signed on its behalf by:

PAUL WATERMAN	**RALPH HEWINS**
CEO	CFO

CORPORATE GOVERNANCE

In this section:

CHAIRMAN'S GOVERNANCE LETTER

CHAIRMAN'S INTRODUCTION

ANDREW DUFF
CHAIRMAN

I am pleased to present the Corporate Governance Report for the year ended 31 December 2018. The 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.

As I reflect on the achievements and challenges during 2018, I remain impressed with the pace of strategic progress in a year which has seen the divestment of the Delden and Jersey City sites, the acquisition of Mondo and the acquisition of an advantaged manufacturing site in India – all whilst remaining focused on operational delivery and good governance.

The Mondo acquisition in particular had a significant impact on Board and Committee meetings and shareholder engagement at key points throughout the year. I am delighted with how the Board performed during this challenging period as each member demonstrated commitment, individual expertise, challenge, support and guidance as the acquisition progressed through to the successful outcome of the General Meeting held in October.

As part of our ongoing programme of governance and in keeping with the UK Corporate Governance Code, the external Board effectiveness evaluation was carried out during October to December 2018 by Manchester Square Partners. The findings of the evaluation and further information can be found in the Nomination Committee's report on page 72.

2018 has been a year of focus on the delivery of strategic priorities and the Board continues to deepen its knowledge and understanding of the Group's operations through the continuing programme of site visits which allows greater insight and value to the work of the Board. As I look ahead to 2019, I am pleased that we have scheduled site visits to our newly acquired assets and operations in Finland and the Netherlands as well as a visit to our management headquarters in New Jersey, USA.

As ever, I am grateful to you, our shareholders, for your continued support and I look forward to welcoming you at our AGM at 11.00 a.m. on 30 April 2019 which will be held at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG.

On behalf of the Board, at the recommendation of the Audit Committee based on its assessment detailed on page 76, I confirm that we believe the 2018 Annual Report presents a fair, balanced and understandable assessment of the Company's position, its performance and its prospects as well as its business model and strategy.

ANDREW DUFF
CHAIRMAN

Compliance statement

The UK Corporate Governance Code (Code) provides the standard for corporate governance in the UK. The Financial Conduct Authority requires listed companies to disclose whether they have complied with the provisions of the Code throughout the financial year. The Code currently applicable to the Company is the 2016 edition and we are reporting our compliance with that edition.

The Board considers that the Company has complied with the provisions and applied the main principles of the Code for the whole of the year ended 31 December 2018. The sections that follow describe how the Company has applied the main principles of corporate governance, in particular those laid down in the Code. The Code can be accessed at www.frc.org.uk.

BOARD OF DIRECTORS

ANDREW DUFF
CHAIRMAN

Andrew joined the Board as a Non-Executive Director and Deputy Chairman on 1 April 2014 and was appointed Non-Executive Chairman and Chairman of the Nomination Committee on 24 April 2014.

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

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

Committee membership
N*

External appointments
- Non-executive chairman of Severn Trent plc (from July 2010) and chairman of the nominations committee and member of the corporate responsibility committee and remuneration committee
- Member of the CBI President's Committee
- Trustee of Macmillan Cancer Support

Nationality
British

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

PAUL WATERMAN
CEO

Paul was appointed CEO on 8 February 2016.

Skills, experience and contribution
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 Reignite Growth 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.

Nationality
American

RALPH HEWINS
CFO

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

Skills, experience and contribution
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.

Nationality
British

NICK SALMON
SENIOR INDEPENDENT DIRECTOR

Nick was appointed a Non-Executive Director on 20 October 2014 and became Senior Independent Director on 16 December 2014.

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

Nick was chief executive of Cookson Group plc from July 2004 to December 2012 when Cookson demerged to create two new listed companies, Vesuvius plc and the specialty chemicals company, Alent plc. Nick was formerly executive vice-president of Alstom S.A. and chief executive of Babcock International Group plc. He held other senior management positions at GEC and GEC Alsthom and the China Light and Power Company. Nick served as a non-executive director of United Utilities plc from 2005 to 2014, where he was also senior independent director from 2007 onwards. Nick holds a degree in Mechanical Engineering and is a fellow of the Royal Academy of Engineering.

Committee membership
A, N, R

External appointments
- Non-executive director of Interserve plc (from August 2014), chairman of the remuneration committee (June 2018) and member of the audit and nomination committees
- Independent chairman of South East Water Limited (from April 2015)

Nationality
British

STEVE GOOD
NON-EXECUTIVE DIRECTOR

Steve was appointed a Non-Executive Director on 20 October 2014 and became Chairman of the Remuneration Committee on 25 April 2017.

Skills, experience and contribution
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 enable him to provide judgement and 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 between 2006 and 2009, director of new business between 2005 and 2006, and managing director of its plastics division between 2004 and 2005. Prior to joining Low & Bonar, he spent 10 years with BTP plc (now part of Clariant) in a variety of leadership positions managing international specialty chemicals businesses. Steve served as non-executive director and chairman of the remuneration committee of Cape plc from July 2015 to September 2017 and non-executive director of Anglian Water Services and member of the audit committee, nomination committee and remuneration committee from April 2015 to October 2018.

Steve holds a degree in Economics and Financial Management from Sheffield University. He is a chartered accountant.

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 director of Dialight plc (from June 2018) and member of the nominations committee and remuneration committee
- Director of Low & Bonar Pension Trustee Ltd (from July 2018)

Nationality
British

ANNE HYLAND
NON-EXECUTIVE DIRECTOR

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

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

Anne is currently CFO of Kymab Group Ltd, a bio-pharmaceutical company funded by the Wellcome Trust and the Bill & Melinda Gates Foundation. Prior to her current executive role, she was CFO and company secretary of both BBI Diagnostics Group Ltd and Vectura Group plc. Previous senior finance positions held include director of corporate finance at, the then FTSE 100, Celltech Group plc, Medeva plc and KPMG. Anne holds a degree in Business Studies from Trinity College, Dublin and is a chartered accountant (FCA) and a corporate tax adviser (CTA-AITI).

Committee membership
A*, N

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

Nationality
Irish

SANDRA BOSS
NON-EXECUTIVE DIRECTOR

Sandra was appointed a Non-Executive Director on 1 February 2017.

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

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

Committee membership
A, N, R

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

Nationality
British/American

DOROTHEE DEURING
NON-EXECUTIVE DIRECTOR

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

Skills, experience and contribution
Dorothee provides the Board with valuable insight into the wider European chemicals sector as well as sector specific acquisition expertise.

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

Committee membership
A, N, R

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

Nationality
Austrian

EXECUTIVE LEADERSHIP TEAM

OUR ELT COMPRISES OUR EXECUTIVE DIRECTORS, GLOBAL COMMERCIAL AND FUNCTIONAL LEADERS

The ELT meets on a regular basis and considers the execution of the strategic priorities, financial performance, capital investment, risk and safety and operational performance of the business.

3 2 7 12 8 11

13 5 9 1 4 10 6

PAUL WATERMAN 1
CEO

Full biography can found on page 62.

RALPH HEWINS 2
CFO

Full biography can found on page 62.

WALKER ALLEN 3
GENERAL COUNSEL AND CHIEF COMPLIANCE OFFICER

Joined Elementis in 1999
Based: New Jersey, US

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

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

MARCI BRAND 4
VP GLOBAL PERSONAL CARE

Joined Elementis in 2018
Based: New Jersey, US

Experience and role
Marci is responsible for the Personal Care business which includes the Cosmetics, AP actives, Pharma and Dental businesses. As VP Global Personal Care, Marci's focus is on directing the Personal Care sales and marketing teams and driving synergies in the business following the acquisition of SummitReheis in 2017 and integration of the recently acquired Mondo.

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

LAURA HIGGINS, GROUP COMPANY SECRETARY 5

Joined Elementis in 2018
Based: London, UK

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

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

DANIEL HUGHES VP BUSINESS DEVELOPMENT 6

Joined Elementis in 2007
Based: New Jersey, US

Experience and role
Daniel is responsible for leading the business through strategic transactions and is currently leading the integration of the Mondo business. In 2018, he led the asset disposal at Jersey City, the acquisition of the India site and the disposal of the Surfactants business.

Daniel has held a number of roles in Elementis including previously the Chief Information Officer and being the Vice President Coatings Asia, integrating the production and sales sites there while developing the local strategy, customer facing channels and organisational design. Prior to joining Elementis, Daniel held various senior procurement and supply chain positions.

CHRISTIAN KATHER VP TALC 7

Joined Elementis in 2018
Based: Amsterdam, Netherlands

Experience and role
Christian has led the Talc business since 2011, having joined Mondo in 2010. Following the acquisition of Mondo he is currently in the process of integrating certain functions into the Elementis Group alongside delivery and growth of the Talc business on a global basis.

Christian's former experience was in business leadership roles in international specialty chemicals companies with roles in both Europe and the US.

JOE LUPIA VP GLOBAL R&D 8

Joined Elementis in 2018
Based: New Jersey, US

Experience and role
Joe joined Elementis in January 2019 to lead the Global R&D function His former commercial experience enables him to lead with a focus on commercialisation. Joe is responsible for collaborating with the business leaders on developing new technologies to enhance our customers' product performance taking into account the quality, sustainability and efficiency needs of our customers.

Joe has 30 years in the chemicals industry and joined us from BASF where he led the technical innovations and customer support team for Care Chemicals USA.

ROBERT MANGOLD VP GLOBAL SUPPLY CHAIN 9

Joined Elementis in 2016
Based: New Jersey, US

Experience and role
Robert is responsible for the Supply Chain Transformation programme and to deliver improved working capital and improved operational performance Robert's remit includes HSE, Manufacturing, Procurement, all the Supply Chain and Quality functions and Product Stewardship. He drives sustained improvements in these key areas.

Robert has over 35 years' experience in operations for manufacturing and specialty chemicals companies.

PAUL RAO VP ENERGY 10

Joined Elementis in 2014
Based: Houston, US

Experience and role
As VP Energy, Paul has responsibility for leading the Energy sales and marketing teams. His focus is on developing strategic relationships and offering products that meet our oilfield customers' needs.

Paul has 28 years of global oilfield experience in sales, marketing, business development and strategic planning.

LUC VAN RAVENSTEIN VP GLOBAL COATINGS 11

Joined Elementis in 2012
Based: New Jersey, US

Experience and role
Luc is responsible for the leadership of the Global Coatings business. In addition, Luc has recently increased his leadership responsibilities to support the growth of the Energy business. Luc is leading the global Coatings transformation programme including the streamlining of the product portfolio and cost base, implementation of more efficient routes to market and creation of a global Coatings organisation.

Luc started his career at Elementis heading up the Personal Care and Surfactants business following leadership positions at specialty chemicals company Croda.

CHRIS SHEPHERD CHIEF HUMAN RESOURCES OFFICER 12

Joined Elementis in 2017
Based: London, UK

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

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

ERIC WALDMANN VP CHROMIUM 13

Joined Elementis in 2007
Based: New Jersey, US

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

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

GOVERNANCE FRAMEWORK

THE BOARD

The Board is collectively responsible to shareholders for the delivery of long term value and success and provides effective challenge and support to management in relation to the execution of strategy, whilst ensuring the Group maintains an effective risk management and internal controls system. Further information on the Board's focus and activities during 2018 can be found on page 68.

Board Committees

AUDIT COMMITTEE

The Audit Committee monitors the integrity of the Group's financial statements, the systems of internal control and risk management and the relationships with our internal and external auditors.

FOR MORE INFORMATION PLEASE SEE PAGES 73 AND 76

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for setting the remuneration policy and determines the reward structure for the Chairman, Executive Directors and ELT to align their remuneration with the long term interests of the Company.

FOR MORE INFORMATION PLEASE SEE PAGES 78 AND 92

NOMINATION COMMITTEE

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

FOR MORE INFORMATION PLEASE SEE PAGE 72

Associated documents

The Matters Reserved for the Board and terms of reference for the Committees can be found on the corporate website: elementisplc.com

BOARD COMPOSITION

CHAIRMAN
Andrew Duff

The Chairman leads the Board and is responsible for its leadership, setting its agenda, monitoring its effectiveness and ensuring good governance. Andrew facilitates open, honest and constructive debate during meetings and guides the CEO and CFO in their delivery of the Reignite Growth strategy. Andrew ensures effective communication with our shareholders and that the Board is aware of the views of major shareholders.

CEO
Paul Waterman

The CEO is responsible for the day-to-day management of the business and the execution of strategy and operational performance. Paul is supported by the ELT for the delivery of both functional and business targets

CFO
Ralph Hewins

The CFO is responsible for supporting the CEO in the delivery of the Company's strategy. Ralph leads the Group Finance function and is responsible for financial reporting, investor relations, IT and tax matters.

SENIOR INDEPENDENT DIRECTOR
Nick Salmon

The Senior Independent Director acts as a sounding board to the Chairman and leads the performance evaluation of the Chairman.

INDEPENDENT NON-EXECUTIVE DIRECTORS
Sandra Boss, Dorothee Deuring, Steve Good and Anne Hyland

The independent Non-Executive Directors provide independent oversight and constructive challenge to the Executive Directors. They bring an independent judgement to bear on matters of strategy, performance and resources, including key appointments and behaviours.

COMPANY SECRETARY
Laura Higgins

The Company Secretary supports the Chairman in ensuring the Board operates efficiently and effectively. Laura provides the Board with advice on governance developments and is responsible for the flow of information to the Board and induction and training needs.

Composition of the Board

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

Gender diversity

Female	**37.5%**
Male	**62.5%**

Length of tenure

3 to 6 years	**50%**
Less than 3 years	**50%**

Board skills and experience

Manufacturing	**62.5%**
Chemicals	**37.5%**
Finance/investment	**50.0%**
Global markets	**37.5%**

Average age of the Board

56

Nationality

The Board's focus in 2018 was as follows:

Reignite Growth strategy	Operational performance	Shareholders, stakeholders and governance	Finance matters
Working capital optimisation programme	Regular CEO reports	Investor relations reports, roadshows and other investor meetings and feedback	Financial performance reports and forecasts
Global Coatings strategy–India and South East Asia including the investment case for a site in India	Health, safety and environment reports	AGM and GM preparation	Dividend policy, distributable reserves and recommendation of payment
Disposal of the Surfactants business and Jersey City site	Group insurance programme	Corporate broker review	Treasury and hedging reports
Strategic reviews of Personal Care, Energy, Chromium and Coatings	Group risk review including Brexit plans	Board effectiveness evaluation	Approval of financial statements for full and half year and Q1 and Q3 trading statements
M&A updates including a series of meetings focused on the acquisition of Mondo and associated financing	Annual operating plan	People strategy including talent management, succession planning, values and culture	Tax strategy including position on EU state aid
Three year plan	Hurricane Florence impact at Castle Hayne	Updates on the revised UK Corporate Governance Code	Triennial pension valuation updates
IT strategy including cyber security and digital	GDPR implementation and updates	Modern Slavery Statement	Annual operating plan
Strategic review of Dental business		Litigation and compliance reports	
		Directors' duties training	
		Updates from Committee chairs	

BOARD ACTIVITIES

The Board has a formal programme of activities that are undertaken at scheduled meetings throughout the year which is supplemented by ad hoc meetings and conference calls, as and when appropriate.

The Board receives updates on the business, financial, operational, governance, compliance, HSE performance and investor engagement at each of its formal meetings.

The Board welcomes the ELT attending Board meetings and receives presentations from their relevant business and functional areas.

During 2018, the majority of Board meetings took place in London. A meeting was held at the management headquarters in New Jersey, US, where a townhall lunch provided the Board the opportunity to meet with a cross-section of employees.

ROLE OF THE BOARD IN THE ACQUISITION OF MONDO

The Board had a valuable and important contribution to play in the consideration of the investment and strategic rationale, diligence process and key findings, valuation considerations, financial impact, process timeline, financing and shareholder engagement strategy.

Scheduled Board meetings

8

Additional Mondo acquisition meetings

12

Board activities timeline

2018

JAN

FEB
- **Board meeting**
- Full year results review
- **2017 full year results announced**
- **Investor roadshow**

MAR
- **Board meeting**
- Investor feedback
- Chairman and investor meetings
- Shareholder consultation on remuneration policy

APR
- **Board meeting**
- Global Coatings strategic review
- **Q1 trading update announced**
- **AGM**

MAY

JUN
- **Board meeting**
- Visit to US headquarters and townhall lunch with employees
- Strategic updates of Personal Care, Energy, Chromium
- **Mondo acquisition announced**

JUL
- **Board meeting**
- Interim results review
- Mondo acquisition update
- **2018 interim results announced**
- **Investor roadshow**

AUG
- **Board meetings relating to acquisition of Mondo**

SEP
- Prospectus and shareholder circular published
- **Board meeting**

OCT
- **Shareholder meeting approval of Mondo acquisition**
- **Board meeting**
- Board evaluation
- Three year plan
- **Q3 trading update announced**

NOV
- **Non-executive only meeting**

DEC
- **Board meeting**
- Annual operating plan

BOARD MEETING ATTENDANCE DURING 2018

During the year, there were eight scheduled Board meetings. There were 12 additional meetings in respect of the acquisition of Mondo. Directors' attendance at scheduled Board meetings was as follows:

Director	Board meeting
Andrew Duff	8/8
Paul Waterman	8/8
Ralph Hewins	8/8
Sandra Boss	7/8
Dorothee Deuring	8/8
Steve Good	8/8
Anne Hyland	8/8
Nick Salmon	8/8

Sandra Boss was unable to attend the July 2018 meeting due to an illness.

INDEPENDENCE OF THE NON-EXECUTIVE DIRECTORS

Each of the Non-Executive Directors is considered independent in character and judgement. The Chairman was considered independent on appointment and the Board confirms that he remains effective. Further information can be found in the Nomination Committee report on page 72.

CONFLICTS OF INTEREST

The Board operates a policy to identify and, when appropriate, manage actual or potential conflicts of interest affecting Directors.

Directors are required to seek Board approval for any actual or potential conflicts of interest. Any conflicts of interest are considered by the Board, at each meeting, and are reviewed throughout the year.

Ralph Hewins is in receipt of a conflict authorisation from the Company in respect of him acting as a trustee of the Elementis Group Pension Scheme. Further detail can be found in the Directors' Report on page 93.

INSURANCE

The Company maintains directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors.

EFFECTIVENESS

BOARD INDUCTION AND DEVELOPMENT

The Chairman, with the support of the Company Secretary, is responsible for preparing and coordinating an appropriate induction programme for newly appointed Directors. The programme includes meeting members of the ELT and corporate advisers and tailored training on the duties and responsibilities of a Director of a UK listed company. The Non-Executive Directors are encouraged to visit Group manufacturing sites to enable them to gain a greater understanding of the Group's activities and to meet people across the business. The Board agreed to postpone site visits in 2018 to focus on the acquisition of Mondo and a programme of visits is being scheduled for 2019.

BOARD TRAINING AND INDEPENDENT ADVICE

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

INFORMATION FLOW

The Chairman and 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 meetings to ensure that there is adequate time for them to be read and to facilitate robust and informed discussion. A fully encrypted electronic Board portal is used to distribute Board and Committee papers and to provide efficient distribution of business updates and other resources to the Board.

BOARD EVALUATION

Process

During 2018, Manchester Square Partners (MSP) were engaged to conduct this year's external evaluation in accordance with the Code. The last external review was carried out in 2015. Following consultation with the Chairman and the Company Secretary, the review process took place from September to December 2018, taking into account the conclusion of the Mondo acquisition. MSP had access to Board and Committee papers for the prior year and observed a Board meeting and Audit Committee meeting. Individual interviews were conducted with the Board, the Company Secretary and the CHRO.

The outcome of the evaluation was presented for discussion in December 2018. Further information can be found below and overleaf.

BOARD, COMMITTEE AND DIRECTORS' PERFORMANCE EVALUATION CYCLE IN 2018

Year 1 (2018)
An externally facilitated evaluation was carried out by MSP.

Stage 1
Following a tender process by the Nomination Committee, MSP (who has no other connection with the Company) were recommended to the Board for appointment.

The Chairman and Company Secretary were consulted to ensure that the review process would be in line with Code requirements and best practice as well as draw out themes specific to the Company.

Stage 2
Interviews were conducted with all Directors, the Company Secretary and the CHRO.

MSP had access to the Board and Committee papers for the prior year and observed a Board and Audit Committee meeting.

Stage 3
MSP prepared a report which detailed their findings on the overall effectiveness of the Board and its Committees.

Stage 4
The report and findings were presented and discussed with the Board. The Board subsequently agreed on the development areas for 2019 which are outlined overleaf.

Years 2 and 3
Following consultation with the Chairman, an internal questionnaire is developed with facilitation of the process carried out by the Company Secretary.

Review

The review covered the following themes:

Strategy
Challenges and risks
Values and culture
Committees
Board effectiveness review
Board role and dynamics
Leadership
Governance
Composition
Engagement

Outcome

The comprehensive review concluded that the Board and its Committees continue to function and operate well and confirmed that the Board environment is open, inclusive, collaborative, trusting and supportive. The Board continues to provide good leadership and support to the business.

At the December Board meeting, the Board agreed on some areas for further improvement as follows:

1. Risk management – as the business continues to evolve to ensure that the quality of risk management and compliance reporting to the Board is improved in line with emerging risks as and when they arise.
2. Investor engagement – consider the strategy and approach for engaging with the investment community following the acquisition of Mondo and enhancing overall understanding of the business.
3. Talent management and succession – continue to develop Board exposure to up and coming talent below ELT level.
4. Leveraging Board skills and experience – consider ways to identify how the skills and experiences of the Non-Executive Directors can be better leveraged to support the Executive Directors and the broader organisation.

Theme	2018 findings
Strategy	Over and above the strategy focused meeting in the US, there has been regular ongoing review and debate throughout the year with strategic topics featuring on each Board agenda.
Challenges and risks	Board members share a consistent view of the key challenges and risks facing the business. Sufficient time is devoted to discussion of risk.
Values and culture	The Board utilises site visits to feel and test culture and behaviours throughout all levels of the organisation. The Board continue to enhance their understanding of culture and values at Board level.
Board role and dynamics	Under the leadership of the Chairman, the Board provides valuable advice, support and challenge. The Board environment is open and inclusive and enables Board members to effectively contribute to Board discussions.
Engagement	The Board are diligent, engaged and demonstrate enthusiasm for their individual and collective roles.
Composition	The Board has relevant diversity of experience, expertise and skills. The Committees are well chaired and operate well. The Board has evolved under the Chairman's leadership; there are no pressing succession plans to consider.
Governance	Board processes are effective, thorough and efficient. The quality of Board papers and financial reporting have improved.
Leadership	The relationships between the Chairman, CEO and CFO are strong and effective with regular dialogue on all sides.
Committees	The Committees are well chaired and operate well. The main Board operates as a valuable mechanism to appropriately inform and involve Directors who are not members of a particular Committee.

NOMINATION COMMITTEE REPORT

ANDREW DUFF
CHAIRMAN
NOMINATION COMMITTEE

Committee members

6

Scheduled meetings

2

Committee members	Scheduled meetings
Andrew Duff	2/2
Sandra Boss	2/2
Dorothee Deuring	2/2
Steve Good	2/2
Anne Hyland	2/2
Nick Salmon	2/2

The Committee is chaired by the Chairman and comprises all the Non-Executive Directors. The CEO has a standing invitation to attend meetings. The Committee is responsible for regularly reviewing the structure, size, diversity and composition of the Board. This is to ensure 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.

MAIN ACTIVITIES DURING THE YEAR

The Committee's focus in 2018 has been:

BOARD EVALUATION

During the year, the Committee was responsible for the tendering process and recommendation to the Board for a third party provider to provide an evaluation of the Board and its Directors. The Committee recommended the appointment of Manchester Square Partners to carry out the review. Further detail of the evaluation can be found on pages 70 to 71. At its December meeting the Committee reviewed Manchester Square Partners' findings.

APPRAISAL PROCESS

The expertise and performance of the Directors is considered as part of the annual review of the Board and its Committees. The appraisal of the Chairman is led by the Senior Independent Director, who meets separately with the Non-Executive Directors to discuss the performance of the Chairman. Following consideration, it was agreed that the Chairman continues to lead the Board effectively and constructively. The Chairman, supported by the Non-Executive Directors, leads the appraisal of the CEO and they agreed the CEO was implementing the Reignite Growth strategy at pace, delivering improved safety and operational performance and effective leadership. The performance of the other Non-Executive Directors is appraised by the Chairman whilst the CFO's performance is appraised by the CEO with feedback from other Directors where appropriate. The Board is satisfied that all Directors possess relevant experience and appropriate levels of independence and financial and commercial experience across various industries.

REAPPOINTMENT OF DIRECTORS

The Committee considered the output from the appraisal process and the Board effectiveness evaluation report and concluded that each of the Directors continued to make an effective contribution to the Board. The Committee considered the tenure, time commitments and any other significant appointments of each of the Non-Executive Directors, including the Chairman and concluded that each Director continues to contribute effectively and provides sufficient time to the Company. In accordance with the Code, each of the Directors will submit themselves for re-election at the 2019 AGM.

DIVERSITY

The Board recognises that diversity, which should be construed in its broadest sense, is essential for a high performing and effective Board. The Board is committed to actively searching for candidates from the widest talent pool against objective criteria and with regard for the benefits of diversity including gender and ethnicity. The Board has exceeded the Hampton-Alexander target for the percentage of women on Boards to reach one third by 2020. It is acknowledged that there is a need to identify and develop the next generation of talent within the Group and processes are in place to ensure the Board have visibility. Further information can be found on page 50.

As diversity, inclusion and culture continue to be areas of focus for the Committee and the Board as a whole, practices will be developed to ensure the Company is meeting appropriate standards of governance and is able to realise the benefits associated with diversity.

CORPORATE GOVERNANCE

During the year, the Committee received updates from the Company Secretary on the revised Code, reviewed the independence of the Non-Executive Directors, considered potential conflicts of interest and the diversity of the Board and made recommendations concerning these matters to the Board.

AUDIT COMMITTEE REPORT

ANNE HYLAND
CHAIRMAN
AUDIT COMMITTEE

Committee members

4

Scheduled meetings

4

Committee members	Scheduled meetings
Anne Hyland	4/4
Sandra Boss	3/4
Dorothee Deuring	4/4
Nick Salmon	4/4

Sandra Boss was unable to attend the July 2018 meeting due to an illness.

The past year has been transformational for Elementis. The strengthening of its portfolio via both the disposal of the Surfactants business and the acquisition of Mondo has required the Committee to focus on the financial integrity of these transactions, to enable us to be assured that the appropriate accounting treatments have been applied.

As part of the Mondo transaction and in my role as Chair of the Audit Committee, I led the review of progress of the financial related workstreams and held meetings with each of the advisers relating to working capital assumptions and sensitivities, the financial position, prospects and procedures of both businesses and the historical and current financial information of Mondo and Elementis. I held regular meetings with Ralph and his team who kept me abreast of both the transactions, financial reporting and internal control matters. I value our open and constructive relationship and I am confident that the team are able to discuss matters as the need arises.

I have held regular meetings with the senior audit partner from Deloitte, the external auditors, to discuss the audit processes, the new segmental reporting structure, and the accounting treatment relating to Mondo. The ability to discuss matters throughout the year enables me to be effective as chair of the Audit Committee.

PwC provide an outsourced internal audit function. The Committee needs assurance that the internal control environment in which Elementis operates is appropriate, and a focus of the 2018 internal audit reviews was on the SummitReheis sites that were acquired by the Company in 2017. Next year, one area of focus for the Committee will be the integration of the Mondo acquisition.

Finally, I would like to extend a thank you from the Committee to the Elementis Finance teams and in particular the Group Finance team who have supported us diligently over the past year and whose efforts have made a significant contribution to the Company's Reignite Growth strategy.

The below report of the Audit Committee for the 2018 financial year explains how we have carried out our responsibilities during the year.

AUDIT COMMITTEE

Composition

The Committee is comprised of Anne Hyland, as chair, Sandra Boss, Dorothee Deuring and Nick Salmon. The Chairman of the Board, CEO, CFO and Group Financial Controller alongside representatives from the external auditors, Deloitte, and internal auditors, PwC, have a standing invitation to attend Committee meetings. As required by the Code, Anne Hyland has the relevant financial experience to chair this Committee and the Committee as a whole has the financial and commercial competence to meet its responsibilities in an independent and robust manner.

Meetings

In 2018, there were four scheduled meetings – an additional one was held in October 2018 to consider the audit plan taking into account the acquisition of Mondo.

Main activities during the year

In 2018, the Committee:

- Met with both the internal and external auditors to review their key findings
- Reviewed the internal control systems and considered the output of internal audit reviews and management's action plans
- Reviewed the integrity, consistency and key accounting judgements made by management in both the Company's full and half year results
- Ensured the appropriate accounting treatment applied to the acquisition of Mondo and the disposal of the Surfactants business
- Advised the Board on whether the process supporting the preparation of Annual Report and Accounts, taken as a whole, is fair balanced and understandable and provides the information necessary to shareholders to assess the Group's position and performance, business model and strategy
- Reviewed the going concern and viability statements and the supporting assumptions and assessments in the Company's Annual Report and Accounts
- Monitored the ratio and level of audit to non-audit fees paid to the external auditors
- Ensured compliance with applicable accounting standards, monitoring developments in accounting regulations as they affect the Group and reviewed the appropriateness of accounting policies and practices in place
- Reviewed the effectiveness of the internal and external auditors, their independence and objectivity and terms and scope of engagement and recommended their reappointment
- Oversaw matters relating to tax including the impact of tax rates on the financial statements, the impact of the State Aid Investigation being conducted by the EU and recommended for approval the Company's tax strategy
- Received litigation and compliance reports for both the full and half year
- Considered for both the full and half year the material legal risks impacting the Company and the associated provisioning
- Received updates on the implementation of the revised Code of Business Conduct and Ethics and associated training and whistleblowing policies and the control procedures in place in respect of these
- Received technical updates on the 2018 UK Corporate Governance Code and IFRS 16

Key judgements

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

Key judgement	How the Committee has addressed these matters
Purchase price allocation for the Mondo business	Following the purchase of Mondo in October 2018, it was necessary to determine the allocation of the purchase price to goodwill, intangibles and other balance sheet items. Key areas of judgement surrounded the evaluation of intangible assets. The Committee reviewed progress made on the analysis that was conducted by a third party provider and led by management. Management updated the Committee on their proposals and the external auditors provided assurance to the Committee that their subject matter experts were in support of the allocation of purchase price.
Environmental provision	A process consistent with 2017 for the evaluation of environmental provisions was followed by management, the key area of judgement being the discount rate used for future liabilities. In 2017, this discount rate was 2.5%. The Committee considered this discount rate and were satisfied that a rate of 2.5% remained consistent with current market assessments of the time value of money and the risks specific to the liabilities and is therefore appropriate for 2018.
The carrying values of advance corporation tax (ACT)	A tax report was provided to the Committee at each of its meetings. The Committee challenged both the justification for, and carrying values of, ACT recoverable and deferred tax assets.

Key judgement	How the Committee has addressed these matters
Use of adjusting items in the Annual Report	The Committee considers separate disclosure of adjusting items in light of the FRC recommendations of a balanced and consistent approach. The Committee understands the importance to stakeholders of being able to assess the underlying performance of the business by adjusting for exceptional items. The Committee does not consider such measures to be a substitute for, or superior to, IFRS measures.
Revenue recognition	IFRS 15 – revenue from contracts with customers has been applied with an effective date of 1 January 2018. Whilst the principles of revenue recognition differ to IAS 18 Revenue, the previous accounting standard, application of IFRS 15 has not had a material impact on our financial statements. The main area of judgement continues to be in relation to recognition of revenue for shipments by sea. The Committee has received and reviewed the reports of external advisers who have provided guidance on IFRS 15 implementation and have ensured our accounting policies have been updated accordingly. Following the acquisition of Mondo the Committee considered the application of the Company policy to the acquired operations at the year end and adopted the policy accordingly.

Audit Committee evaluation
During the year, Manchester Square Partners undertook an evaluation of the Committee as part of the Board effectiveness review. The findings show that the Committee has evolved well since the last review with a more proactive agenda. Financial management and reporting have continued to improve under the leadership of the CFO and Committee Chair.

EXTERNAL AUDITORS
Deloitte have served as external auditors for three years. 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. No areas of concern have been raised.

Audit of the 2018 Annual Report and Accounts
At the end of 2018, Deloitte presented their audit plan for the year ahead which the Committee considered and then approved.

Deloitte highlighted the key areas of risk, which were primarily identified as areas of judgement and complexity and were consistent with those areas identified by the Committee. The Committee were also informed and agreed with the level of audit materiality, taking into account the enlarged Group following the acquisition of Mondo. As part of the audit process, Deloitte then presented a detailed report of their audit findings, which were reviewed and discussed.

A similar process is undertaken for the half year results.

Auditor rotation and tendering and competition and markets authority order – statement of compliance
As reported this time last year, 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 2018 was approved by shareholders at the Company's AGM in April 2018. The Committee therefore confirms that the Company is compliant with the order on mandatory tendering of audit contracts.

Audit effectiveness
To support the Committee in evaluating the effectiveness of the external auditors, a questionnaire based evaluation is completed by the Finance team globally and the data is collated into a score card that can then be used to assess the strengths and weaknesses of the external auditors. Management and the external auditors then address any areas of weakness in their regular review meetings, and the senior audit partner from Deloitte updates the Committee on how areas of weakness are being addressed.

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

Following the 2018 review, the Committee considers the auditors' performance to be satisfactory and that the audit is effective as measured against their letter of engagement and the scope of services agreed.

Auditor independence
The Committee considers the external auditors' objectivity and independence at least twice a year. It receives reports from Deloitte on its internal quality controls and independence rules and considers carefully the extent of the non-audit services provided by Deloitte. This is further maintained by the Group policy on non-audit services which contains guidance on the types of non-audit work that the external auditors may be considered for.

Under the policy, the CFO may approve individual engagements where the fee is up to 15% of the Group's audit fee for the year, provided that the total non-audit fees in the year do not exceed 50% of that Group audit fee. Decisions above these thresholds must be referred to the Committee for determination.

Examples of services that the external auditors may and may not be allowed to perform under the policy can be found at www.elementisplc.com.

The Committee is of the view that Deloitte was objective and independent throughout the 2018 audit process notwithstanding the level of non-audit services provided. Based on the Committee's recommendation, the Board is proposing that Deloitte be re-appointed as external auditors to the Company at the AGM in April 2019.

Non-audit services

	2018	2017
Audit fees ($m)	1.4	0.9
Assurance related services ($m)	0.1	0.1
Non-audit fees ($m)	0.3	0.5
Ratio of non-audit fees to audit fees (%)	21%	56%

INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEM
The Committee's role is to review the effectiveness of the internal control, compliance and risk management systems which it carries out in support of the Board's formal review of significant risks and material controls, as summarised in the Risk management report on pages 42 and 43.

PwC provide an outsourced internal audit function. The Committee consider 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 proposed internal audit programme was discussed and agreed between management and PwC ahead of it being considered and subsequently approved by the Committee. Management review the schedule with PwC on a quarterly basis and adapt 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. No significant internal control failings or weaknesses were reported last year. Set out below is a summary of the key features of the Group's internal controls and risk management system.

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

Risk identification and review
A formal risk review process exists at Board and ELT levels for the identification, evaluation, mitigation and ongoing monitoring of risks. Further details can be found on pages 42 to 48.

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. In 2018, the internal audit reviews focused on the recently acquired SummitReheis sites in the US and Asian sites.

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, quality interactions between the Board and the Executive Leadership team (including a regular programme of presentations and reports to the Board, as well as operational site visits)
- Internal and external audit programmes, regular litigation and compliance reviews with the General Counsel and 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 policy contains arrangements for an independent service provider to receive, in confidence, reports of breaches of any legal or Company policy requirements, including those related to accounting, auditing, risk, internal control and related matters. Any such disclosures are reported to the Committee as appropriate.

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

- An internal Annual Report Team (ART) was set up to manage the process. The ART was chaired by the CFO and consisted of members drawn from Group Finance, Company Secretariat, and Investor Relations teams. The inclusion of these various departments, with input from Group Tax and business segments as appropriate, ensured the balance, completeness and accuracy of the Annual Report. 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 auditor 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

RELATIONS WITH SHAREHOLDERS

THE BOARD'S APPROACH

Elementis is committed to delivering long term sustainable returns to its shareholders. The Chairman is responsible for effective communication with shareholders. The CEO and CFO are the Company's principal contacts for investors, analysts, press and other interested stakeholders.

There is a dedicated investor relations programme for current and potential investors, which is managed by the Director of Investor Relations who reports to the CFO. The Board receives an investor relations report at each of its meetings outlining recent dialogue with investors and feedback received. Analysts' reports are also made available to the Board. The Chairman attends the financial results presentations where he has the opportunity to meet with those analysts who attend.

The Chairman and Senior Independent Director are available to shareholders to discuss governance and strategy concerns as appropriate. On an annual basis, the Chairman meets with shareholders to discuss governance or other matters as appropriate.

SHAREHOLDER MEETINGS

During the year, we held an AGM in April and a General Meeting in October 2018 to approve the acquisition of Mondo. The Board welcomes attendance at these meetings and they provide a valuable opportunity to discuss Company matters. We are grateful to those shareholders who were unable to attend but submitted voting instructions via proxy.

At the AGM, all the members of the Board attended and the CEO provided a presentation to shareholders outlining performance of the Company during the prior financial year and an update on the Reignite Growth strategy which was followed by a questions and answers session. At the General Meeting, shareholders were given the opportunity to enter into dialogue with the Board to discuss matters relating to the Mondo acquisition.

At the 2018 AGM all proposed resolutions were passed, with votes in favour ranging from 87.72% to 100%. At the General Meeting the resolution was passed at 97.86%.

The Notice of the AGM was posted to shareholders at least 20 days prior to the meeting and the documents in respect of the General Meeting were posted at least 14 days prior to the meeting. Each resolution was proposed separately and voting was conducted on a poll taking into account votes cast at the meeting and those submitted via proxy. Shareholders had the option to vote either for or against a resolution or to withhold their vote. Following the meeting, the voting results were announced to the London Stock Exchange and published on the Company's corporate website.

2018 IR PROGRAMME

During 2018:

- Institutional investors and analysts were invited to attend the Company's full year and half year results presentation in person or via webcast
- Over 170 investor meetings were held with management in attendance of which 26 related to the acquisition of Mondo
- The Chairman or Senior Independent Director attended investor meetings and a Chairman's roadshow was held
- Management attended six investor conferences
- The geographic spread of the programme covered the US and Europe.

PRIVATE INVESTORS

The Board is keen to hear the views of our private shareholders and they are encouraged to use our shareholder mailbox, company.secretariat@elementis.com, for detailed enquiries and to access our website for our Company reports and business information. Specific enquiries may also be addressed to the Company Secretary and sent to the registered office.

SHAREHOLDER TRACING PROGRAMME

In 2015, a shareholder tracing programme was launched to reduce the number of 'gone-away' shareholders on the share register. During the year, 69 accounts have been closed, with £58,618 being returned to shareholders (since launch, 764 accounts have been closed with £530,925 being returned to shareholders).

2018 INVESTOR RELATIONS CALENDAR

January	February	March	May	June	July	September	October	December
Overseas roadshow in New York	FY 17 results presentation FY 17 roadshow	Chairman's governance roadshow Goldman Sachs chemicals conference	UBS mid cap conference	Credit Suisse chemicals conference JP Morgan materials conference Mondo roadshow	H1 18 results presentation H1 18 roadshow	Berenberg food ingredients and chemicals conference	Overseas roadshow in France, Germany and Norway Numis UK conference	Berenberg European Conference

DIRECTORS' REMUNERATION REPORT – ANNUAL STATEMENT

STEVE GOOD
CHAIRMAN
REMUNERATION COMMITTEE

Committee members

4

Scheduled meetings

4

Committee members	Scheduled meetings
Steve Good	4/4
Sandra Boss	4/4
Dorothee Deuring	4/4
Nick Salmon	4/4

Dear Shareholder,

As Chair of the Remuneration Committee (Committee), I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2018. This statement provides a summary of the work completed by the Committee in the year, the key decisions that have been taken and how the Remuneration Policy was implemented during the year. 2018 was a year of significant strategic progress including the acquisition of Mondo, asset disposals and investment in a new production facility in India. It has also been a year in which we have experienced a mixed economic environment with good levels of growth in the Americas but some deterioration in Europe and Asia.

The Committee in particular has had a busy year taking into account these strategic and macroeconomic developments and further details can be found within the body of the Annual Report on Remuneration on pages 80 to 92. Further information on the role and membership of the Committee and activities during the year can be found on pages 91 and 92.

The Directors' Remuneration Report is set out in three parts:

1. This **Annual Statement** summarising how the Policy has been implemented and the key decisions the Committee has taken;
2. The **Annual Report on Remuneration** (Report) which provides detail on how we paid Directors during 2018 and how we propose to implement the policy in 2019; and
3. A summary of the **Remuneration Policy** (Policy), as approved at the 2018 AGM.

The Report will be presented to shareholders for approval at the AGM on 30 April 2019 and I hope you will vote in support of the resolution.

REMUNERATION POLICY

Having undertaken a full review of the Policy and its implementation in 2017, we were pleased that the updated Policy was approved by our shareholders at the 2018 AGM with 99% of votes in favour. 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 that utilises manufacturing technology and scientific innovation to deliver high value products to our customers, our Policy is designed with a bias towards long term performance. As a Committee, we have considered whether the Policy is operating as intended and are comfortable that this is the case.

VARIABLE REMUNERATION OUTCOME FOR 2018

Annual bonus

Elementis delivered solid financial results and made excellent strategic progress in 2018 as the Company continued to implement the Reignite Growth strategy focusing resources on higher margin growth opportunities, transforming the portfolio and driving cost and capital efficiency. The acquisition of Mondo completed in October and integration is underway. Given that the acquisition completed late in the year and was not part of the original financial plan on which bonus targets were set, the Committee determined that the impact of Mondo should be excluded from the calculation of outcomes.

In terms of 2018 financial performance, Elementis delivered adjusted Group profit before tax $110.9m (excluding Mondo), which was below the challenging range of stretching profit targets set at the start of the year, but delivered well against the average trade working capital to sales ratio targets. In combination with delivering excellent progress against the strategic targets set at the start of the year this resulted in bonuses being earned at 35% of the maximum for the CEO and 36% of the maximum for the CFO. The Committee believes that in a challenging external environment the Company has made substantial progress during the year and with Mondo performing in line with our expectations and its integration progressing well, is comfortable that the bonus out-turns are a fair reflection of the overall performance of the Executive Directors. Further details of the targets set for 2018 are disclosed on pages 84 to 86. The Committee has increased the detailed disclosure for non-financial targets following feedback from shareholders.

Long term incentive plan (LTIP)
The 2016 LTIP Awards will vest in early 2019 based on performance over the three years ended 31 December 2018. The Company generated total shareholder returns over the period of 4.3% compared to 13.8% for the median performing company in the FTSE All-Share Index (excluding investment trusts) and, therefore, this portion of the award will not vest.

The impact of the acquisition of Mondo has been excluded from the EPS calculation as the significant majority of the performance period had elapsed when the acquisition completed (33 months out of 36 months). Whilst the Reignite Growth strategy has strengthened our financial performance since its launch in 2017, given the challenges in 2016 and in combination with the wider economic climate since, the threshold EPS target has not been met and this portion of the award will also lapse. As a result none of the 2016 award will vest. Ralph Hewins received an award upon joining the company in lieu of share awards forfeited upon leaving his previous role. These were subject to the same conditions as the 2016 LTIP Award and as a result will also lapse in full.

The Committee believes that the overall incentive out-turns detailed above are justified 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.

ACQUISITION OF MONDO

In the lead up to the acquisition of Mondo, and in the period since, the Committee has considered the impact of the acquisition and the corresponding Rights Issue on remuneration. In order for outstanding share awards to have the same economic value before and after the Rights Issue, a standard economic formula has been used to adjust the number of shares, and where applicable the exercise price (e.g. options under the UK SAYE scheme).

The treatment of the acquisition with respect to the 2016 and 2019 LTIP Awards is set out above and below respectively. With respect to the 2017 and 2018 LTIP Awards, the Committee has adjusted and increased the EPS targets to ensure that they remain similarly challenging having had regard to the acquisition of Mondo.

APPLICATION OF REMUNERATION POLICY IN 2019

As detailed above, the current Policy and its application are considered to be working effectively therefore no material changes to the current application of Policy will take place in 2019. The key points to note include:

Salary review: In line with the average increases awarded to the salaried workforce in the US and the UK, the salary of the CEO was increased by 3% to $899,746 and the CFO's salary was increased by 2.9% to £354,439. These changes are effective from 1 January 2019. Ralph Hewins responsibilities have been extended from 1 January 2019 to include leadership of the Global IT function and the Digital implementation programme.

2019 annual bonus: There will be no change to the quantum and as such the CEO will have the opportunity to earn 150% of salary and the CFO 125% of salary.

As for 2018, the bonus will be based 70% against a challenging range of financial targets (50% on adjusted Group profit before tax and 20% on average trade working capital to sales ratio (AWC) on total operations) and 30% based on the delivery of specific and measurable objectives that are related to the Company's strategic priorities.

Summary details of our approach to target setting are detailed on page 82 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.

In line with the 2018 Code, the Committee has discretion to modify the overall amount of bonus payable to ensure it is appropriate.

2019 LTIP Awards: Awards will be granted subject to the same EPS and TSR performance conditions (split 50:50) as operated in 2018.

The range of EPS growth targets will be average annual EPS growth of 3% to 12% p.a. for vesting. Growth will be measured from the 2018 EPS result to the EPS achieved in 2021. The range has been increased from 3% to 10% to 3% to 12% and the base EPS will be increased to include an assumed full year of Mondo. The EPS calculation will include the contribution of Mondo to the Group performance over this time. The Committee considers this high growth range to be appropriately stretching in light of the progress made with our Reignite Growth strategy and current internal and broker forecasts.

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 2019 LTIP awards will be subject to a return on capital employed underpin. This will require the Committee to consider the vesting result determined based on the application of the EPS and TSR performance conditions in light of the return on capital employed achieved during the three year period ending 31 December 2021. As part of this assessment the Board will take into account the guidance provided to shareholders in connection with the Mondo acquisition. This included the delivery of pre-Mondo rates of return from our capital employed during the 2019 LTIP performance period. If the Committee does not consider the vesting result appropriate in light of the return on capital employed achieved in this context, the underpin enables vesting to be reduced to a more appropriate level.

Non-Executive Directors' fees: The Committee, following a recommendation by the Board, approved a policy in 2016 to increase the Chairman's fee and the Non-Executive Directors' basic and any additional role fees annually by the same percentage increase as the average UK salaried workforce for the year being reported. As such, the 2019 fees have been increased by 2.9%.

GOVERNANCE DEVELOPMENTS

As a Committee, we have also considered the impact of the changes to the Code which is effective on a comply or explain basis for the 2019 financial year and have assessed how we will embed the new and amended principles in respect of remuneration.

GENDER PAY GAP REPORTING

Whilst the Group has less than 250 employees in the UK and is therefore not required to report under the gender pay gap regulations, the Committee has had the opportunity to review the global analysis of overall gender pay gap and equity of role based pay at a country level. As a result of the analysis, actions are being taken to promote gender balance at senior levels and to address a small number of in role gaps where identified. The Board and the Committee will continue to monitor the situation going forward and were satisfied appropriate actions were being taken.

CONCLUDING REMARKS

The Committee believes that the Policy and our approach to implementation in both 2018 and 2019 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 2019 AGM. If you have any concerns, please feel free to contact me via the Company Secretary at company.secretariat@elementis.com.

ANNUAL REPORT ON REMUNERATION (REPORT)

This Report details how the Company's policies and practices on Directors' remuneration were applied in respect of the financial year ended 31 December 2018 and how they will be applied in the 2019 financial year.

Our measures

ANNUAL BONUS

Adjusted Group profit before tax: $110.9m (excluding Mondo)
Increase by 1% from 2017

Adjusted average trade working capital to sales ratio (AWC): 20.6%
Against target of 20.4%

Non-financial
Objectives aligned with Reignite Growth strategy

LTIP

Earnings per share (EPS): 16.9 cents
Down 11% over the three year period to 2018

Relative Total Shareholder Return (TSR):
TSR over the three year period to 31 December 2018 was 4.3% which was below the median of the FTSE All-Share over this period

How our measures link to strategy

		Strategic priorities			
	Performance metrics	Pursue best growth opportunities	Pursue supply chain transformation	Innovate for high margins and distinctiveness	Create a culture of high performance
Bonus	**Financial: (70%)**				
	Adjusted Group profit before tax	●	●	●	●
	Average trade working capital to sales ratio		●		●
	Non-financial: (30%)				
	Safety, compliance and risk management	●	●	●	●
	Strategic implementation	●	●	●	
	People				●
LTIP	EPS (50%)	●	●	●	●
	Relative TSR versus FTSE All Share (50%)	●	●	●	●
	Return on operating capital employed (underpin)	●	●	●	●

IMPLEMENTATION OF REMUNERATION POLICY FOR 2018

The section below summarises how the Policy was implemented in the financial year ending 31 December 2018. Further details are provided on pages 83 to 89.

Key Policy features	Performance assessment	How we implemented in 2018?

Salary
- Increases normally guided by the general increase for the local workforce and/or broader workforce as a whole

Performance assessment: Not applicable

	Paul Waterman	Ralph Hewins
2018 salary	£651,264*	£344,450

* Equivalent to $873,540

In line with the average increases awarded to the US and UK salaried workforce, the salaries of the CEO and CFO's salary were both increased by 3%. These changes were effective from 1 January 2018.

Pension/ benefits/ all employee share schemes
- Pension: CEO participates in US specific arrangements and receives a salary supplement of 20% of salary and the CFO receives a salary supplement of 25% of salary
- Directors receive market competitive benefits and may participate in all employee share schemes
- The policy for new executives is to limit Company pension contributions to the rates currently provided to comparable roles in the organisation and, in all cases, to a maximum of 25% of salary

Performance assessment: Not applicable

	Paul Waterman	Ralph Hewins
Pension	£182,793	£86,112

- Implementation in line with the Policy

Annual bonus
- Performance related scheme which delivers value for achievement against annual targets
- Committee may adjust outturn where formulaic assessment is inconsistent with Company's overall performance
- 50% of bonus earned deferred into shares for two years
- Recovery and withholding provisions apply

	Paul Waterman	Ralph Hewins
Opportunity	150% of salary	125% of salary
PBT	$110.9m vs target of $115.2m	
Payout	**0% of maximum**	
AWC	20.6% vs target of 20.4%	
Payout	**45% of maximum**	
Non-financial	See pages 85 to 86	
Payout	**87% of maximum**	**90% of maximum**
Total	**35% of maximum**	**36% of maximum**

Further information can be found on pages 84 to 86.

	Paul Waterman	Ralph Hewins
2018 bonus	£352,171*	£159,497
% deferred in shares until Q1 2021	50%	50%

* Equivalent to $472,367

Long term incentive plan
- Performance measures based on financial and/or relative TSR metrics and measured over three years
- Committee may adjust outturn where formulaic assessment is inconsistent with Company's overall performance
- Holding period applies for two years following vesting
- Recovery and withholding provisions apply

	Paul Waterman	Ralph Hewins
2016 LTIP vesting	£0	£0

Ralph Hewins received an award of shares on joining. This award was subject to the same EPS and TSR performance conditions as those made in April 2016 to other participants of the 2016 LTIP. As a result of not meeting performance conditions, these awards will lapse in full.

	Average EPS growth	TSR vs FTSE All Share
Weighting	50%	50%
Threshold target	3% p.a.	Median
Maximum target	10% p.a.	Upper quartile
Actual	0% p.a.	Below threshold
Vesting	0%/50%	0%/50%

Further information can be found on pages 87 to 88.

Share ownership guidelines
- Build up and maintain a shareholding equal to 200% of salary

	Paul Waterman	Ralph Hewins
Guideline	200% of salary	200% of salary
Level	On track 110% of salary	On track 51% of salary

- Both the CEO and CFO increased their holdings during the year. Further information can be found on pages 88 to 89.

DIRECTORS' REMUNERATION REPORT ANNUAL REPORT ON REMUNERATION CONTINUED

IMPLEMENTATION OF REMUNERATION POLICY FOR 2019

The section below summarises how the Committee intends to implement the Policy for the forthcoming financial year ending 31 December 2019.

Key Policy features	2019 implementation
Salary – Level based on the scope and responsibilities of the role – Increases normally guided by the general increase for the local workforce and/or broader workforce as a whole	– 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 planned increase in 2019 for the respective US and UK salaried workforce.
Pension/ benefits/ all employee share schemes – Pension: CEO participates in US specific arrangements and receives a salary supplement of 20% of salary and the CFO receives a salary supplement of 25% of salary – Directors receive market competitive benefits and may participate in all employee share schemes	– Implementation in line with the Policy and no change from 2018.
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	**Performance metrics:** – Adjusted Group PBT: 50% – Average trade working capital to sales ratio: 20% – Non-financial individual 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
Long term incentive plan – Policy maximum is 250% of salary – Awards vest to the extent performance conditions are achieved – Performance measures based on financial and/or relative TSR metrics and measured over three years with a ROCE underpin – Committee may adjust outturn where formulaic assessment is inconsistent with Company's overall performance – Holding period applies for two years following vesting – Recovery and withholding provisions apply – ROCE underpin introduced for the 2019 awards **Link to KPIs** – EPS – Relative TSR – ROCE underpin	**Performance metrics:** (see tables below) – 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%), (ii) base adjusted for full year of Mondo and (iii) the maximum target is increased to reflect the progress made with our Reignite Growth strategy and current internal and broker forecasts

Salary:

	Paul Waterman	Ralph Hewins
Salary as at 1 January 18	$873,540	£344,450
Salary as at 1 January 19	$899,746	£354,439
2019 Increase	(+3%)	(+2.9%)

Annual bonus:

	Paul Waterman	Ralph Hewins
Opportunity	150% of salary	125% of salary

Long term incentive plan:

	Paul Waterman	Ralph Hewins
LTIP Award	200% of salary	175% of salary

	Weighting	Threshold target	Threshold vesting	Maximum target
EPS	50%	3%	0%	12%
Relative TSR vs FTSE all-share index	50%	Median	3.85%	Upper quartile

Key Policy features	2019 implementation
Chair and NED fees To attract individuals with the relevant skills, knowledge and experience that the Board considers necessary in order to maintain an optimal mix that ensures the effectiveness of the Board as a whole in carrying out its duties and responsibilities.	– 2019 fees were increased in line with the average for the UK salaried workforce:

	2019	2018	2019 Increase
Basic fees			
Chairman	**£190,856**	£185,470	(+2.9%)
Non-Executive Director	**£50,164**	£48,750	(+2.9%)
Additional fees			
Senior Independent Director	**£8,716**	£8,470	(+2.9%)
Chair of Audit or Remuneration Committee	**£8,716**	£8,470	(+2.9%)

REMUNERATION PAYABLE TO DIRECTORS FOR 2018 (AUDITED)

Although the Company reports its results in US dollars, the remainder of this report on remuneration is presented in pounds sterling because the majority of the Directors are UK based and paid in pounds sterling.

A breakdown of the Directors' emoluments for the year ended 31 December 2018 is set out in the table below.

		Fixed				Performance related				
£'000	Year	Salary/fees	Benefits	Pension	Sub-total	Bonus	LTIP	Other[4]	Sub-total	Total
Executive Directors										
Paul Waterman, CEO[1, 2]	**2018**	**651**	**43**	**183**	**877**	**352**	**–**	**–**	**352**	**1,229**
	2017	660	68	169	897	948	–	694	1,642	2,539
Ralph Hewins, CFO[2, 3]	**2018**	**344**	**25**	**86**	**455**	**159**	**–**	**–**	**159**	**614**
	2017	334	25	84	443	405	–	140	545	988
Non-Executive Directors										
Andrew Duff, Chairman	**2018**	**185**	**–**	**–**	**185**	**–**	**–**	**–**	**–**	**185**
	2017	180	–	–	180	–	–	–	–	180
Sandra Boss[5]	**2018**	**49**	**–**	**–**	**49**	**–**	**–**	**–**	**–**	**49**
	2017	43	–	–	43	–	–	–	–	43
Dorothee Deuring[6]	**2018**	**49**	**–**	**–**	**49**	**–**	**–**	**–**	**–**	**49**
	2017	39	–	–	39	–	–	–	–	39
Steve Good	**2018**	**57**	**–**	**–**	**57**	**–**	**–**	**–**	**–**	**57**
	2017	53	–	–	53	–	–	–	–	53
Anne Hyland	**2018**	**57**	**–**	**–**	**57**	**–**	**–**	**–**	**–**	**57**
	2017	56	–	–	56	–	–	–	–	56
Nick Salmon	**2018**	**57**	**–**	**–**	**57**	**–**	**–**	**–**	**–**	**57**
	2017	56	–	–	56	–	–	–	–	56
Former Directors										
Andrew Christie[7]	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2017	18	–	–	18	–	–	–	–	18
Total	**2018**	**1,449**	**68**	**269**	**1,786**	**511**	**–**	**–**	**511**	**2,297**
Total	2017	1,439	93	253	1,785	1,353	–	834	2,187	3,972

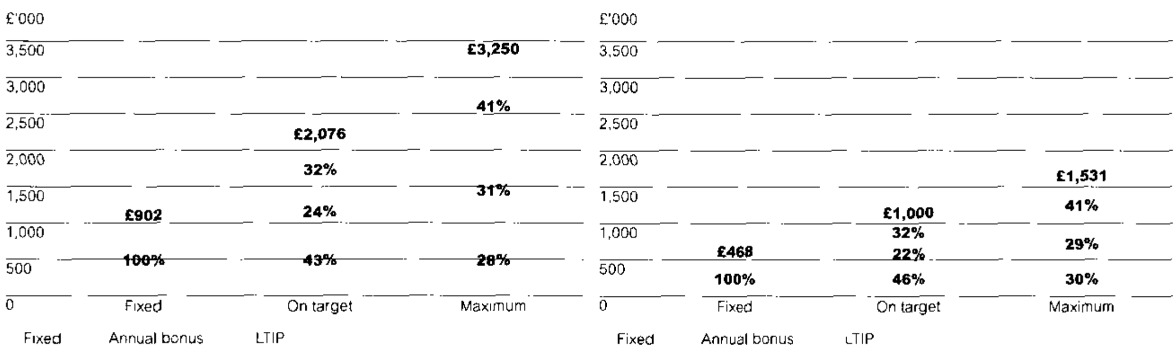
1 Paul Waterman is based in the US and paid in US dollars. He received an annual salary of $873k (2017: $848k). His pension comprises 20% of his salary and employer contributions to defined contribution pension schemes. Foreign exchange rate applied is the 2018 average rate of $1.3413:£1.00 (2017:$1.2858:£1.00). The 2018 bonus shown is equivalent to 52.5% of salary.
2 Taxable benefits for Paul Waterman consist of a car allowance, private health care, dental, life assurance, accidental death and disablement cover and long term disability insurance. Taxable benefits for Ralph Hewins consist of a car allowance, private health care and life assurance.
3 Ralph Hewins bonus 2018 shown is equivalent to 45% of salary.
4 As required by remuneration reporting regulations, the valuation of Paul Waterman's other awards for 2018 (which related to a buyout award which vested on 7 March 2018) has been restated using the actual share price of 310.5875 pence on the date of vesting and dividends paid that had been incurred during the period of grant of the award and the date of delivery.
5 Sandra Boss was appointed as a Non-Executive Director on 1 February 2017.
6 Dorothee Deuring was appointed as a Non-Executive Director on 1 March 2017.
7 Andrew Christie stepped down as a Non-Executive Director on 25 April 2017.

DETERMINATION OF ANNUAL BONUS OUTCOME FOR PERFORMANCE IN 2018 (AUDITED)

This section shows the performance targets set in respect of the 2018 annual bonus scheme, the level of performance achieved and the amount of bonus payable to Directors. The bonus targets were tested against the full year results and the full year bonus payment will be paid in Q1. Half of the amount vesting will be paid in cash and the other half paid in the form of a share award deferred for two years.

		FY 2018 bonus plan targets					Percentage of salary vesting	
Full year bonus	Relative weighting of performance conditions	Threshold	Plan	Stretch	Actual result	Percent of maximum	Paul Waterman CEO	Ralph Hewins CFO
Maximum as % salary							150%	125%
PBT ($ m)	50%	115.2	120.4	132.4	110.9	0%	0%	0%
AWC (%)	20%	22.4	20.4	18.4	20.6	45%	13.5%	11.2%
Non-financial	30%				n/a	n/a	39.0%	33.8%
Total full year	100%						52.5%	45.0%

CEO and CFO rewards scenario analysis



The Committee exercised discretion to exclude the impact of the acquisition of Mondo from the calculation of financial performance (both for PBT and AWC) given it completed late in the year and it was not included in the financial plan upon which the targets had been set.

In addition, the decisions during the year to rebuild chrome ore and zirconium stocks were also excluded from the calculation of AWC to ensure that the target remained aligned with the intent of the condition when originally set and reflecting the Committee's policy that tactical operational decisions should not disadvantage or advantage participants in Group bonus schemes (in practice the impact on 2018 AWC improved from 20.9% to 20.6%).

The above adjustments were made by the Committee to ensure that the condition was no more or less challenging than when initially set and the Committee was satisfied that the adjustments achieved this objective and provided a fair measure of the underlying performance during the year.

For the 2018 annual bonus challenging individual strategic objectives were established by the Committee for each Executive Director that reflected activities and initiatives intended to improve the performance of the Group. The objectives established and the assessment of performance is shown in the table below. The objectives were categorised into three groups – safety, compliance and risk management, strategic implementation and people with each group having a one-third weighting.

The total bonuses were, therefore, at 35% of the maximum in the case of Paul Waterman which equates to 52.5% of salary and 36% of salary for Ralph Hewins which equates to 45% of salary.

The basis of determining the individual out-turn is summarised in the table on pages 85 and 86.

- Achieved in full or predominantly achieved
- Partially achieved
- Not achieved

2018 bonus assessment for CEO

Measure	Objectives	Objectives	Summary scoring
SAFETY, COMPLIANCE AND RISK MANAGEMENT	**To reduce the injury rate** **Performance indicators** Total recordable incident rate (TRIR) target of <0.87 with a threshold <0.97 and stretch of <0.77	World class performance and best result in the history of Elementis. Evidenced by a TRIR of 0.22 for 2018, significantly exceeding the stretch target of 0.77. This excellent result was supported by the implementation of the Enablon software platform for HSE management systems, ongoing safety leadership training and implementation of Elementis safety processes at SummitReheis sites in Germany and US	● 10/10
STRATEGIC IMPLEMENTATION Actions to deliver 'Pursue best growth opportunities' strategic priority	**To deliver quality growth in Personal Care demonstrating the success of the SummitReheis integration** **Performance indicators** – SummitReheis planned synergies delivered in 2018 with 2019 run rate actions in place – Progress key Personal Care capital and innovation pipeline projects to strengthen business as per plan – Complete strategic review of Dental business	This objective was partially achieved and evidenced by: – Total SummitReheis synergies of $3.2m delivered in 2018. Actions are in place for further delivery in 2019 – Personal Care capital achievements included acquisition of new India site, investments in operational processes in the SummitReheis sites in Germany and US – Personal Care innovation achievements included launching new Bentone® gel products which have a five year operating profit contribution – Strategic review of Dental business complete	
STRATEGIC IMPLEMENTATION Actions to deliver 'Pursue supply chain transformation' strategic priority	**Addressing disadvantaged assets** **Performance indicators** – Closure of Changxing site and transfer to Anji – Complete sale of the Surfactants business with a supply agreement – Sale of Jersey City site	This objective was fully met and is an excellent result evidenced by: – The Surfactants business was sold to Kolb Distribution AG for a cash consideration of €39m in February 2018. A supply agreement is in place with no operational issues raised – The Jersey City site was sold for $17m in August 2018 – Closure of Changxing site with activities transferred to Anji in November 2018	● 8/10
STRATEGIC IMPLEMENTATION Actions to deliver 'Pursue best growth opportunities' strategic priority	**New Coatings operating model** **Performance indicators** – Implement a new Global Coatings organisation – Business development strategy for India and South East Asia agreed in H1 2018 – China resins strategy agreed in H1 2018 with an implementation plan on schedule	This objective was fully met and evidenced by: – Global Coatings organisation in place led by Luc van Ravenstein and functioning well – Global Coatings transformation strategy in place and delivering benefits – Strategic development plan for India and South East Asia agreed by Board in H1 2018 – Acquisition of new production facility in India and surrounding regions in December 2018. – China resins strategy review completed and implementation commenced in H1 2018	
PEOPLE Actions to deliver 'Create a culture of high performance' strategic priority	**Succession Planning to ELT** **Performance indicators** Plan in place for each ELT role showing route to 33% diverse candidates within five years	Excellent progress being made, this objective was partially achieved: – Talent and succession plans in place for ELT – Talent plans reviewed and agreed with the Board including progress and plans on gender diversity – ELT and level below ELT roles require female candidate on external short lists	● 8/10

2018 bonus assessment for CFO

Measure	Objective	Performance	Summary scoring
SAFETY, COMPLIANCE AND RISK MANAGEMENT	**To reduce the injury rate** **Performance indicators** Total recordable incident rate (TRIR) target of <0.87 with a threshold <0.97 and stretch of <0.77	World class performance and best result in the history of Elementis. Evidenced by a TRIR of 0.22 for 2018, significantly exceeding the stretch target of 0.77. This excellent result was supported by the implementation of the Enablon software platform for HSE management systems, ongoing safety leadership training and implementation of Elementis safety processes at SummitReheis sites in Germany and US.	● 10/10
STRATEGIC IMPLEMENTATION Actions to deliver 'Pursue best growth opportunities' strategic priority	**To deliver quality growth in Personal Care demonstrating the success of the SummitReheis integration** **Performance indicators** – SummitReheis planned synergies delivered in 2018 with 2019 run rate actions in place. – Progress key Personal Care capital and innovation pipeline projects to strengthen business as per plan – Complete strategic review of Dental business	This objective was partially achieved and evidenced by: – Total SummitReheis synergies of $3.2m delivered in 2018. Actions are in place for further delivery in 2019 – Personal Care capital achievements included acquisition of new India site, investments in operational processes in the SummitReheis sites in Germany and US – Personal Care innovation achievements included launching new Bentone® gel products which have a five year operating profit contribution – Strategic review of Dental business complete	
STRATEGIC IMPLEMENTATION Actions to deliver 'Pursue supply chain transformation' strategic priority	**Addressing disadvantaged assets** **Performance indicators** – Closure of Changxing site and transfer to Anji – Complete sale of the Surfactants business with a supply agreement – Sale of Jersey City site	This objective was fully met and is an excellent result evidenced by: – The Surfactants business was sold to Kolb Distribution AG for a cash consideration of €39m in February 2018. A supply agreement is in place with no operational issues raised. – The Jersey City site was sold for $17m in August 2018 – Closure of Changxing site with activities transferred to Anji in November 2018	● 8/10
STRATEGIC IMPLEMENTATION Actions to deliver 'Create a culture of high performance' strategic priority	**Finance function related** **Pension review** **Performance indicators** Delivery of successful outcome of triennial pension review **Segmental reporting** **Performance indicators** Introduced in mid-2018 – includes the treatment of fixed costs with an accompanying investor relations plan well received by the external market	This objective was achieved in full and evidenced by: – The pensions valuation and negotiations resulted in an agreement approved by the Board and signed with the Trustees resulting in zero cash contributions to the scheme over the next three years – New segment reporting approach was designed and executed for H1 2018 results and was smoothly received in the market – Positive investor feedback has been received on the increased transparency provided	
PEOPLE Actions to deliver 'Create a culture of high performance' strategic priority	**Group reporting capability** **Performance indicators** Strengthening of capability in Group reporting with well managed and timely mid and year end processes	This objective was achieved in full and evidenced by: – High quality appointments have been made to Group Tax, Accounting and Group Performance Management in time for the mid-year review. New processes and delivery of high quality reporting is in place	● 9/10

DIRECTORS' SHARE BASED AWARDS

Determination of 2016 LTIP awards (audited)

The threshold EPS and TSR targets were not met and these awards will lapse in full for all participants including those of Paul Waterman. Ralph Hewins received an award of shares on joining. This award was subject to the same EPS and TSR performance conditions as those made in April 2016 to other participants of the 2016 LTIP and would have ordinarily vested in April 2019 and this award will also lapse in full.

Annual LTIP awards granted in the year (audited)

LTIP awards made in 2018 are set out in the table below and are subject to EPS and TSR performance conditions (split 50:50) over the three years to 31 December 2020 as shown in the table below.

Award holder	Type of share award	Grant date	Number of awards[1]	Face value of award at grant (£'000s)[2]	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)	30.04.18	483,127	1,266	0% of the award subject to the EPS condition **and** 3.85% of the award subject to the TSR condition	31.12.2020	Average annual EPS growth of 3% to 10% **and** TSR performance of median to upper quartile
Ralph Hewins	Nil cost option	30.04.18	229,983	603			

1 The original number of share awards at the date of grant was 442,135 for Paul Waterman and 210,470 for Ralph Hewins The number of awards has been increased by a factor of 1.092715 following the Rights Issue to ensure that the participants are no better or worse off.

2 The share price used to determine the number of awards granted was 286.40 pence, being the average mid-market closing share price on the dealing day preceding the date of grant.

3 Details of deferred bonus and savings based share schemes are shown in the table overleaf

SOURCING SHARES FOR OUR SHARE PLANS

Employee share plans comply with the Investment Association's guidelines on dilution which provide that overall issuance of shares under all plans should not exceed an amount equivalent to 10% of the Company's issued share capital over any ten year period, with a further limitation of 5% in any ten year period on discretionary plans. Based on the number of awards that remain outstanding as at the year end, the Company's headroom for all plans is 3.65% and for discretionary plans 2.96% 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					
	Interest type	Grant date	Option price (p)	01.01.18	Granted during 2018	Exercised during 2018	Lapsed during 2018	Adjusted during 2018[1]	31.12.18	Vested but unexercised share options
Executive Directors										
Paul Waterman	A	07.03.2016	–	225,645	–	206,177	19,468	–	–	–
	B	04.04.2016	–	487,816	–	–	–	45,227	533,043	–
	C	07.03.2017	–	43,953	–	–	–	4,075	48,028	–
	B	03.04.2017	–	469,024	–	–	–	43,485	512,509	–
	C	05.03.2018	–	–	145,988	–	–	13,535	159,523	–
	B	30.04.2018	–	–	442,135	–	–	40,992	483,127	–
Total scheme interests				1,226,438	588,123	206,177	19,468	147,314	1,736,230	Nil
Ralph Hewins	D	19.09.2016	–	240,693	–	–	–	22,315	263,008	–
	C	07.03.2017	–	6,535	–	–	–	605	7,140	–
	E	07.03.2017	–	15,977	–	–	–	1,481	17,458	–
	D	07.03.2017	–	84,434	–	–	–	7,828	92,262	92,262
	B	03.04.2017	–	202,366	–	–	–	18,762	221,128	–
	F	05.09.2017	226.63	7,942	–	–	7,942	–	–	–
	C	05.03.2018	–	–	66,919	–	–	6,204	73,123	–
	B	30.04.2018	–	–	210,470	–	–	19,513	229,983	–
	F	27.11.2018	163.91	–	10,981	–	–	–	10,981	–
Total scheme interests				557,947	288,370	–	7,942	76,708	915,083	92,262

Notes

1 The number of awards has been increased by a factor of 1.092715 following the Rights Issue to ensure that the participants are no better or worse off.

A Replacement award structured as restricted stock units made under standalone arrangements that borrow terms from the LTIP as amended. Paul Waterman retained 113,004 shares following the exercise and sale of options over 206,177 shares granted under tranche 2 of his buyout award granted under the LTIP at a price of 310.5875 pence giving him a pre-tax gain of c.£640k

B LTIP awards are subject to performance conditions. The same EPS growth (annual growth of 3% to 10%) and relative TSR performance conditions apply in respect of the awards made in 2016, 2017 and 2018. These awards ordinarily vest on the third anniversary of the grant date and would expire on the tenth anniversary. Vesting conditions as set out on page 81.

C 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.

D Replacement awards structured as nil cost options made under standalone arrangements that borrow terms from the LTIP as amended. Vesting conditions for the 2017 award as set out on page 87. The 2016 awards will lapse on 4 April 2019.

E Replacement awards structured as nil cost options made under standalone arrangements that borrow terms from the DSBP as amended.

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 24 to the 'consolidated financial statements' on page 150.

DIRECTORS' SHARE INTERESTS (AUDITED)

The interests of the Directors (including any connected persons) during the year (and from the year end to 5 March 2019) in the issued shares of the Company were:

		Share interests			
	01.01.18	Acquired during 2018	Disposed during 2018	31.12.18	Shareholding level met as at 31.12.18
Executive Directors					
Paul Waterman[1]	180,360	214,470	–	394,830	No[2]
Ralph Hewins	–	4,660	–	4,660	No[2]
Non-Executive Directors					
Andrew Duff	50,000	19,500	–	69,500	n/a
Sandra Boss	10,000	5,625	–	15,625	n/a
Dorothee Deuring	10,000	6,250	–	16,250	n/a
Steve Good	10,000	2,500	–	12,500	n/a
Anne Hyland	10,000	12,153	–	22,153	n/a
Nick Salmon	10,000	7,500	–	17,500	n/a

1 Paul Waterman retained 113,004 shares following the exercise and sale of options over 206,177 shares granted under tranche 2 of his buy-out awards.
2 As per the Policy, share awards vesting over time will contribute to meeting the shareholding level.

The market price of ordinary shares at 31 December 2018 was 182.1 pence (2017: 263.7 pence) and the range during 2018 was 166.1 pence to 288.8 pence (2017: 237.1 pence to 290.2 pence). These share prices have been rebased following the Rights Issue.

As at 31 December 2018, the Trustee of the Company's Employee Share Ownership Trust (ESOT) held 828,787 shares (2017: 869,207). 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 5 March 2019, 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 2018 and 5 March 2019 there was no change in the relevant interests of any such Directors nor, so far as the Company is aware, in the relevant interests of any of their connected persons.

Other than their service contracts, letters of appointment and letters of indemnity with the Company, none of the Directors had an interest in any contract of significance in relation to the business of the Company or its subsidiaries at any time during the financial year.

RETIREMENT BENEFITS

The table below shows the breakdown of the retirement benefits of the Executive Directors, comprising employer contributions to defined contribution plans and salary supplements paid in cash.

Paul Waterman received a salary supplement of 20% of his basic salary and participated in the defined contribution plans. 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 83.

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	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Paul Waterman	**58**	37	**125**	132
Ralph Hewins	**n/a**	n/a	**86**	84

PAYMENTS TO PAST DIRECTORS/PAYMENTS FOR LOSS OF OFFICE (AUDITED)

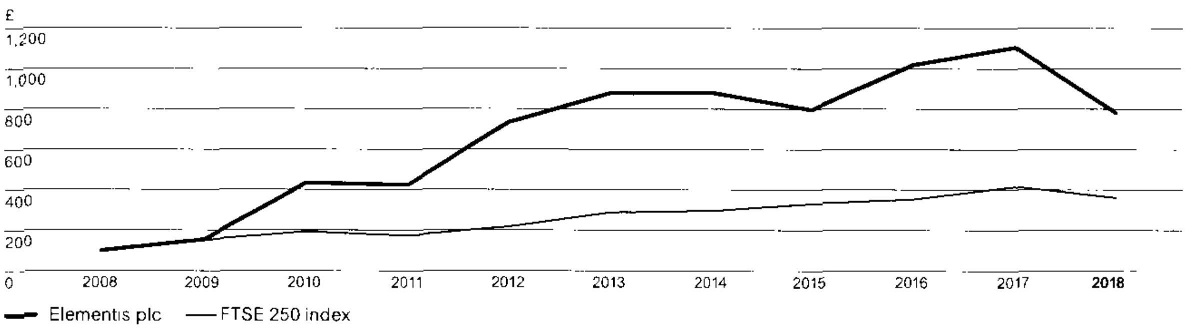
There were no payments in the financial year.

TOTAL SHAREHOLDER RETURN PERFORMANCE AND CHANGE IN CEO'S PAY

The graph below illustrates the Company's total shareholder return for the ten years ended 31 December 2018, relative to the FTSE 250 Index, along with a table illustrating the change in CEO pay since 2009. The table also details the varying award vesting rates year on year for the annual bonus scheme and LTIP.

As the Company's shares are denominated and listed in pence, the graph below looks at the total return to 31 December 2018 of £100 invested in Elementis on 31 December 2008 compared with that of the total return of £100 invested in the FTSE 250 Index. This index was selected for the purpose of providing a relative comparison of performance because the Company is a member of it.

TSR performance (rebased to 100)



	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
CEO pay (total remuneration – £'000s)	576	1,031	2,964	3,560	2,252	1,573	763	1,553[1]	2,539	**1,229**
Annual bonus payout (% of maximum)	0%	100%	100%	81%	56%	50%	0%	27.5%	93.0%	**35.0%**
LTIP vesting (% of maximum)	88%	0%	100%	100%	100%	65%	0%	91.2%[2]	91.4%[3]	**0%**

1 Includes remuneration for Paul Waterman and David Dutro for the period in which each was CEO during 2016 as disclosed in the 2016 Annual Report
2 Relates to Paul Waterman's buy-out awards which vested in March 2017.
3 Relates to Paul Waterman's buy-out awards which vested in March 2018.

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 2018 and the preceding financial year.

£m	**2018**	2017	Change
Remuneration paid to all employees (see Note 8 to the consolidated financial statements)[1]	**100.4**	86.7	15.8%
Total dividends paid in the year[2]	**30.5**	61.7	(50.5)%

1 The amounts for 2018 and 2017 have been converted from dollars into pounds sterling using the average USD/GBP exchange rates for those years.
2 2017 includes a special dividend payment of $38.7m (£31.0m).

PERCENTAGE CHANGE IN CEO'S PAY

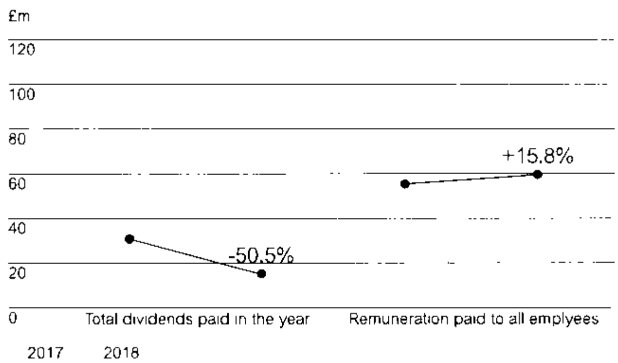
The table below shows the change from 2017 to 2018 of the CEO's pay with regard to the three elements set out below and the corresponding change of these elements across all employees within the Group.

	% Change from 2017 to 2018[1]		
	Salaries	Benefits	Bonus[2]
CEO pay (total remuneration)	(1.3)%	(36.1)%	(62.8)%
All employees[3]	1.9%	0.2%	(61.1)%

1 All percentages are based on converting relevant local currencies into pounds sterling using the average rates for the respective year.
2 Change in bonus relates to payments in respect of the relevant financial years.
3 Excluding Mondo.

Relative importance of spend on pay

Percentage change in CEO's pay



STATEMENT OF SHAREHOLDER VOTING

The resolution to approve the 2017 Directors' remuneration policy and Directors' Remuneration Report was passed on a poll at the Company's last AGM held on 26 April 2018. Set out in the table below are the votes cast by proxy in respect of these resolutions.

	Votes for	% For	Votes against	% Against	Votes withheld
2017 Directors' remuneration report (2018 AGM)	376,548,177	98.94	4,037,197	1.06	1,034,419
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 62 to 63, together with their biographical information. Four meetings were held during 2018 and the attendance of Committee members are shown on page 78. 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.elementisplc.com and the following is a summary of its responsibilities:

- Determining the levels of remuneration for the Chairman and Executive Directors and keeping these under review.
- Making awards under the annual bonus scheme and LTIP, including setting performance targets.
- Monitoring and making recommendations on the design, structure and level of remuneration for all senior executives, ensuring that these are appropriately linked to the Group's strategy and aligned with the Board's risk profile.

Activities during the year

Committee meeting dates	Agenda items
February 2018	– Remuneration policy – shareholder consultation progress update – Approval of new LTIP and Share Save rules prior to AGM – 2015 LTIP performance outcomes and 2018 LTIP targets/performance conditions – 2017 Bonus plan payments, deferred share awards and 2018 bonus plan targets – ELT salary review and bonus payments – Performance outcomes for Paul Waterman's buy-out awards (tranche 2) – Approval of final draft of Directors' remuneration report
April 2018	– 2018 LTIP awards following shareholder approval – Bonus plan – approval of individual objectives for Paul Waterman and Ralph Hewins
July 2018 (additional meeting)	– Impact of the acquisition of Mondo on share plans – Remuneration recommendations for Mondo senior executives and managers – ELT members – treatment of in-flight share awards on retirement
October 2018	– Impact of Rights Issue on EPS for 2016 to 2018 awards – EPS/TSR performance update for 2016 to 2018 awards – Impact of Mondo acquisition for EPS targets for 2016 to 2018 awards – Treatment of share awards for good leavers – Corporate governance update
December 2018	– Chairman's remuneration review – 2019 salary reviews for Paul Waterman and Ralph Hewins – Annual bonus design 2018/19 – New ELT members compensation packages – Corporate governance update

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 2018, Committee members were updated on the latest developments on executive remuneration and all members received briefings from the 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 2018 were £63,558 (excluding VAT).

In addition to the remuneration advisory services provided by Korn Ferry, other teams also provided recruitment services. The Committee is comfortable that this does not 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 2018 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
5 March 2019

DIRECTORS' REPORT

REPORT AND FINANCIAL STATEMENTS

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2018.

ADDITIONAL DISCLOSURE

Other information that is relevant to this report and which is also incorporated by reference can be located as follows:

Business model	Pages 18 to 19
Reignite Growth strategy	Pages 20 to 29
Indication of future developments	Page 11
Dividend	Page 39
Results	Pages 36 to 41
Financial assets and liabilities	Page 107
Financial instruments	Pages 134 to 144
Principal risks	Pages 42 to 48
R&D activities	Pages 26 to 27
People	Pages 50 to 51
Greenhouse gas emissions	Page 57
Going concern	Page 59
Viability statement	Page 59
Long term incentive plans	Page 150 to 152
Dividend waiver	Page 93

The management report, for the purposes of the Listing Rules and Disclosure and Transparency Rules comprises the following sections: the Strategic report, this Directors' report, the Directors' responsibility statement and the biographical information on the Directors on pages 62 and 63.

DIRECTORS

The current Directors and their biographical details are detailed on pages 62 and 63. There have been no changes to the Directors during 2018 and up to the date of this report. Detail of the change of the Company Secretary is set out below:

Name	Title	Effective date
Laura Higgins	Company Secretary	Appointed 31 January 2018
Wai Wong	Company Secretary	Resigned 31 January 2018

The interests of Directors in the share capital of the Company are set out in the Directors' remuneration report. There have been no changes in the interests of the Directors from 31 December 2018 up until the date of this report.

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.

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' CONFLICTS OF INTEREST

Ralph Hewins is in receipt of a conflict authorisation from the Company in respect of him acting as a trustee of the Elementis Group Pension Scheme.

The conflict authorisation enables Ralph Hewins to continue to act as a trustee notwithstanding that this role could give rise to a situation in which there is a conflict of interest. The Board considers that it is appropriate for the trustees of the UK pension scheme to benefit from the financial expertise of the CFO and that his contribution at trustees' meetings demonstrates the Board's commitment to supporting the UK pension scheme. The Board's conflict authorisation is subject to annual review and, under the terms of the conflict resolution, reciprocal provisions have been put in place with a view to safeguarding information that is confidential to the Group as well as to the trustees. Were a conflict of interest to arise, Ralph Hewins is required to excuse himself from reading the relevant papers and absent himself from participating in relevant discussions. Procedures are in place to ensure compliance with the Companies Act 2006. These procedures have been complied with during the year. Details of any new conflicts or potential conflict matters are submitted to the Board for consideration and where appropriate are approved. Authorised conflicts and potential conflict matters are reviewed on an annual basis.

DIRECTORS' INDEMNITIES

In addition to the indemnity granted by the Company to Directors in respect of their liabilities incurred as a result of their office, a Directors' and Officers' liability insurance policy is maintained throughout the year. Neither the indemnity nor the insurance provides cover in the event that a Director has proven to have acted dishonestly or fraudulently. Similar arrangements also exist for Directors appointed to Group subsidiary entities.

SHARE CAPITAL STRUCTURE

The Company's share capital consists of ordinary shares, as set out in Note 17 on page 133. All of the Company's issued ordinary shares are fully paid up and rank equally in all respects.

In October 2018, the Company undertook a one for four rights issue and 116,058,808 new ordinary shares of £0.05 each were issued as a result. The rights attaching to the ordinary shares are set out in the Articles.

The rights attached to the ordinary shares, in addition to those conferred on their holders by law, are set out in the Company's Articles. Other than those specific provisions set out in the Articles, there are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them. 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 2018 the ESOT held 828,787 shares in the Company (2017: 869,207). The ESOT took up all its rights in the recent Rights Issue. A dividend waiver is in place in respect of all shares that may become held by the Trust.

PURCHASE OF SHARES

The Board has the power conferred on it by shareholders to purchase its own shares and is seeking renewal of that power at the forthcoming AGM within the limits set out in the Notice of Meeting.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018 and 5 March 2019, the following interests in voting rights over the issued share capital of the Company had been notified.

	Ordinary shares	Percentage of issued share capital
Ameriprise Financial, Inc. and its group	57,916,440	9.98
APG Asset Management N.V.	55,000,000	9.48
FMR LLC	36,765,204	7.92
BlackRock, Inc.	35,566,458	6.12
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

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 59.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

There are few significant agreements which the Company is party to that take effect, alter or terminate in the event of change of control of the Company. The Company is a guarantor under the Group's $200m and €172m long term loans and $375m revolving credit facility and, in the event of a change of control, any lender among the facility syndicate, of which there are 12 with commitments ranging from $25m to $93m, may withdraw from the facility and that lender's participation in any loans drawn down are required to be repaid.

The rules of the Company's various share incentive schemes set out the consequences of a change of control of the Company on the rights of the participants under those schemes. Under the rules of the respective schemes, participants would generally be able to exercise their options on a change of control, provided that the relevant performance conditions have been satisfied and, where relevant, options are not exchanged for new options granted by an acquiring company.

AUDITORS

Deloitte LLP were appointed the Company's auditors by shareholders at the 2016 AGM and were re-appointed at both the 2017 and the 2018 AGM. A resolution is included in the Notice of Meeting for the 2019 AGM to re-appoint Deloitte LLP as auditors.

The Directors who held office at the date of approval of this Directors' report confirm that, in so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

ANNUAL GENERAL MEETING

The AGM of the Company will be held at 11.00 am on Tuesday 30 April 2019 at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG.

Details of the resolutions to be proposed at the AGM are set out in the Notice of AGM which has been sent to shareholders and is available on the Elementis corporate website www.elementisplc.com.

EMPLOYMENT POLICIES AND EQUAL OPPORTUNITIES

Elementis policies seek to create a workplace that has an open atmosphere of trust, honesty and respect. Harassment or discrimination of any kind based on race, colour, religion, gender, age, national origin, citizenship, mental or physical disabilities, sexual orientation, veteran status, or any other similarly protected status is not tolerated. This principle applies to all aspects of employment, including recruitment and selection, training and development, promotion and retirement.

Employees are free to join a trade union or participate in collective bargaining arrangements.

It is also Group policy for employees who have a disability to reasonably accommodate them, where practicable, and to provide training, career development and promotion, as appropriate.

It is Group policy not to discriminate on the basis of any unlawful criteria and its practices include the prohibition on the use of child or forced labour.

Elementis supports the wider fundamental human rights of its employees worldwide, as well as those of our customers and suppliers, and further details are set out in the section on Resources and Relationships on pages 49 to 58.

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. Following the acquisition of Mondo, the CEO visited newly acquired sites to welcome employees to the Group.

The Company operates savings based share option schemes in the US and UK to encourage and support employee share ownership.

POLITICAL DONATIONS

The Group made no political donations during the year (2017: nil).

BRANCHES

As a global Group, Elementis' interests and activities are held or operated through subsidiaries, branches, joint arrangements or associates which are established in, and subject to the laws and regulations of, many different jurisdictions.

OTHER INFORMATION

Information about financial risk management and exposure to financial market risks are set out in Note 21 to the financial statements on pages 134 to 144.

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
5 March 2019

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:
- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:
- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 5 March 2019 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

Opinion

In our opinion:

- the financial statements of Elementis plc (Parent Company) and its subsidiaries (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 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Balance Sheet;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Cash Flow Statement;
- the Consolidated Financial Statement related Notes 1 to 32;
- the Parent Company Balance Sheet;
- the Parent Company Statement of Changes in Equity; 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 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).

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 (FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SUMMARY OF OUR AUDIT APPROACH

Key audit matters	The key audit matters that we identified in the current year were: – Environmental provision – Acquisition accounting for Mondo Minerals Holdings B.V. – Revenue recognition
Materiality	The materiality that we used for the Group financial statements was $5.3m which equates to 5.3% of profit before tax adjusted for the sale of operations, acquisition and restructuring costs, pension costs and other adjusting items.
Scoping	We have performed full scope audits of four components, specified account balances on one component. Full scope audits and specified account balances comprised of 86% of the Group's revenue and 88% of the Group's profit before tax.
Significant changes in our approach	Following the announcement of the acquisition of Mondo Minerals Holdings B.V., we have identified a new key audit matter to report in respect of the acquisition accounting of Mondo Minerals Holdings B.V. and a new component consisting of Mondo Minerals. We no longer consider the acquisition accounting of SummitReheis to be a key audit matter as the acquisition was completed in 2017.

CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

Going concern

We have reviewed the Directors' statement in Note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: – the disclosures on pages 42 to 48 that describe the principal risks and explain how they are being managed or mitigated; – the Directors' confirmation on page 59 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or – the Directors' explanation on page 59 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELEMENTIS PLC CONTINUED

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.

Environmental provision

Key audit matter description

In line with other companies within chemical industry, Elementis holds provisions for the monitoring and remediation of a number of operating and legacy sites, including those sold off or no longer in use. In accordance with the Elementis' environmental provision policy, a provision is recognised for the restoration of contaminated land.

As at 31 December 2018, Elementis has recognised a provision of $43.3m (31 December 2017: $27.8m) against these liabilities, of which the most significant two sites being Chromium UK site at Eaglescliffe and the Chromium US site at Corpus Christi. There has been an increase in the total provision required of $18.8m, which predominantly relates to these two sites and is due to reassessment of the future forecast cash expenditure required.

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 horizons over which costs for these two sites are anticipated, small changes in annual cash outflows can have a significant cumulative impact on the total provision required. The cash flow is estimated and calculated by an external environmental consultant and by management. These cash flows are then discounted at the management determined discount rate. Due to the judgemental and material nature of estimation of such forecast spending, we have considered the valuation of the provision on these two sites to be a key audit matter.

The Group's accounting policy is included within Note 1 to the consolidated financial statements where this is also included as a critical accounting judgement. There is additional disclosure included within Note 15. The Audit Committee discussion is included on page 74.

How the scope of our audit responded to the key audit matter

We have audited the assumptions used in management's calculation of the provision. Our procedures included:

- Holding discussions with management and the Group's external environmental consultant on the identified environmental issues to confirm our understanding of the current situation and the process by which management and the external consultant prepared the cash flow forecasts;
- Assessing the appropriateness of forecast of individual cost categories on each significant site selected for completeness testing through discussions with site managers at relevant locations;
- Engaging our internal valuation experts to challenge the appropriateness of the discount rates applied by comparison to our own internal benchmark data;
- Challenging the key assumptions and inputs to forecast the cash flows and agreeing the inputs to supporting documentation;
- Reviewing the previous estimates made of expected outflows to actual outflows to determine the reasonableness of the project spend; and
- Performing searches of external databases to determine completeness of the identified environmental issues and sites.

Key observations

As a result of our work, we have concluded that the provisions held by Elementis in relation to environmental remediation and monitoring appear reasonable.

Acquisition accounting for Mondo Minerals Holdings B.V.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
In October 2018, Elementis acquired 100% of the share capital of Mondo Minerals Holding B.V. for consideration of $546.9m, which includes contingent consideration of $22.3m. The acquisition meets the definition of a business combination and is therefore required to be accounted for under IFRS 3 "Business Combination". Management commissioned an independent valuation expert to assist with the identification and valuation of separate assets (including intangible assets) and liabilities. The acquisition of Mondo Minerals Holding B.V. resulted in the identification and recognition of goodwill of $200.5m and other intangible assets of $88.3m. Accounting for business combinations is complex and requires the recognition of both consideration paid and acquired assets and liabilities at the acquisition date at fair values, which can involve significant judgement and estimates. These comprise the identification and valuation of intangible assets acquired in business combinations, including key assumptions such as the discount rates and growth rates of separately identifiable intangible assets, as well as the valuation of fair value attributed to the deferred contingent consideration. 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. These significant judgement areas are also referred to within the Audit Committee report on page 74. Further details are disclosed in Note 10 and Note 31.	Our procedures included: – Reviewing the relevant sale and purchase agreement; – Testing the cash value of consideration to relevant transaction agreements and bank statements; – Challenging management's estimates used in the valuation of the deferred contingent consideration, including estimating our own range of acceptable values; – Reviewing the process that management had undertaken to determine the fair value of the business acquired including the fair value of the intangible assets; – Engaging Deloitte internal valuation specialists to review and challenge the identification of intangible assets, the appropriateness of the valuation techniques used and benchmark the reasonableness of the key assumptions used, such as discount rates, useful economic lives and growth rates; – Evaluating the information supporting the valuation model, contingent consideration and assumptions, for example, the operating profit forecasts and churn assumptions used in the fair value analysis; and, – Reviewing the adequacy of disclosures regarding the key judgements made and assets and liabilities acquired.	Based on the work performed above, we are satisfied that the acquisition of Mondo Minerals Holding B.V. has been appropriately accounted for in accordance with IFRS 3 "Business Combinations" and that the deferred contingent consideration is appropriate.

Revenue recognition

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
At the year end, there are varying adjustments required for goods which have been despatched but not met the definition for transferring control of the goods to the customer in line with IFRS 15. Management have determined the point at which control passes based on different shipping terms and the key judgement relates to the assumptions around the delivery times to this point. The Group trades globally and a change in the number of days assumed for these shipments can have a material impact on the cut-off adjustment. Given the level of management judgement involved, we identified this key audit matter as a potential fraud risk. The accounting policy is described in Note 1 where this is also included as a critical accounting judgement. These significant judgement areas are also referred to within the Audit Committee report on page 74.	Our procedures included: – Reviewing and assessing commercial arrangements covering shipments, to determine the correct point of revenue recognition for different shipment arrangements and agreements with customers; – Assessing management's revenue policy as a result of the implementation of IFRS 15; – 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 tested credit notes raised post year end to determine if revenue was inappropriately recognised in the year.	From the work performed, we have noted no material misstatements and 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.

OUR APPLICATION OF 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	$5.3m (2017: $5.0m)	$2.1m (2017: $2.5m)
Basis for determining materiality	Materiality was set on the basis of 5.3% of profit before tax, adjusted for the sale of operations, acquisition and restructuring costs, pension costs and other adjusting items with the exception of amortisation of intangible assets. In the prior year, materiality was set on the basis of 4.8% of profit before tax, adjusted for discontinued operations, acquisition and restructuring costs and other adjusting items.	A factor of 3% of net assets was used capped to an appropriate component materiality 40% (2017: 50%) of Group materiality.
Rationale for the benchmark applied	We have used adjusted profit before tax as we consider this to be a key performance measure for the Group. This metric is important to users of the financial statements (investors and analysts being the key users for a listed entity) because it portrays the performance of the business and hence its ability to pay a return on investment to the investors and also has substantial prominence in the Annual Report. Our rationale for excluding acquisition, restructuring and other adjusting items is that these are one off costs and are routinely added back by analysts in analysing company performance.	We have used net assets in determining materiality as we believe this is an appropriate basis for materiality as it reflects the nature of the parent company as a holding company and its contribution to the Group performance.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $265 thousand (2017: $250 thousand) for the Group, 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.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

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.

The scope of our 2018 audit included an additional component due to the Mondo Mineral Holdings B.V. acquisition, which offset the removal of the Netherlands Surfactants operations that was disposed of in February 2018 and the amalgamation of the SummitReheis operations in the US into the Personal Care, Coatings and Energy (Specialty products) operations in the US. There are five components for the 2018 year end, of which, four are significant to the Group:

- the Specialty products operations in the US,
- the Chromium operations in the US;
- the Specialty products operations in the UK; and,
- the Specialty products operations in Taiwan, including the Chinese operations.

These four locations were subject to full scope audits, which were performed by local component auditors under the direction and supervision of the Group audit team, except the Speciality UK operations where the Group audit team performed the audit without the involvement of a component team. In addition, Mondo Mineral Holdings B.V. was subject to the audit of specified account balances performed by local component teams in the Netherlands and Finland, as this was only acquired on the 23 October 2018.

Our audit work on the five components was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from \$2.1m to \$3.7m (2017: \$2.5m to \$2.8m).

The in-scope locations (those at which a full scope audit or audit of specified balances were performed) represent the principal business units within the Group's operating divisions and account for 86% (2017: 93%) of the Group's revenue and 88% (2017: 99%) of the Group's profit before tax.

	Revenue	Profit before tax
Full scope audit	83%	86%
Audit of specified account balances	3%	2%
Review at Group level	14%	12%

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.

As part of the audit process, the senior members, including the Group Audit Partner, of the audit team visited all of the locations subject to full scope audit procedures or the audit of specified account balances (2017: six of seven) set out above. During our visits, we attended key meetings with component management and auditors, and reviewed detailed component audit work papers.

In addition to the planned programme of visits, planning meetings were held with key component audit teams. The purpose of these planning meetings was to ensure a good level of understanding of the Group's businesses, its core strategy and a discussion of the significant risks.

We also send detailed instructions to our component auditors, include them our team briefing, discuss their risk assessment, and review documentation of the findings from their work. We also provided direction on enquiries made by the component auditors through online and telephone conversations. All the findings noted were discussed with the component auditor in detail and further procedures to be performed were issued where relevant.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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, our procedures included the following:

- enquiring of management, internal audit, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's 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;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions, and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: posting of spurious journal entries and manually manipulating revenue to meet targets; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation. In addition to those laws and regulations having a direct effect, considering the nature of the Group's activities, we considered environmental regulations as having a fundamental effect on the operations of the Group.

Audit response to risks identified

As a result of performing the above, we identified "revenue recognition" and "environmental provision" as key audit matters. The key audit matters section of our report explains the matters in more detail and describes the specific procedures we performed in response to this key audit matters.

In addition, to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELEMENTIS PLC CONTINUED

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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 of 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.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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.

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.

OTHER MATTERS

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 three years, covering the years ending 31 December 2016 to 31 December 2018.

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).

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
5 March 2019

FINANCIAL STATEMENTS

In this section:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	**2018 $m**	2017 $m
Revenue	2	**822.2**	782.7
Cost of sales		**(516.6)**	(487.6)
Gross profit		**305.6**	295.1
Distribution costs		**(111.6)**	(98.0)
Administrative expenses		**(109.0)**	(105.6)
Net impairment losses on financial assets		**(0.1)**	(0.1)
Operating profit	2	**84.9**	91.4
Other expenses[1]		**(1.6)**	(1.2)
Finance income	3	**0.3**	0.2
Finance costs	4	**(18.2)**	(11.9)
Profit before income tax		**65.4**	78.5
Tax	6	**(15.6)**	34.2
Profit from continuing operations		**49.8**	112.7
Profit/(loss) from discontinued operations	32	**(8.4)**	4.9
Profit for the year		**41.4**	117.6
Attributable to:			
Equity holders of the parent		**41.4**	117.6
		41.4	117.6
Earnings per share			
From continuing operations			
Basic (cents)[2]	9	**9.5**	22.3
Diluted (cents)[2]	9	**9.5**	22.0
From continuing and discontinued operations			
Basic (cents)[2]	9	**7.9**	23.3
Diluted (cents)[2]	9	**7.9**	23.0

1 Other expenses comprises administration expenses for the Group's pension schemes
2 2017 earnings per share amounts rebased to reflect adjustments associated with the rights issue (see Note 9).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 $m	2017 $m
Profit for the year	**41.4**	117.6
Other comprehensive income:		
Items that will not be reclassified subsequently to profit and loss:		
Remeasurements of retirement benefit obligations	**5.3**	18.1
Deferred tax associated with retirement benefit obligations	**0.7**	(7.3)
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	**0.5**	(0.2)
Effective portion of change in fair value of net investment hedge	**(20.5)**	22.9
Recycling of deferred foreign exchange losses on disposal	**4.2**	–
Effective portion of changes in fair value of cash flow hedges	**1.4**	0.1
Fair value of cash flow hedges transferred to income statement	**(0.1)**	0.3
Income tax effect	**–**	–
Exchange differences on translation of share options reserves	**(0.4)**	0.1
Other comprehensive income	**(8.9)**	34.0
Total comprehensive income for the year	**32.5**	151.6
Attributable to:		
Equity holders of the parent	**32.5**	151.6
Total comprehensive income for the year	**32.5**	151.6

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2018

	Note	2018 31 December $m	2017 31 December $m
Non-current assets			
Goodwill and other intangible assets	10	**976.6**	717.2
Property, plant and equipment	11	**478.2**	219.5
ACT recoverable	16	**9.8**	16.2
Deferred tax assets	16	**24.4**	0.2
Total non-current assets		**1,489.0**	953.1
Current assets			
Inventories	12	**188.7**	143.6
Trade and other receivables	13	**139.4**	124.6
Derivatives	21	**2.0**	0.9
Current tax assets		**3.0**	4.3
Cash and cash equivalents	20	**96.1**	55.0
Total current assets		**429.2**	328.4
Assets classified as held for sale	32	–	58.2
Total assets		**1,918.2**	1,339.7
Current liabilities			
Bank overdrafts and loans	19	**(2.8)**	(2.7)
Trade and other payables	14	**(140.6)**	(117.7)
Financial liabilities	31	**(0.1)**	–
Current tax liabilities		**(17.1)**	(14.1)
Provisions	15	**(7.3)**	(10.8)
Total current liabilities		**(167.9)**	(145.3)
Non-current liabilities			
Loans and borrowings	19	**(591.4)**	(343.4)
Retirement benefit obligations	23	**(9.9)**	(10.5)
Deferred tax liabilities	16	**(151.7)**	(93.4)
Provisions	15	**(41.5)**	(21.9)
Financial liabilities	31	**(40.2)**	–
Total non-current liabilities		**(834.7)**	(469.2)
Liabilities classified as held for sale	32	–	(22.9)
Total liabilities		**(1,002.6)**	(637.4)
Net assets		**915.6**	702.3
Equity			
Share capital	17	**52.1**	44.4
Share premium		**237.6**	21.9
Other reserves	18	**85.5**	99.0
Retained earnings		**540.4**	537.0
Total equity attributable to equity holders of the parent		**915.6**	702.3
Total equity		**915.6**	702.3

The financial statements on pages 106 to 155 were approved by the Board on 5 March 2019 and signed on its behalf by:

PAUL WATERMAN
CEO

RALPH HEWINS
CFO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital $m	Share premium $	Translation reserve $m	Hedging reserve $m	Other reserves $m	Retained earnings $m	Total equity $m
Balance at 1 January 2017	44.4	20.9	(79.9)	(7.3)	162.4	486.6	627.1
Comprehensive income							
Profit for the year	–	–	–	–	–	117.6	117.6
Other comprehensive income							
Exchange differences	–	–	22.7	–	0.1	–	22.8
Fair value of cash flow hedges transferred to the income statement	–	–	–	0.1	–	–	0.1
Effective portion of changes in fair value of cash flow hedges	–	–	–	0.3	–	–	0.3
Remeasurements of retirement benefit obligations	–	–	–	–	–	18.1	18.1
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	(7.3)	(7.3)
Transfer	–	–	–	–	(2.2)	2.2	–
Total other comprehensive income	–	–	22.7	0.4	(2.1)	13.0	34.0
Total comprehensive income	–	–	22.7	0.4	(2.1)	130.6	151.6
Transactions with owners							
Purchase of own shares	–	–	–	–	–	(2.4)	(2.4)
Issue of shares by the Company	–	1.0	–	–	–	–	0.1
Share based payments	–	–	–	–	2.8	–	2.8
Dividends paid	–	–	–	–	–	(77.8)	(77.8)
Total transactions with owners	–	1.0	–	–	2.8	(80.2)	(76.4)
Balance at 31 December 2017	44.4	21.9	(57.2)	(6.9)	163.1	537.0	702.3
Balance at 1 January 2018	44.4	21.9	(57.2)	(6.9)	163.1	537.0	702.3
Impact following adoption of IFRS 15	–	–	–	–	–	(0.9)	(0.9)
Revised at 1 January 2018	44.4	21.9	(57.2)	(6.9)	163.1	536.1	701.4
Comprehensive income							
Profit for the year	–	–	–	–	–	41.4	41.4
Other comprehensive income							
Exchange differences	–	–	(20.0)	–	(0.4)	–	(20.4)
Recycling of deferred foreign exchange losses on disposal	–	–	4.2	–	–	–	4.2
Fair value of cash flow hedges transferred to the income statement	–	–	–	(0.1)	–	–	(0.1)
Effective portion of changes in fair value of cash flow hedges	–	–	–	1.4	–	–	1.4
Remeasurements of retirement benefit obligations	–	–	–	–	–	5.3	5.3
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	0.7	0.7
Transfer	–	–	–	–	(1.5)	1.5	–
Total other comprehensive income	–	–	(15.8)	1.3	(1.9)	7.5	(8.9)
Total comprehensive income	–	–	(15.8)	1.3	(1.9)	48.9	32.5
Transactions with owners:							
Purchase of own shares	–	–	–	–	–	(0.3)	(0.3)
Issue of shares by the Company[1]	7.7	215.7	–	–	–	–	223.4
Share based payments	–	–	–	–	2.9	–	2.9
Deferred tax on share based payments recognised within equity	–	–	–	–	–	(2.4)	(2.4)
Dividends paid	–	–	–	–	–	(41.9)	(41.9)
Total transactions with owners	7.7	215.7	–	–	2.9	(44.6)	181.7
Balance at 31 December 2018	52.1	237.6	(73.0)	(5.6)	164.1	540.4	915.6

1 The rights issue raised gross proceeds of $232.7m The total amount capitalised to share capital and share premium was $222.2m ($232.7m less issuance costs of $10.5m).

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 $m	2017 $m
Operating activities:			
Profit for the year		**41.4**	117.6
Adjustments for:			
Other expenses		**1.6**	1.2
Finance income	3	**(0.2)**	(0.2)
Finance costs	4	**18.2**	11.9
Tax charge	6	**13.6**	(33.3)
Depreciation and amortisation	7	**45.9**	39.7
Increase/(decrease) in provisions	15	**9.2**	(8.5)
Pension payments net of current service cost	23	**1.9**	(6.3)
Share based payments	24	**2.8**	2.8
Profit on disposal of business	32	**(12.1)**	–
Operating cash flow before movement in working capital		**122.3**	124.9
Increase in inventories		**(24.6)**	(2.2)
Increase in trade and other receivables		**(2.8)**	(2.4)
Increase in trade and other payables		**10.6**	11.5
Cash generated by operations		**105.5**	131.8
Income taxes paid	6	**(6.9)**	(9.1)
Interest paid	4	**(14.3)**	(8.0)
Net cash flow from operating activities		**84.3**	114.7
Investing activities:			
Interest received	3	**–**	0.1
Disposal of property, plant and equipment	11	**0.6**	3.3
Purchase of property, plant and equipment		**(50.0)**	(43.2)
Purchase of business net of cash acquired	31	**(484.7)**	(361.8)
Disposal	32	**58.0**	–
Acquisition of intangible assets	10	**(1.4)**	(1.7)
Net cash flow from investing activities		**(477.5)**	(403.3)
Financing activities:			
Issue of shares by the Company and the ESOT net of issue costs		**223.3**	1.0
Dividends paid	27	**(41.9)**	(77.8)
Purchase of shares by the ESOT		**(0.3)**	(2.4)
Proceeds on issue of debt		**554.7**	336.0
Repayment of term debt		**(296.7)**	–
Net cash used in financing activities		**439.1**	256.8
Net increase in cash and cash equivalents		**45.9**	(31.8)
Cash and cash equivalents at 1 January		**55.0**	82.6
Foreign exchange on cash and cash equivalents		**(4.8)**	4.2
Cash and cash equivalents at 31 December	20	**96.1**	55.0

No cash or cash equivalents were included in assets held for sale as at 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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 156 to 163.

Basis of preparation
The financial statements have been prepared on the historical cost basis except that derivative financial instruments are stated at their fair value. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. The preparation of financial statements requires the application of estimates and judgements that affect the reported amounts of assets and liabilities, revenues and costs and related disclosures at the balance sheet date. The Group's accounting policies have been updated following the adoption of a number of new standards and amendments to standards that have been issued and are now effective for the Group.

The financial statements have been prepared on a going concern basis. The rationale for adopting this basis is discussed in the Directors' report on page 94.

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

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 are discussed below. The development of the estimates and disclosures related to each of these matters has been discussed by the Audit Committee.

Critical accounting judgements
The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Where relevant and practicable, sensitivity analyses are disclosed in the relevant notes to demonstrate the impact of changes in estimates or assumptions used.

a. Recognition of a defined benefit pension asset
In accordance with IAS 19, for any pension plan in surplus, the amount recognised as an asset is limited to an asset ceiling, being the present value of any potential refund or a reduction in future contributions. Following the guidance in IFRIC 14, the Group has assessed the nature of the minimum funding requirement of the UK scheme alongside the unconditional right to a refund of any surplus under any winding up of the plan and concluded it is appropriate to recognise the full value of any pension surplus.

b. Use of adjusted results
The Group presents adjusted results (Note 5) to provide additional useful information on underlying performance and trends to shareholders. These results are used for internal performance analysis.

The term 'adjusted' is not a defined term under IFRS and may not therefore be comparable with similarly titled profit measurements reported by other companies. It is not intended to be a substitute for, or superior to, IFRS measurements of profit. Refer to Note 5 for the adjusting items and a reconciliation to statutory IFRS results.

c. 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 port. 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. Purchase price allocation
In order to determine the value of the separately identifiable intangible assets on a business combination, the Group is required to make estimates when utilising valuation methodologies. These methodologies include the use of attrition rates, discounted cash flows, revenue forecasts and the estimates for the useful economic lives of intangible assets.

Key areas of judgement surrounded the evaluation of the technical know-how in relation to the flotation production process and customer lists. Key assumptions made were around the average useful economic lives of 15 years for both the production process and the customer lists as well as the attrition rate of customers of Mondo.

b. **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.

c. **The carrying values of advance corporation tax**
In 2014, an asset of $42.0m was recognised relating to UK advance corporation credits which had previously been unrecognised because of uncertainty over the availability of UK taxable profits and hence a tax liability against which to utilise the credits. During 2014 the Group transferred some profitable product manufacturing to the UK from overseas, restructured the financing of an overseas subsidiary and gained greater certainty on future UK pension contributions, all of which led to a reasonable expectation that UK taxable profits would arise in the future and therefore that the tax credits should be recognised. The recognition of this deferred tax asset is contingent on the Group's estimation of future taxable income and this estimation is supported by the Group's latest available three year plan. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

d. **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 23.

e. **Contingent consideration**
Contingent consideration in relation to the acquisition of Mondo is payable dependent on the acquired business achieving certain targets within a fixed period post acquisition. Estimates of future performance are required to calculate the obligation at the date of acquisition and at each subsequent reporting date. Further details of the range of possible outcomes and sensitivity of carrying amounts to changes in assumptions are disclosed in Note 31.

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.

Changes in accounting policies
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments.

Initial adoption of IFRS 15 Revenue from Contracts with Customers
IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 replacing all prior revenue requirements in IFRS and applies to all revenue arising from contracts with customers unless the contracts are within the scope of other standards such as IAS 17 Leases.

The standard outlines the principles entities must apply to measure and recognise revenue with the core principle being that revenue is recognised when performance obligations within a customer contract are fulfilled, rather than when risk, reward and control passes to a customer.

The principles in IFRS 15 must be applied using the following five step model:

1 Identify the contract(s) with a customer
2 Identify the performance obligations in the contract
3 Determine the transaction price
4 Allocate the transaction price to the performance obligations in the contract
5 Recognise revenue when or as the entity satisfies its performance obligations

There has been no material impact of the new standard on the Group's recognition of revenue. The comparative financial information has not been restated with this change applied using the modified retrospective approach from 1 January 2018 in accordance with paragraph C3(b) of the standard, with the cumulative effect of applying the standard recognised as at that date.

The change did not have a material impact on the Group's operating, investing and financing cash flows and the basic and diluted EPS.

Details of the change in the Group's accounting policy in respect of revenue recognition are set out overleaf.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

1. ACCOUNTING POLICIES CONTINUED

Initial adoption of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and related consequential amendments to other IFRS Standards that are effective for an annual period that began on or after 1 January 2018. The Standard replaces the provisions of IAS 39 that relate to the recognition, classification, measurement and de-recognition of financial instruments, impairment of financial assets and hedge accounting. The financial impact of the new standard on the measurement of, and provisioning for, the Group's financial assets and liabilities is immaterial at both period opening and closing dates. With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. In accordance with the transitional provisions in IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 and to the comparative period.

The change did not have a material impact on the Group's operating, investing and financing cash flows and the basic and diluted EPS.

(i) Classification and measurement

Financial assets

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequently financial assets are measured at either amortised cost, fair value through other comprehensive income or fair value through profit or loss. Measurement is dependent on two criteria:
- The Group's business model for managing the financial assets, and
- Whether the contractual cash flows represent solely payments of principal and interest

The Group's derivative financial instruments not designated within hedging relationships are measured at fair value through profit or loss as they fail the contractual cash flows test outlined above. The following are the changes in the classification of the Group's financial assets:
- Trade receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortised cost beginning on 1 January 2018. At 31 December 2017 they were classified as loans and receivables under IAS 39 but still measured at amortised cost, which is the method of measurement under IFRS 9.

Financial liabilities

The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

In summary, upon the adoption of IFRS 9, the Group had the following required or elected reclassifications:

	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original $m	New $m	Difference $m
Current financial assets					
Trade receivables	**Loans and receivables**	**Amortised cost**	**109.9**	**109.9**	–

The Group's impairment allowances for trade receivables under IAS 39 are unchanged under the IFRS 9 loss allowance model and thus a reconciliation between the two has not been provided. The amounts of the loss allowance are disclosed in Note 21.

(ii) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

The Group has applied the simplified approach in calculating the expected credit loss on the trade receivables portfolio recognising full lifetime expected credit losses on transition. The Group has established a provision matrix which takes into account the Group's historical credit loss experience adjusted for historical conditions that are not relevant to future cash flows and forward looking factors specific to the debtor and economic environment. The effect of applying the new expected credit loss model on the Group's impairment of trade and other receivables has been immaterial.

(iii) Hedge accounting
At the date of initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of IFRS 9, the Group designated the change in fair value of the entire forward contracts in its cash flow hedge relationships. Upon adoption of the hedge accounting requirements of IFRS 9, the Group designates only the spot element of forward contracts as the hedging instrument. The forward element is recognised in profit and loss.

Cash flow hedges
Consistent with prior periods the Group continues to designate its interest rate swaps, fx forwards and interest rate caps and collars in cash flow hedging relationships with the effective portion of changes in fair value of the hedging instruments recognised in other comprehensive income and accumulated in the hedging reserve in equity. The ineffective portion of any changes in fair value of the hedging instruments are recognised in the income statement immediately.

Fair value hedges
The Group does not have any fair value hedges.

Hedges of a net investment in foreign operations
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 will be recycled to profit or loss. This is unchanged from the treatment under IAS 39.

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.

Estimates of useful lives of these assets are:

Buildings	10 – 50 years
Plant and machinery	2 – 20 years
Fixtures, fittings and equipment	2 – 20 years

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.

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 at each balance sheet date. 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

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 11.

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.

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 considers a financial asset in default when contractual payments are 120 days past due. However, 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.

Leased assets

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.

Investments

Investments comprising loans and receivables are stated at amortised cost.

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

From 1 January 2018

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 managements expectations of future economic factors, further information on expected credit loss impairment is given in the impairment accounting policy. Individual trade receivables are written off when management deem them to be no longer collectable. There has been no material impact in recognition and measurement of the Group's trade receivables in moving from the criteria of IAS 39 to IFRS 9.

Period to 31 December 2017

Trade receivables for the year ending 31 December 2017 are measured at amortised cost consistent with the treatment under IFRS 9, albeit the IAS 39 classification is referred to as loans and receivables. Provision for bad and doubtful receivables was made based on the ageing of receivables and historical experience. Individual trade receivables were written off when management deem them to be no longer collectable which is consistent with the treatment in the current period under IFRS 9.

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.

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 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. Repurchased shares by the Company are classified as treasury shares and are presented as a deduction from total equity.

1. ACCOUNTING POLICIES CONTINUED

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks. 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 as separate line items within assets and liabilities. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

a. Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit and loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset the gains or losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset.

b. Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in a fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement.

The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

c. Hedges of a net investment in a foreign operation

The Group designates the foreign exchange gain or loss on a proportion of the Group's Euro and US dollar denominated borrowings as a hedge of the Group's net investment in foreign operations. As such the foreign exchange gain or loss on those borrowings is recognised in other comprehensive income and accumulated in equity until such time as the operations are disposed of at which point the corresponding amounts are recycled to profit or loss.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Revenue

Revenue is recognised upon transfer of promised goods to customers (the performance obligation) in an amount that reflects the consideration the Company expects to receive in exchange for those goods. This may occur, depending on the individual customer relationship, when the product has been transferred to a freight carrier, when the customer has received the product or, for consignment stock held at customers' premises, when usage reports for the relevant period have been compiled.

All revenue is from contracts with customers and pertains to the sale of specialty chemicals products, selling prices are agreed in advance and hence are directly observable.

The Group's payment terms offered to customers are within a certain number of days of receipt of invoice and standard contracts do not include a significant financing component. The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Under previous accounting, provisions were put in place for returns, trade discounts and rebates as a deduction from revenue at the point in time the related revenue was recognised. Under IFRS 15 these elements of variable consideration are also 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. Therefore the transition to IFRS 15 does not alter the accounting for these transactions.

Were the previous accounting policy to be applied to the 12 month period ending 31 December 2018 the adjustment required to financial statement line items and earnings per share reported for that period would be nil.

IAS 18 Revenue accounting policy, applied to periods ending up to and including 31 December 2017

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and rebates. Revenue is recognised in the income statement only where there is evidence that the significant risks and rewards of ownership have been transferred to the customer and where the collectability of revenue is reasonably assured. 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. Where goods are shipped but the Group continues to bear insurance risk until they reach their destination, revenue is only recognised when the goods reach their destination.

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 assets 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, unwinding of the discount on provisions, dividends on preference shares classified as debt, foreign currency losses and changes in the value of financial assets 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.

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 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:
- Annual Improvements to IFRSs: 2014-2016 Cycle
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 2 (amendments) Classification and Measurement of Share-Based Payment Transactions
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

1. ACCOUNTING POLICIES CONTINUED

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised international accounting standards (IAS/IFRSs) and interpretations (IFRICs) that have been issued but are not effective for periods starting on 1 January 2018 but will be effective for later periods:

	Effective date
International Accounting Standards (IAS/IFRSs) and Interpretations (IFRICs)	
Endorsed by the EU	
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
IFRS 16 Leases	1 January 2019
Not yet endorsed by the EU:	
IFRS 17 Insurance Contracts	1 January 2021
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
IAS 28 Amendments: Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual Improvements to IFRS Standards 2015 – 2017 Cycle	1 January 2019
IAS 19 Amendments: Plan Amendment, Curtailment or Settlement	1 January 2019
IFRS 10 and IAS 28 Amendments: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely

The Directors have completed an initial assessment of IFRS 16, and believe the main impacts on the financial statements will be:

- It is anticipated that financial liabilities on implementation of the standard will increase by approximately $50-55m as obligations to make future payments under leases currently classified as operating leases will be recognised on the balance sheet. Non-current assets will also increase on implementation but by a lower amount
- On adoption, each 'right-of-use' asset will not exceed its recoverable amount. The Group will also annually review the 'right-of-use' assets for impairment
- There will be a net reduction in operating costs but an increase in finance costs as operating lease costs are replaced with depreciation and lease interest expense. This will result in an increase to the Group's operating profit and EBITDA but an overall net decrease in profit before tax in the initial years after adoption
- The impact on operating profit and profit before tax is not expected to be material in future periods
- The noted adjustments will be reflected in retained earnings on adoption date.

The total cash outflow for lease payments will not change but certain lease payments will be presented as cash flow from financing activities, as opposed to the current treatment as cash flow from operating activities, resulting in a decrease in cash outflow from operating activities and an increase in cash outflow from financing activities.

Further details of the leases held by the Group are given in Note 22.

2. OPERATING SEGMENTS

Business segments

The Group has determined its operating segments on the basis of those used for management, internal reporting purposes and the allocation of strategic resources. In accordance with the provisions of IFRS 8, the Group's chief operating decision maker is the Board of Directors. Following a review in December 2017 of the application of IFRS 8 (Operating Segments) the Group has decided that, from 1 January 2018, the segments within continuing operations that should be disclosed are as follows with the addition of the new Talc segment as the result of the acquisition of Mondo Minerals BV:

- Personal Care
- Coatings
- Talc
- Chromium
- Energy

The five reportable segments, Personal Care, Coatings, Talc, Chromium and Energy each have distinct product groupings and separate management structures. Segment results, assets and liabilities include items directly attributable to a segment and those that may be reasonably allocated from corporate activities. Presentation of the segmental results is on a basis consistent with those used for reporting Group results. 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.

In 2017, the Surfactants business, which was involved in the production of surface active ingredients, was reclassed as discontinued operations (see Note 32).

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 2018

	2018									
	Personal Care $m	Coatings $m	Talc[1] $	Chromium $m	Energy $m	Segment totals $m	Central costs $m	Total of continuing operations $m	Discontinued operations $m	Total of all operations $m
Revenue	210.3	362.2	21.5	184.3	54.9	833.2	–	833.2	4.8	838.0
Internal revenue	–	–	–	(11.0)	–	(11.0)	–	(11.0)	–	(11.0)
Revenue from external customers	210.3	362.2	21.5	173.3	54.9	822.2	–	822.2	4.8	827.0
Adjusted operating profit	52.2	52.5	3.9	33.0	7.1	148.7	(16.1)	132.6	(0.6)	132.0
Adjusted items	(11.8)	5.1	(4.1)	(17.2)	–	(28.0)	(19.7)	(47.7)	(9.8)	(57.5)
Profit/(loss) before interest	40.4	57.6	(0.2)	15.8	7.1	120.7	(35.8)	84.9	(10.4)	74.5
Other expenses	–	–	–	–	–	–	(1.6)	(1.6)	–	(1.6)
Finance income	–	–	–	–	–	–	0.3	0.3	–	0.3
Finance expense	–	–	–	–	–	–	(18.2)	(18.2)	–	(18.2)
Taxation – after adjusting items	–	–	–	–	–	–	(24.4)	(24.4)	0.3	(24.1)
Taxation – on adjusting items	–	–	–	–	–	–	8.8	8.8	1.7	10.5
Profit for the year	40.4	57.6	(0.2)	15.8	7.1	120.7	(70.9)	49.8	(8.4)	41.4

1 Talc is the new operating segment in 2018 as a result of the acquisition of Mondo on 23 October 2018

	2018					
	Personal Care, Coatings and Energy[2] $m	Talc $m	Chromium $m	Segment totals $m	Central $m	Total of all operations $m
Fixed assets	710.6	331.3	79.5	1121.4	333.4	1,454.8
Inventories	106.1	24.2	58.4	188.7	–	188.7
Trade and other receivables	78.4	19.3	30.7	128.4	11.0	139.4
ACT recoverable	–	–	–	–	9.8	9.8
Derivatives	–	–	–	–	2.0	2.0
Tax assets	–	–	–	–	27.4	27.4
Cash and cash equivalents	–	–	–	–	96.1	96.1
Segment assets	895.1	374.8	168.6	1,438.5	479.7	1,918.2
Trade and other payables	(77.0)	(18.6)	(30.4)	(126.0)	(14.6)	(140.6)
Operating provisions	(1.5)	(4.9)	(21.6)	(28.0)	(20.8)	(48.8)
Bank overdrafts and loans	–	–	–	–	(594.2)	(594.2)
Current tax liabilities	–	–	–	–	(17.1)	(17.1)
Retirement benefit obligations	–	–	–	–	(9.9)	(9.9)
Deferred tax liabilities	–	–	–	–	(151.7)	(151.7)
Financial liabilities	–	–	–	–	(40.3)	(40.3)
Segment liabilities	(78.5)	(23.5)	(52.0)	(154.0)	(848.6)	(1,002.6)
Net assets	816.6	351.3	116.6	1,284.5	(368.9)	915.6
Capital additions	29.8	6.8	12.9	49.5	1.8	51.3
Depreciation and amortisation	(30.5)	(4.9)	(8.4)	(43.8)	(1.4)	(45.2)

2 Due to the shared nature of the production facilities for the Personal Care, Coatings and Energy segments a split of assets and liabilities by segment is not available and the cost to determine such a split would be prohibitive therefore assets and liabilities are shown in aggregate for these segments

2. OPERATING SEGMENTS CONTINUED

Information by geographic area	North America $m	United Kingdom $m	Rest of Europe $m	Rest of the World $m	Discontinued operations $m	Total $m
Revenue from external customers	290.3	32.1	201.1	298.7	4.8	827.0
Non-current assets	790.7	230.1	373.1	60.8	–	1,454.7
Capital additions	32.6	2.0	3.4	8.1	0.8	46.9
Depreciation and amortisation	(28.7)	(1.5)	(11.0)	(4.0)	(0.7)	(45.9)

Segmental analysis for the year ended 31 December 2017

	2017								
	Personal Care $m	Coatings $m	Chromium $m	Energy $m	Segment totals $m	Central costs $m	Total of continuing operations $m	Discontinued operations $m	Total of all operations $m
Revenue	179.3	372.9	186.7	58.8	797.7	–	797.7	47.8	845.5
Internal revenue	–	–	(15.0)	–	(15.0)	–	(15.0)	(0.2)	(15.2)
Revenue from external customers	179.3	372.9	171.7	58.8	782.7	–	782.7	47.6	830.3
Adjusted operating profit	44.6	54.7	30.1	9.7	139.1	(16.4)	122.7	5.4	128.1
Adjusted items	(15.4)	(0.1)	(1.3)	–	(16.8)	(14.5)	(31.3)	0.4	(30.9)
Profit/(loss) before interest	29.2	54.6	28.8	9.7	122.3	(30.9)	91.4	5.8	97.2
Other expenses	–	–	–	–	–	(1.2)	(1.2)	–	(1.2)
Finance income	–	–	–	–	–	0.2	0.2	–	0.2
Finance expense	–	–	–	–	–	(11.9)	(11.9)	–	(11.9)
Taxation – after adjusting items	–	–	–	–	–	(22.5)	(22.5)	(0.9)	(23.4)
Taxation – on adjusting items	–	–	–	–	–	56.7	56.7	–	56.7
Profit for the year	29.2	54.6	28.8	9.7	122.3	(9.6)	112.7	4.9	117.6

	2017						
	Personal Care, Coatings and Energy[1] $m	Chromium $m	Segment Totals $m	Central $m	Total of continuing operations $m	Asset held for Sale $m	Total of all operations $m
Fixed assets	721.7	75.3	797.0	139.7	936.7	42.3	979.0
Inventories	101.6	41.8	143.4	0.2	143.6	6.8	150.4
Trade and other receivables	90.6	25.1	115.7	8.9	124.6	9.1	133.7
ACT recoverable	–	–	–	16.2	16.2	–	16.2
Deferred tax assets	–	–	–	0.9	0.9	–	0.9
Cash and cash equivalents	–	–	–	4.5	4.5	–	4.5
Segment assets	–	–	–	55.0	55.0	–	55.0
Trade and other payables	913.9	142.2	1,056.1	225.4	1,281.5	58.2	1,339.7
Operating provisions	(73.1)	(30.6)	(103.7)	(14.0)	(117.7)	(15.2)	(132.9)
Bank overdrafts and loans	(1.4)	(15.9)	(17.3)	(15.4)	(32.7)	(3.0)	(35.7)
Derivatives	–	–	–	(346.1)	(346.1)	–	(346.1)
Current tax liabilities	–	–	–	(14.1)	(14.1)	(4.7)	(18.8)
Retirement benefit obligations	–	–	–	(10.5)	(10.5)	–	(10.5)
Deferred tax liabilities	–	–	–	(93.4)	(93.4)	–	(93.4)
Segment liabilities	(74.5)	(46.5)	(121.0)	(493.5)	(614.5)	(22.9)	(637.4)
Net assets	839.4	95.7	935.1	(268.1)	667.0	35.3	702.3
Capital additions	24.4	11.3	35.7	3.4	39.1	6.3	45.4
Depreciation and amortisation	(26.5)	(8.8)	(35.3)	(1.2)	(36.5)	(3.2)	(39.7)

1 Due to the shared nature of the production facilities for the Coatings, Energy and Personal Care 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

Information by geographic area	North America $m	United Kingdom $m	Rest of Europe $m	Rest of the World $m	Discontinued operations $m	Total $m
Revenue from external customers	283.2	22.7	165.9	310.9	47.6	830.3
Non-current assets	787.9	59.4	49.5	60.6	42.3	999.7
Capital additions	29.7	3.0	2.2	4.2	6.3	45.4
Depreciation and amortisation	(26.1)	(1.5)	(4.5)	(4.4)	(3.2)	(39.7)

3. FINANCE INCOME

	2018 $m	2017 $m
Interest on bank deposits	**0.3**	0.2

4. FINANCE COSTS

	2018 $m	2017 $m
Interest on bank loans	**16.8**	9.7
Pension and other post retirement liabilities	**0.4**	1.1
Unwind of discount on provisions	**1.0**	1.1
	18.2	11.9

5. ADJUSTING ITEMS AND ALTERNATIVE PERFORMANCE MEASURES

	2018 $m	**Adjusting items on discontinued operations $m**	**2018 Total $m**	2017 $m	Adjusting items on discontinued operations $m	2017 Total $m
Restructuring	**0.2**	–	**0.2**	0.6	–	0.6
Business transformation	**5.6**	–	**5.6**	3.4	–	3.4
Environmental provisions						
Increase in provisions due to additional remediation work identified	**16.5**	–	**16.5**	2.1	–	2.1
Costs related to acquisition activities	**16.5**	–	**16.5**	9.7	–	9.7
Uplift due to fair value of SummitReheis inventory	–	–	–	4.0	–	4.0
Uplift due to fair value of Mondo inventory	**2.9**	–	**2.9**	–	–	–
Sale of Colourants business and closure of Jersey City site	**(12.7)**	–	**(12.7)**	(2.5)	–	(2.5)
Release of legal provision	–	–	–	–	(0.7)	(0.7)
Sale of Surfactants business	**0.5**	–	**0.5**	–	–	–
Disposal costs	–	–	–	2.2	0.3	2.5
Amortisation of intangibles arising on acquisition	**15.0**	–	**15.0**	11.8	–	11.8
GMP Pension	**3.2**	–	**3.2**	–	–	–
Surfactants commercial settlement	–	**9.8**	**9.8**	–	–	–
	47.7	**9.8**	**57.5**	31.3	(0.4)	30.9
Tax credit in relation to adjusting items	**(11.5)**	**(1.7)**	**(13.2)**	(5.7)	–	(5.7)
Tax arising on the restructuring of our German operations	**2.7**	–	**2.7**	–	–	–
Adjusting tax item (US tax reform)	–	–	–	(51.0)	–	(51.0)
	38.9	**8.1**	**47.0**	(25.4)	(0.4)	(25.8)

Cash flows relating to adjusting items	**(21.8)**			(10.5)		

5. ADJUSTING ITEMS AND ALTERNATIVE PERFORMANCE MEASURES CONTINUED

A number of items have been recorded under 'adjusting items' in 2018 by virtue of their size and/or one time nature, in line with our accounting policy in Note 1, in order to provide a better understanding of the Group's results. The net impact of these items on the Group profit before tax for the year is a debit of $57.5m (2017: debit of $30.9m). The items fall into a number of categories, as summarised below:

Restructuring – in 2016 this related to the appointment of a new CEO, CFO and costs associated with reorganising the management structure. In subsequent years, the cost relates to the IFRS 2 cost of buyouts associated with the new CEO and CFO.

Business transformation – the costs incurred in 2017 relate to delivery of the global key account management, and working capital improvement phases of the transformation commenced in 2016. In 2018 a programme to transform the Coatings segment has been implemented focusing on re-engineering our approach to markets (direct vs distributor), our underlying asset base and our product offerings in order to leverage our international networks and key account management. It is anticipated this will continue through 2019 driving a step change in the Coatings segment.

Increase in environmental provisions due to additional remediation work identified – assessments at the end of both 2017 and 2018 have resulted in an increased provision required at a number of our legacy sites. As these costs relate to non-operational facilities they are classed as adjusting items.

Costs relating to acquisition activities – these are one-off costs predominantly associated with the acquisition of Mondo in 2018 and SummitReheis in 2017 – primarily the write off of the set-up costs of the previous financing syndicate (now replaced by a new facility), bank and lawyers fees and retention bonuses for Mondo and SummitReheis employees.

Uplift due to fair value of SummitReheis inventory – in accordance with IFRS 3, inventory held within SummitReheis was revalued to fair value on acquisition, representing an uplift of $4m over the book value. As all stock acquired with SummitReheis was sold by the year end, the additional expense recognised in cost of sales due to this fair value uplift has been classed as an adjusting item.

Uplift due to fair value of Mondo inventory – in accordance with IFRS 3, inventory held within Mondo was revalued to fair value on acquisition, representing an uplift of $2.9m over the book value. As all Talc stock to which this uplift relates was sold by the year end, the additional expense recognised in cost of sales due to this fair value uplift has been classed as an adjusting item.

Sale of Colourants business and closure of Jersey City site – in March 2017, Elementis disposed of its US Colourants business and closed the Jersey City site. The profit on sale of the business and costs associated with the closure of the site are classed as an adjusting item. In 2018 the site was disposed of and the profit on disposal has been treated as an adjusting item due to its size and one-off nature relating to the sale of land.

Release of legal provision – during 2017 the Group released $0.7m from a provision set up in 2015 relating to a regulatory case in Europe.

Sale of Surfactants business/Disposal costs – in 2017 Elementis incurred a number of costs associated with the sale of the Delden facility and Surfactants business. The profit on sale of the assets and business has been treated as an adjusting item in 2018 and the one-off associated costs were classed similarly in 2017.

Amortisation of intangibles arising on acquisition – these costs are excluded from operating profit to provide readers of the accounts with a better understanding of the Group's results on its operating activities. In 2018 this item includes amortisation on intangibles acquired as part of the Mondo acquisition completed in October 2018.

GMP Pension – on 26 October 2018, the High Court ruled on the Lloyds Bank Guaranteed Minimum Pension inequalities case. In response to this our actuaries have included a past service cost of $3.2m for the estimated costs arising from the judgment.

Surfactants commercial settlement – these are costs incurred in settlement of a commercial dispute relating to the Surfactants business disposed of in 2018.

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

Tax arising on the restructuring of our German operations – during the year an internal restructuring exercise was undertaken in order to optimise the operational efficiency of the Group on a go forward basis. This restructuring resulted in a one-off tax charge.

Adjusting tax item (US tax reform) – in 2017 the Group recognised a reduction in the net deferred tax liability arising from timing differences and US goodwill amortisation recognised in the US for tax purposes. Given the one-off nature of the reduction to future tax liabilities, this was recognised as an adjusting item.

To support comparability with the financial statements as presented in 2018, the reconciliation to the adjusted consolidated income statement is shown below.

	2018 Profit and loss on continuing operations $m	2018 Adjusting items on continuing operations $m	2018 Profit and loss after adjusting items on continuing operations $m	2018 Profit and loss on discontinued operations $m	2018 Adjusting items on discontinued operations $m	Profit and loss after adjusting items on discontinued operations $m	2018 Profit and loss after adjusting items on total operations $m
Revenue	**822.2**	–	**822.2**	**4.8**	–	**4.8**	**827.0**
Cost of sales	**(516.6)**	–	**(516.6)**	**(4.3)**	–	**(4.3)**	**(520.9)**
Gross profit	**305.6**	–	**305.6**	**0.5**	–	**0.5**	**306.1**
Distribution costs	**(111.6)**	–	**(111.6)**	**(0.8)**	–	**(0.8)**	**(112.4)**
Administrative expenses	**(109.0)**	**47.7**	**(61.3)**	**(10.1)**	**9.8**	**(0.3)**	**(61.6)**
Net impairment losses on financial assets	**(0.1)**	–	**(0.1)**	–	–	–	**(0.1)**
Operating profit	**84.9**	**47.7**	**132.6**	**(10.4)**	**9.8**	**(0.6)**	**132.0**
Other expenses	**(1.6)**	–	**(1.6)**	–	–	–	**(1.6)**
Finance income	**0.3**	–	**0.3**	–	–	–	**0.3**
Finance costs	**(18.2)**	–	**(18.2)**	–	–	–	**(18.2)**
Profit before income tax	**65.4**	**47.7**	**113.1**	**(10.4)**	**9.8**	**(0.6)**	**112.5**
Tax	**(15.6)**	**(8.8)**	**(24.4)**	**2.0**	**(1.7)**	**0.3**	**(24.1)**
Profit for the year	**49.8**	**38.9**	**88.7**	**(8.4)**	**8.1**	**(0.3)**	**88.4**
Attributable to:							
Equity holders of the parent	**49.8**	**38.9**	**88.7**	**(8.4)**	**8.1**	**(0.3)**	**88.4**
Earnings per share							
Basic (cents)	**9.5**	**7.5**	**17.0**	**(1.6)**	**1.6**	–	**17.0**
Diluted (cents)	**9.5**	**7.4**	**16.9**	**(1.6)**	**1.6**	–	**16.9**

	2017 Profit and loss on continuing operations $m	2017 Adjusting items on continuing operations $m	2017 Profit and loss after adjusting items on continuing operations $m	2017 Profit and loss on discontinued operations $m	2017 Adjusting items on discontinued operations $m	2017 Profit and loss after adjusting items on discontinued operations $m	2017 Profit and loss after adjusting items on total operations $m
Revenue	782.7	–	782.7	47.6	–	47.6	830.3
Cost of sales	(487.6)	–	(487.6)	(32.8)	–	(32.8)	(520.4)
Gross profit	295.1	–	295.1	14.8	–	14.8	309.9
Distribution costs	(98.0)	–	(98.0)	(6.3)	–	(6.3)	(104.3)
Administrative expenses	(105.6)	31.3	(74.3)	(2.7)	(0.4)	(3.1)	(77.4)
Net impairment losses on financial assets	(0.1)	–	(0.1)	–	–	–	(0.1)
Operating profit	91.4	31.3	122.7	5.8	(0.4)	5.4	128.1
Other expenses	(1.2)	–	(1.2)	–	–	–	(1.2)
Finance income	0.2	–	0.2	–	–	–	0.2
Finance costs	(11.9)	–	(11.9)	–	–	–	(11.9)
Profit before income tax	78.5	31.3	109.8	5.8	(0.4)	5.4	115.2
Tax	34.2	(56.7)	(22.5)	(0.9)	–	(0.9)	(23.4)
Profit for the year	112.7	(25.4)	87.3	4.9	(0.4)	4.5	91.8
Attributable to:							
Equity holders of the parent	112.7	(25.4)	87.3	4.9	(0.4)	4.5	91.8
Earnings per share (restated)							
Basic (cents)	**22.3**	**(5.1)**	**17.2**	**1.0**	**(0.1)**	**0.9**	**18.1**
Diluted (cents)	**22.0**	**(5.0)**	**17.0**	**1.0**	**(0.1)**	**0.9**	**17.9**
Earnings per share (as reported in 2017)							
Basic (cents)	24.3	(5.5)	18.8	1.1	(0.1)	1.0	19.8
Diluted (cents)	24.0	(5.4)	18.6	1.0	(0.1)	0.9	19.5

5. ADJUSTING ITEMS AND ALTERNATIVE PERFORMANCE MEASURES CONTINUED

To support comparability with the financial statements as presented in 2018, a reconciliation from reported profit/(loss) before interest to adjusted profit before income tax by segment is shown below for each year.

	2018									
	Personal Care $m	Coatings $m	Talc $m	Chromium $m	Energy $m	Segment totals $m	Central costs $m	Total of continuing operations $m	Discontinued operations $m	Total $m
Reported operating profit/(loss)	40.4	57.6	(0.2)	15.8	7.1	120.7	(35.8)	84.9	(10.4)	74.5
Adjusting Items										
Restructuring	–	–	–	–	–	–	0.2	0.2	–	0.2
Business transformation	–	5.6	–	–	–	5.6	–	5.6	–	5.6
Increase in environmental provisions due to additional remediation work identified	–	–	–	17.0	–	17.0	(0.5)	16.5	–	16.5
Costs related to acquisition activities	0.2	–	–	–	–	0.2	16.3	16.5	–	16.5
Uplift due to fair value of Mondo inventory	–	–	2.9	–	–	2.9	–	2.9	–	2.9
Sale of Colourants business and closure of Jersey City site	–	(12.7)	–	–	–	(12.7)	–	(12.7)	–	(12.7)
Sale of Surfactants business	–	–	–	–	–	–	0.5	0.5		0.5
Amortisation of intangibles arising on acquisition	11.6	2.0	1.2	0.2	–	15.0	–	15.0	–	15.0
GMP pension	–	–	–	–	–	–	3.2	3.2		3.2
Surfactant customer settlements	–	–	–	–	–	–	–	–	9.8	9.8
Adjusted operating profit/(loss)	52.2	52.5	3.9	33.0	7.1	148.7	(16.1)	132.6	(0.6)	132.0
Other expenses	–	–	–	–	–	–	(1.6)	(1.6)	–	(1.6)
Finance income	–	–	–	–	–	–	0.3	0.3	–	0.3
Finance costs	–	–	–	–	–	–	(18.2)	(18.2)	–	(18.2)
Adjusted profit before income tax	52.2	52.5	3.9	33.0	7.1	148.7	(35.6)	113.1	(0.6)	112.5

	2017								
	Personal Care $m	Coatings $m	Chromium $m	Energy $m	Segment totals $m	Central costs $m	Total of continuing operations $m	Discontinued operations $m	Total $m
Reported operating profit/(loss)	29.2	54.6	28.8	9.7	122.3	(30.9)	91.4	5.8	97.2
Adjusting Items									
Restructuring	–	(0.3)	–	–	(0.3)	0.9	0.6	–	0.6
Business transformation	–	–	–	–	–	3.4	3.4	–	3.4
Increase in environmental provisions due to additional remediation work identified	–	–	1.1	–	1.1	1.0	2.1	–	2.1
SummitReheis acquisition costs	2.6	–	–	–	2.6	7.1	9.7	–	9.7
Uplift due to fair value of SummitReheis inventory	4.0	–	–	–	4.0	–	4.0	–	4.0
Sale of Colourants business and closure of Jersey City site	–	(2.5)	–	–	(2.5)	–	(2.5)	–	(2.5)
Release of legal provision	–	–	–	–	–	–	–	(0.7)	(0.7)
Disposal costs	–	0.1	–	–	0.1	2.1	2.2	0.3	2.5
Amortisation of intangibles arising on acquisition	8.8	2.8	0.2	–	11.8	–	11.8	–	11.8
Adjusted operating profit/(loss)	44.6	54.7	30.1	9.7	139.1	(16.4)	122.7	5.4	128.1
Other expenses	–	–	–	–	–	(1.2)	(1.2)	–	(1.2)
Finance income	–	–	–	–	–	0.2	0.2	–	0.2
Finance costs	–	–	–	–	–	(11.9)	(11.9)	–	(11.9)
Adjusted profit before income tax	44.6	54.7	30.1	9.7	139.1	(29.3)	109.8	5.4	115.2

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 36 to 41.

	2018 Profit and loss on continuing operations $m	2018 Profit and loss on discontinued operations $m	2018 Profit and loss on total operations $m	2017 Profit and loss on continuing operations $m	2017 Profit and loss on discontinued operations $m	2017 Profit and loss on total operations $m
Profit for the year	**49.8**	**(8.4)**	**41.4**	112.7	4.9	117.6
Adjustments for						
Finance income	**(0.3)**	**–**	**(0.3)**	(0.2)	–	(0.2)
Finance costs and other expenses after adjusting items	**19.8**	**–**	**19.8**	13.1	–	13.1
Tax charge	**15.6**	**(2.0)**	**13.6**	(34.2)	0.9	(33.3)
Depreciation and amortisation	**45.6**	**0.3**	**45.9**	38.0	1.7	39.7
Excluding intangibles arising on acquisition	**(15.0)**	**–**	**(15.0)**	(11.8)	–	(11.8)
Adjusting items impacting profit before tax	**47.7**	**9.8**	**57.5**	31.3	(0.4)	30.9
EBITDA	**163.2**	**(0.3)**	**162.9**	148.9	7.1	156.0

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.

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

	2018 $m	2017 $m
Revenue	**827.0**	830.3
Variable costs	**(444.2)**	(437.4)
Non variable costs	**(76.7)**	(50.2)
Cost of sales	**(520.9)**	(487.6)

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

Return on operating capital employed
The return on operating capital employed (ROCE) is defined as operating profit 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.

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.

6. INCOME TAX EXPENSE

	2018 $m	2017 $m
Current tax on continuing operations:		
Recognition of UK Advance Corporation Tax credits	–	–
UK corporation tax	8.1	6.9
Overseas corporation tax on continuing operations	11.7	16.0
Adjustments in respect of prior years:		
United Kingdom	(0.9)	–
Overseas	(0.2)	–
Total current tax	18.7	22.9
Deferred tax:		
United Kingdom	(1.4)	1.0
Overseas	3.8	(59.3)
Adjustment in respect of prior years:		
United Kingdom	(0.4)	0.3
Overseas	(5.1)	0.9
Total deferred tax	(3.1)	(57.1)
Income tax (credit)/expense for the year	15.6	(34.2)
Comprising:		
Income tax expense for the year	15.6	(34.2)
Adjusting items*		
Overseas taxation on adjusting items	6.6	5.7
UK taxation on adjusting items	2.2	–
Recognition of change in rate of tax (US)	–	51.0
Taxation on adjusting items	8.8	56.7
Income tax expense for the year after adjusting items	24.4	22.5

* See Note 5 for details of adjusting items.

The tax charge on profits represents an effective rate after adjusting items for the year ended 31 December 2018 of 21.6% (2017: 20.5%). The Group is international, has operations in several jurisdictions and benefits from cross border financing arrangements. Accordingly, tax charges of the Group in future periods will be affected by the profitability of operations in different jurisdictions, changes to tax rates and regulations in the jurisdictions within which the Group has operations, as well as the ongoing impact of the Group's funding arrangements. The medium term expectation for the Group's effective tax rate is around 22.0%.

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

	2018 $m	2018 %	2017 $m	2017 %
Profit before tax on continuing operations	65.4		78.5	
Tax on ordinary activities at 19.00% (2017: 19.25%)*	12.4	19.0	15.1	19.2
Difference in overseas effective tax rates	1.5	2.3	(1.2)	(1.5)
Income not taxable and impact of tax efficient financing	(6.8)	(10.5)	(4.3)	(5.5)
Expenses not deductible for tax purposes	16.6	25.4	6.0	7.6
Adjustments in respect of prior years	(6.6)	(10.2)	1.2	1.5
Tax rate changes	(1.3)	(2.0)	–	–
Movement in unrecognised deferred tax	(0.2)	(0.3)	–	–
Recognition of adjusting tax items	–	–	(51.0)	(64.9)
Tax charge and effective tax rate for the year	15.6	23.9	(34.2)	(43.6)

* The UK corporation tax rate will reduce to 17% from 1 April 2020; this reduction was substantively enacted on 26 October 2015.

The tax credit related to discontinued operations is $2.0m (2017: charge of $0.9m).

7. PROFIT FOR THE YEAR

Profit for the year including discontinued operations has been arrived at after charging/(crediting):

	2018 $m	2017 $m
Employee costs (see Note 8)	**134.6**	142.3
Net foreign exchange losses/(gains)	**(0.3)**	0.1
Research and development costs	**9.3**	8.6
Depreciation of property, plant and equipment	**30.2**	27.2
Amortisation of intangible assets	**15.7**	12.5
Total depreciation and amortisation expense	**45.9**	39.7
Profit/loss on disposal of property, plant and equipment	**0.6**	3.2
Write off of inventory	**1.2**	3.3
Cost of inventories recognised as expense	**384.5**	386.9
Fees payable to the Company's auditor and its associates:		
Audit of company	**0.4**	0.3
Audit of subsidiaries	**1.0**	0.6
Audit related services – interim review	**0.1**	0.1
Services related to corporate finance transactions	**0.3**	0.5

8. EMPLOYEES

		2018 $m	2017 $m
Employee costs:			
Wages and salaries		**117.4**	126.9
Social security costs		**9.5**	9.7
Pension costs	23	**7.7**	5.7
		134.6	142.3

	Number	Number
Average number of FTE employees*:		
Specialty Products	**1,155**	1,147
Mondo**	**41**	–
Chromium	**258**	253
Central	**18**	17
Total from continuing operations	**1,472**	1,417
Discontinued operations**	**33**	204
Total including discontinued operations	**1,505**	1,621

* Full time equivalent including contractors.
** The discontinued operations and Mondo have both been included on a 12 month average basis but were only active for 2 out of the 12 months.

The aggregate amount of Directors' remuneration (salary, bonus and benefits) is shown in the Remuneration Report on page 83;
- The aggregate amount of gains made by Directors on exercise of share options was $0.9m (2017: $0.8m).
- The remuneration of the highest paid Director was $1.6m (2017: $2.5m).
- Payments have been made to a defined contribution pension scheme on behalf of 1 Directors (2017: 1 Directors). For the highest paid Director, pension contributions of $0.2m (2017: $0.2m) were made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following:

	Continuing operations 2018 $m	**Discontinued operations 2018 $m**	**Total of all operations 2018 $m**	Continuing operations 2017 $m	Discontinued operations 2017 $m	Totalof all operations 2017 $m
Earnings:						
Earnings for the purpose of basic earnings per share	**49.8**	**(8.4)**	**41.4**	112.7	4.9	117.6
Adjusting items net of tax	**38.9**	**8.1**	**47.0**	(25.4)	(0.4)	(25.8)
Adjusted earnings	**88.7**	**(0.3)**	**88.4**	87.3	4.5	91.8

		Rebased	Reported
	2018 m	2017 m	2017 m
Number of shares:			
Weighted average number of shares for the purposes of basic earnings per share	**520.9**	506.1	463.2
Effect of dilutive share options	**5.4**	6.9	6.3
Weighted average number of shares for the purposes of diluted earnings per share	**526.3**	513.0	469.5

				Rebased			Reported		
	Continuing operations 2018 cents	**Discontinued operations 2018 cents**	**Total of all operations 2018 cents**	Continuing operations 2017 cents	Discontinued operations 2017 cents	Total of all operations 2017 cents	Continuing operations 2017 cents	Discontinued operations 2017 cents	Total of all operations 2017 cents
Earnings per share:									
Basic	**9.5**	**(1.6)**	**7.9**	22.3	1.0	23.3	24.3	1.1	25.4
Diluted	**9.5**	**(1.6)**	**7.9**	22.0	1.0	23.0	24.0	1.0	25.0
Basic after adjusting items	**17.0**	**–**	**17.0**	17.2	0.9	18.1	18.8	1.0	19.8
Diluted after adjusting items	**16.9**	**–**	**16.9**	17.0	0.9	17.9	18.6	0.9	19.5

The weighted average number of ordinary shares for the year to 31 December 2017 has been rebased to reflect the Rights Issue completed in the current year. The adjustment to the weighted average number of ordinary shares reflects the bonus element of the Rights Issue. All other factors remain unchanged.

10. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill $m	Brand $m	Customer lists $m	Other intangible assets $m	Total $m
Cost:					
At 1 January 2017	321.2	22.6	–	39.1	382.9
Exchange differences	5.8	1.1	2.8	1.3	11.0
Additions	–	–	–	2.2	2.2
Intangible assets arising on the acquisition of SummitReheis	203.0	3.2	136.9	19.0	362.1
Reclassification as held for sale	(3.1)	–	–	(3.7)	(6.8)
At 31 December 2017	**526.9**	**26.9**	**139.7**	**57.9**	**751.4**
Exchange differences	**(10.1)**	**(0.5)**	**(1.2)**	**(3.1)**	**(14.9)**
Additions	–	–	–	**1.2**	**1.2**
Intangible assets arising on the acquisition of Mondo	**200.5**	–	**40.9**	**47.3**	**288.7**
At 31 December 2018	**717.3**	**26.4**	**179.4**	**103.3**	**1,026.4**
Amortisation:					
At 1 January 2017	–	–	–	23.0	23.0
Charge for the year	–	0.8	6.2	5.5	12.5
Reclassification as held for sale	–	–	–	(1.3)	(1.3)
At 31 December 2017	**–**	**0.8**	**6.2**	**27.2**	**34.2**
Charge for the year	–	**1.1**	**8.5**	**6.0**	**15.6**
At 31 December 2018	–	**1.9**	**14.7**	**33.2**	**49.8**
Carrying amount:					
At 31 December 2018	**717.3**	**24.5**	**164.7**	**70.1**	**976.6**
At 31 December 2017	526.9	26.1	133.5	30.7	717.2
At 1 January 2017	321.2	22.6	–	16.1	359.9

The amortisation charge includes $nil (2017: $0.4m) in respect of discontinued operations related to the amortisation of capitalised REACH costs.

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination.

The carrying amount of goodwill at 31 December 2018 resulting from the split of Elementis Specialty Products is now allocated to Elementis Coatings $202.7m, Energy $28.4m and Personal Care $293.3m the three new operating segments and CGUs. The carrying value of goodwill attributable to Elementis Specialty Products in 2017 was $523.8m. The acquisition of Mondo has resulted in the addition of $200.5m of goodwill which sits within the new Talc segment and CGU. The goodwill associated with Elementis Surfactants (2018: $3.1m, 2017: $3.1m) has now been disposed of and there is no goodwill associated with Elementis Chromium.

The Group tests annually for impairment, or more frequently, if there are events or circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. In order to stress test the results over a wider range of conditions, management has expanded its testing to include discount rates based on a variety of equity risk premiums and different capital structures that reflect the potential variability of risk within the CGUs. During the testing a range of discount rates from 9.1% to 13.5% (2017: 10.1% to 15.0%) were used. In these cases, if estimates of future growth were reduced by 5.0% per annum, there would still be adequate headroom to support the carrying value of the assets.

The Group prepares cash flow forecasts derived from the most recent plans approved by management for the next three years with cash flows for periods beyond three years extrapolated based on estimated growth rates of between 5.0% and 7.5%. The rates do not exceed the average long term growth rate for the relevant markets. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. The results of the impairment testing using the assumptions discussed show that there is no indication that goodwill might be impaired.

10. GOODWILL AND OTHER INTANGIBLE ASSETS CONTINUED

The brand intangibles represent the value ascribed to the trading name and reputation of the Deuchem, Fancor, Watercryl, Hi-Mar and SummitReheis acquisitions. The Group, with the exception of SummitReheis, considers these to have significant and ongoing value to the business that will be maintained and it is therefore considered appropriate to assign these assets an indefinite useful life. The brand relating to SummitReheis is being amortised over a period of three years. The carrying amount of brand intangibles with an indefinite useful life as at 31 December 2018 is $23.1m (2017: $23.7m). 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 24 years.

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings $m	Plant and machinery $m	Fixtures fittings and equipment $m	Under construction $m	Total $m
Cost:					
At 1 January 2017	134.9	480.8	49.3	18.6	683.6
Additions	–	3.0	0.1	40.1	43.2
Exchange differences	6.2	25.5	1.9	1.5	35.1
Disposals	(0.5)	(14.8)	(1.5)	–	(16.8)
Acquisitions through business combinations	8.3	8.5	0.9	1.1	18.8
Reclassifications	3.5	24.3	1.8	(29.6)	–
Reclassification as held for sale	(25.2)	(117.3)	(10.1)	(9.9)	(162.5)
At 31 December 2017	**127.2**	**410.0**	**42.4**	**21.8**	**601.4**
Additions	**–**	**8.2**	**–**	**40.9**	**49.2**
Exchange differences	**(3.1)**	**(14.9)**	**(0.6)**	**(0.3)**	**(18.9)**
Disposals	**(19.6)**	**(85.1)**	**(1.1)**	**(0.3)**	**(106.1)**
Acquisitions through business combinations	**15.8**	**231.6**	**0.4**	**2.4**	**250.2**
Reclassifications	**5.2**	**30.9**	**3.3**	**(39.4)**	**–**
Reclassification as held for sale	**–**	**–**	**–**	**–**	**–**
At 31 December 2018	125.5	580.8	44.4	25.1	775.8
Accumulated depreciation:					
At 1 January 2017	84.3	344.4	37.6	–	466.3
Charge for the year	3.9	21.6	1.7	–	27.2
Exchange differences	4.1	21.7	1.6	–	27.4
Disposals	(0.2)	(11.8)	(1.4)	–	(13.4)
Reclassifications	(0.1)	0.1	–	–	–
Reclassification as held for sale	(19.0)	(97.0)	(9.6)	–	(125.6)
At 31 December 2017	**73.0**	**279.0**	**29.9**	**–**	**381.9**
Charge for the year	**2.9**	**25.1**	**1.6**	**–**	**29.6**
Exchange differences	**(1.7)**	**(7.7)**	**(0.4)**	**–**	**(9.8)**
Disposals	**(18.7)**	**(84.9)**	**(0.5)**	**–**	**(104.1)**
Reclassifications	**–**	**(0.4)**	**0.4**	**–**	**–**
Reclassification as held for sale	–	–	**–**	–	–
At 31 December 2018	55.5	211.1	31.0	–	297.6
Net book value:					
At 31 December 2018	70.0	369.7	13.4	25.1	478.2
At 31 December 2017	54.2	131.0	12.5	21.8	219.5
At 1 January 2017	50.6	136.4	11.7	18.6	217.3

Group capital expenditure contracted but not provided for in these financial statements amounted to $nil (2017: $nil).

12. INVENTORIES

	2018 $m	2017 $m
Raw materials and consumables	**70.6**	50.8
Work in progress	**15.3**	13.8
Finished goods and goods purchased for resale	**102.8**	79.0
	188.7	143.6

Inventories are disclosed net of provisions for obsolescence of $7.8m (2017: $5.8m).

13. TRADE AND OTHER RECEIVABLES

	2018 $m	2017 $m
Trade receivables	**112.4**	109.9
Other receivables	**13.9**	4.1
Prepayments and accrued income	**13.1**	10.6
	139.4	124.6

14. TRADE AND OTHER PAYABLES

	2018 $m	2017 $m
Trade payables	**61.6**	53.6
Other taxes and social security	**–**	–
Other payables	**20.9**	10.1
Accruals and deferred income	**58.1**	54.0
	140.6	117.7

15. PROVISIONS

	Environmental $m	Self insurance $m	Restructuring $m	Other $m	Total $m
At 1 January 2018	27.8	2.2	0.1	2.6	32.7
Charged/(credited) to the income statement:					
Increase in provisions due to change in discount rate	–	–	–	–	–
Set up/(release) of provisions	18.8	(0.4)	1.1	–	19.5
Unwinding of discount	1.1	–	–	–	1.1
Utilised during the year	(6.5)	(0.3)	(0.4)	(0.5)	(7.7)
Currency translation differences	(0.5)	–	–	(0.2)	(0.5)
Additional provision on acquisition	2.6	–	–	1.3	3.9
Reclassified as held for sale	–	–	–	–	–
At 31 December 2018	43.3	1.5	0.8	3.2	48.8
Due within 1 year	5.0	1.0	0.8	0.5	7.3
Due after 1 year	38.3	0.5	–	2.7	41.5

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.

Of the $18.8m charged to environmental provisions, $16.5m relates to additional remediation work identified and future monitoring costs, predominantly at our Eaglescliffe, Corpus Christi and Castle Hayne sites. These charges are included within adjusting items (see Note 5).

If the cost estimates on which the provisions at 31 December 2018 are based were to change by 10%, the provision recognised would need to change by approximately $3.9m. Whilst a range of outcomes is possible, the Directors believe that the reasonably possible range for the environmental provision is from $37.1m to $44.3m.

15. PROVISIONS CONTINUED

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 and are expected to be utilised within one year.

Other provisions represent payments made for right of first refusal on a quarry, payments for which are linked to the discharge of residue into another quarry owned by the same counterparty. These provisions are expected to be utilised within five years.

16. DEFERRED TAX AND ACT RECOVERABLE

	Retirement benefit plans $m	Accelerated tax depreciation $m	Amortisation of US goodwill $m	Other intangible assets $m	Temporary differences $m	Unrelieved tax losses $m	Total $m
At 1 January 2017	10.2	(29.4)	(94.5)	–	13.5	7.6	(92.6)
Arising on acquisition	–	–	–	(52.8)	0.3	–	(52.5)
(Charge)/credit to the income statement	(1.8)	7.1	35.0	15.5	1.2	–	57.0
Charge to other comprehensive income	(7.3)	–	–	–	–	–	(7.3)
Charge to retained earnings	–	–	–	–	(1.4)	–	(1.4)
Currency translation differences	(0.2)	–	–	0.6	(0.1)	–	0.3
Reclassification as held for sale	–	2.8	–	–	0.5	–	3.3
At 1 January 2018	**0.9**	**(19.5)**	**(59.5)**	**(36.7)**	**14.0**	**7.6**	**(93.2)**
Arising on acquisition	–	–	–	**(43.2)**	**0.4**	**6.3**	**(36.5)**
(Charge)/credit to the income statement	**0.2**	**(12.1)**	**0.9**	**17.1**	**4.6**	**(7.5)**	**3.2**
Charge to other comprehensive income	**(0.2)**	–	–	–	–	–	**(0.2)**
Charge to retained earnings	–	–	–	–	**(2.2)**	–	**(2.2)**
Currency translation differences	**(0.1)**	–	–	**1.3**	**0.4**	–	**1.6**
At 31 December 2018	**0.8**	**(31.6)**	**(58.6)**	**(61.5)**	**17.2**	**6.4**	**(127.3)**
Deferred tax assets	**0.8**	–	–	–	**17.2**	**6.4**	**24.4**
Deferred tax liabilities	–	**(31.6)**	**(58.6)**	**(61.5)**	–	–	**(151.7)**

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:

	2018 $m	2017 $m
At 1 January	**16.2**	23.0
Recognition of UK ACT credits	–	–
Utilisation	**(8.1)**	(8.6)
Currency translation differences	**1.7**	1.8
At 31 December	**9.8**	16.2

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 $20.7m (2017: $19.2m). 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.

17. SHARE CAPITAL

	2018 $m	2017 $m
At 1 January	**44.4**	44.4
Issue of shares	**7.7**	–
At 31 December	**52.1**	44.4

In October 2018 the Group undertook a Rights Issue on the basis of one share for every four fully paid ordinary shares held. A total of 116,058,808 ordinary shares were issued at £1.52 per share. Gross proceeds of $232.7m were received resulting in an increase in share premium of $214.5m after expenses.

Further details of share capital are set out in Note 9 to the Parent Company Financial Statements.

18. OTHER RESERVES

	Capital redemption reserve $m	Translation reserve $m	Hedging reserve $m	Share options reserve $m	Total $m
Balance at 1 January 2017	158.8	(79.9)	(7.3)	3.6	75.2
Share based payments	–	–	–	2.8	2.8
Exchange differences	–	22.7	–	0.1	22.8
Increase in fair value of derivatives	–	–	0.4	–	0.4
Transfer	–	–	–	(2.2)	(2.2)
At 1 January 2018	**158.8**	**(57.2)**	**(6.9)**	**4.3**	**99.0**
Share based payments	–	–	–	**2.9**	**2.9**
Exchange differences	–	**(15.8)**	–	**(0.4)**	**(16.2)**
Increase in fair value of derivatives	–	–	**1.3**	–	**1.3**
Transfer	–	–	–	**(1.5)**	**(1.5)**
Balance at 31 December 2018	158.8	(73.0)	(5.6)	5.3	85.5

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

	2018 $m	2017 $m
Bank loans	**594.2**	346.1

The borrowings are repayable as follows:

	2018 $m	2017 $m
Within one year	**2.8**	2.7
In the fifth year	**591.4**	343.4
	594.2	346.1

The weighted average interest rates paid were as follows:

	2018 %	2017 %
Bank loans	**3.7**	2.7

Group borrowings were denominated as follows:

	US Dollar	Taiwan Dollar	Brazilian Real	Euro	Other	Total
Bank loans						
31 December 2017	305.0	2.7	–	38.4	–	346.1
31 December 2018	**275.0**	**2.6**	**–**	**316.6**	**–**	**594.2**

Of the US dollar borrowings, $nil was unsecured (2017: $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:

	2018 $m	2017 $m
Cash and cash equivalents	**96.1**	55.0

21. FINANCIAL RISK MANAGEMENT

21(a) 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.

(i) 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	
	2018 $m	2017 $m
Trade receivables	**112.4**	109.9
Other receivables	**13.9**	4.1
Cash and cash equivalents	**96.1**	55.0
	222.2	169.0

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	2018 $m	2017 $m
North America	**35.0**	30.2
Europe	**36.6**	30.8
Rest of the world	**40.8**	48.9
	112.4	109.9

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 2018 $m	**Expected credit loss rate**	**Expected credit loss 2018 $m**	Gross 2017 $m	Expected credit loss rate	Impairment 2017 $m
Not past due	**98.4**	**1.6%**	**(1.6)**	97.9	0.6%	(0.6)
Past due 0-30 days	**12.4**	**0.8%**	**(0.1)**	8.6	–	–
Past due 31-120 days	**2.7**	**3.7%**	**(0.1)**	3.3	–	–
Past due > 121 days	**0.9**	**22.2%**	**(0.2)**	1.0	30.0%	(0.3)
Total	**114.4**		**(2.0)**	110.8		(0.9)

The movement in the allowance for expected credit losses during the year was as follows:

	2018 $m	2017 $m
Balance at 1 January – calculated under IFRS 9	**0.9**	0.6
Increase in expected credit loss allowance recognised in profit or loss during the year	**0.1**	0.1
Increase in provision on acquisition of SummitReheis	**–**	0.2
Increase in provision on acquisition of Mondo	**1.0**	–
Balance at 31 December	**2.0**	0.9

The allowance for expected credit losses relates primarily to customers of Elementis Chromium who, due to their payment history and geographic location, are assessed as having a higher exposure to credit risk than is acceptable. An allowance for expected credit losses is therefore deemed to be appropriate.

21. FINANCIAL RISK MANAGEMENT CONTINUED

(ii) 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 $206.5m (2017: $158.2m) of undrawn committed facilities, of which $180.0m expires after more than 1 year.

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

	31 December 2018				
	Carrying amount $m	**Contractual cash flows $m**	**6 months or less $m**	**6-12 months $m**	**1 year or more $m**
Non-derivative financial liabilities at amortised cost:					
Unsecured bank loan	–	–	–	–	–
Secured bank loan	**594.2**	**(594.2)**	**(2.8)**	–	**(591.4)**
Trade and other payables*	**72.5**	**(72.5)**	**(72.5)**	–	–
	666.9	**(666.9)**	**(75.3)**	–	**(591.6)**

* Excludes derivatives.

	31 December 2017				
	Carrying amount $m	Carrying cash flows $m	6 months or less $m	6-12 months $m	1 year or more $m
Non-derivative financial liabilities:					
Unsecured bank loan	–	–	–	–	–
Secured bank loan	346.1	(346.1)	(2.7)	–	(343.4)
Trade and other payables*	69.0	(69.0)	(69.0)	–	–
	415.1	(415.1)	(71.7)	–	(343.4)

* Excludes derivatives.

Bank loans have been drawn under committed facilities and can be re-financed on maturity from the same facilities. The contractual maturities indicated reflect the maturing of the loans rather than the end date of the facilities.

(iii) 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.

Exposure to currency risk

The Group's exposure to currency risk was as follows based on notional amounts:

	2018			2017		
	USD $m	**Euro $m**	**Other $m**	USD $m	Euro $m	Other $m
Trade receivables	**62.4**	**27.9**	**22.1**	59.5	29.6	20.8
Trade payables	**(35.4)**	**(10.6)**	**(15.6)**	(28.8)	(12.9)	(11.9)
Gross balance sheet exposure	**27.0**	**17.3**	**6.5**	30.7	16.7	8.9
Forward exchange contracts	**–**	**–**	**–**	–	(28.8)	28.8
Net exposure	**27.0**	**17.3**	**6.5**	30.7	(12.1)	37.7

The main exchange rates relevant to the Group are set out in the Finance report on page 40.

Currency risk sensitivity analysis

A 10% strengthening of US dollar against the following currencies at 31 December 2018 would have increased/(decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Equity $m	Profit or loss $m
31 December 2018		
GBP	**(14.9)**	**3.5**
Euro	**(58.0)**	**(7.8)**
RMB	**(4.1)**	**(1.3)**
TWD	**(2.7)**	**(0.1)**
31 December 2017		
GBP	(24.9)	2.5
Euro	(47.1)	(5.1)
RMB	(3.8)	(1.6)
TWD	(3.2)	0.1

A 10% strengthening of USD against all currencies will have increased/(decreased) the carrying amount of variable rate instruments as follows:

	Carrying amount	
	2018 $m	2017 $m
Variable rate instruments		
Financial liabilities	**(31.9)**	(4.1)

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 in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2018 Profit or loss		2017 Profit or loss	
	100bp increase $m	**100bp decrease $m**	100bp increase $m	100bp decrease $m
Variable rate instruments	**(3.5)**	**2.8**	(1.8)	1.8

21. FINANCIAL RISK MANAGEMENT CONTINUED

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.

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sale requirements; such contracts are not settled net.

(iv) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence, sustain future development of the business and maximise shareholder value. The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent comprising capital, reserves and retained earnings. Financing for the recent acquisition of Mondo was part funded through a Rights Issue and part through drawdowns on the Group's syndicated borrowing facility.

The Group utilises a mix of debt funding sources including term loans and revolving credit facilities (RCF) from the Group's syndicated borrowing facility with differing maturities to ensure continuity and provide flexibility. The group is subject to two financial covenants which apply to the Group's syndicated borrowing facility, as such the group is required to maintain a ratio of net debt to EBITDA of less than 3.75x and minimum net interest cover of 3.0x (in relation to earnings before net interest expense and tax). The Net debt to EBITDA ratio stood at 2.5x times at 31 December 2018 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 2.0x by the end of 2019. Net interest cover at 31 December 2018 was 10.0x.

The Board monitors the return on operating capital employed (ROCE) both including and excluding goodwill, as defined on pages 30 and 31. The Group's target is to achieve a ROCE (including goodwill) in excess of our weighted average cost of capital.

The dividend policy is set out in the Chairman's statement on pages 8 and 9.

The following table shows amounts recognised in profit or loss in relation to financial assets and liabilities within the scope of IFRS 9:

	2018 $m	2017 $m
Recognised in profit or loss		
Interest income on bank deposits held at amortised cost	**0.3**	0.2
Net change in fair value of cash flow hedges transferred from equity	**0.1**	–
Financial income	**0.4**	0.2
Interest on bank loan held within designated cashflow hedge relationship	**(16.8)**	(9.7)
Net change in fair value of cash flow hedges transferred from equity	–	(0.3)
Financial costs	**(16.8)**	(11.1)
Net financial costs	**(16.4)**	(10.9)

None of the above relates to financial assets or liabilities held at fair value through profit and loss.

The following table shows amounts recognised directly in equity in relation to financial assets and liabilities within the scope of IFRS 9:

	2018 $m	2017 $m
Recognised directly in equity		
Effective portion of changes in fair value of cash flow hedge	**1.4**	0.1
Fair value of cash flow hedges transferred to income statement	**(0.1)**	0.3
Effective portion of change in fair value of net investment hedge	**(20.5)**	22.9
Foreign currency translation differences for foreign operations	**0.5**	(0.2)
Recognised in		
Hedging reserve	**1.3**	0.4
Translation reserve	**(20.0)**	22.7

Loans and borrowings

	2018 $m	2017 $m
Current liabilities		
Unsecured bank loan	–	–
Secured bank loan	**2.8**	2.7
Non-current liabilities		
Secured bank loan	**591.6**	343.4

Maturity analysis of financial liabilities
The terms and conditions of outstanding loans and derivatives in liability positions were as follows:

	Currency	Year of maturity	Face value $m	2018 Carrying amount $m	Face value $m	2017 Carrying amount $m
Secured bank loan	USD	2023	**275.0**	**275.0**	305.0	305.0
Secured bank loan	TWD	2019	**2.6**	**2.6**	2.7	2.7
Secured bank loan	EUR/JPY	2023	**316.6**	**316.6**	38.4	38.4
Total liabilities			**594.2**	**594.2**	346.1	346.1

The secured bank loans are secured by guarantees provided by subsidiary companies and against land and buildings in Taiwan.

21. FINANCIAL RISK MANAGEMENT CONTINUED

21(b) Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities and classifications under IFRS 9, together with carrying amounts shown in the balance sheet, are as follows:

	31 December 2018		31 December 2017	
	Carrying amount $m	**Fair value $m**	Carrying amount $m	Fair value $m
Financial assets at amortised cost:				
Trade and other receivables[1]	**126.3**	**126.3**	114.0	114.0
Cash and cash equivalents	**96.1**	**96.1**	55.0	55.0
Derivative contracts in designated hedging relationships:				
Financial assets	**2.0**	**2.0**	0.9	0.9
Financial liabilities	**–**	**–**	–	–
Financial liabilities at amortised cost:				
Unsecured bank facility	**–**	**–**	–	–
Secured bank loan	**(594.2)**	**(594.2)**	(343.3)	(343.4)
Trade and other payables[1]	**(140.6)**	**(140.6)**	(129.2)	(129.2)
	(510.4)	**(510.4)**	(301.7)	(301.7)
Unrecognised gain/(loss)	**–**	**–**	–	–

1 Excludes derivatives.

Derivatives used for hedging included within current assets amounted to $2.0m at 31 December 2018 (2017: $0.9m) and $nil within current liabilities (2017: nil).

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.

Derivatives (level 2)

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then 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 (based on government bonds).

Non-derivatives financial liabilities (level 2)

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Contingent consideration payable (level 3)

Fair value has been estimated by calculating the present value of the future expected cash flows. Expected cash inflows are estimated based on the terms of the sale and purchase contract, the entity's knowledge of the business and how the current economic environment is likely to impact it.

As disclosed in Note 31 a liability of $22.3m has been recognised as at the date of acquisition. There were no significant inter-relationships between unobservable inputs that materially affect fair values.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate constant credit spread, and were as follows:

	2018 %	2017 %
Borrowings	**1.5–5.2**	1.0–3.3

At both 31 December 2017 and 31 December 2018 there was no difference between the carrying value and fair value of financial instruments.

21(c) 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 and interest rate risk.

The Group's risk management strategy and how it is applied to manage risk are explained in Note 21(a) above.

Derivatives designated as hedging instruments

Cash flow hedges

Foreign currency risk

Foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of forecast sales, these forecast transactions are highly probable. The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign exchange forward rates.

In the month of maturity of the forward exchange contract, the cash flow from the derivative is matched with the cash flow on the transaction. Transactions are for the same currency, amount (portion designated as hedged item) and are expected to occur within the same month thus providing the economic relationship. The value of the forward contracts taken out are for the same amount as the expected future cash flows resulting in a hedge ratio of 1:1 or 100%.

Interest rate risk

The Group enters into interest rate swaps to swap 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, therefore the margin is not included in the designation. The hedged item is the interest rate cash flows on the $100m Facility. A debt maturing Feb 2022, the Group's total USD debt is given in Note 19 to the financial statements.

The principal terms (notional, reset date, tenor) of the hedged item and the hedged instrument have been matched along with the contractual interest cash flows, therefore creating an exact offset for this transaction resulting in a net fixed interest payable. As the interest rate swap and the hedged item 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
- Reduction in the amount of the hedged sales considered to be highly probable or price
- A change in the credit risk of Elementis or the bank counterparty to the forward contract
- Foreign currency basis spreads

21. FINANCIAL RISK MANAGEMENT CONTINUED

The Group is holding the following foreign exchange forward contracts and interest rate swaps:

	Maturity	
	Less than 1 month	1 – 5 years
Interest rate swaps		
Notional amount (in USD (m))	–	100.0
Weighted average hedged rate for the year	–	2.0%

The impact of the hedging instruments on the statement of financial position is, as follows:

	Notional amount $m	Carrying amount $m	Line item in the statement of financial position $m
At 31 December 2018			
Interest rate swaps	100	2.0	Derivatives (Current assets)

The effect of cash flow hedges in the statement of profit or loss and other comprehensive income is, as follows:

	Total hedging gain/(loss) 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 2018			
Derivative cash flow hedging instruments	1.4	(0.1)	Admin expenses
Year ended 31 December 2017			
Derivative cash flow hedging instruments	0.1	0.3	Admin expenses

Amounts reclassified from other comprehensive income to profit or loss are due to the hedged item affecting profit or loss in the period. There were no instances of non-occurance of hedged cashflows in either the current or comparative period.

Hedge of net investments in foreign operations
The Group's total EUR *borrowings of $316.7m have been designated as a hedge of the net investments in the Group's* EUR functional currency subsidiaries. This borrowing is being used to hedge the Group's exposure to the EUR foreign exchange risk on these investments. Gains or losses on the retranslation of this borrowing are transferred to OCI to offset any gains or losses on translation of the net investments in the subsidiaries.

The Group's total USD borrowing of $275.0m has been designated as a hedge of the net investments in the Group's USD functional currency subsidiaries. This borrowing is being used to hedge the Group's exposure to the USD foreign exchange risk on these investments. Gains or losses on the retranslation of this borrowing are transferred to OCI to offset any gains or losses on translation of the net investments in the subsidiaries.

The amount and currency of the hedging instrument has been matched to the portion of net assets designated as the hedged item therefore changes in the value of the hedging instrument are expected to be highly effective in offsetting the changes in fair value of the hedged item forming the basis of the economic relationship. The hedge ratio is based on the value of the net investment designated as the hedged item which is the same amount as the respective borrowing (hedging instrument). This results in a hedge ratio of 1:1 or 100%. Hedge ineffectiveness will arise if the value of the borrowing designated in the hedge relationship exceeds the value of the investment in the foreign subsidiary.

The impact of the hedging instruments on the statement of financial position is, as follows:

	Notional amount m	Carrying amount $m	Line item in the statement of financial position $m
At 31 December 2018			
EUR denominated borrowing	**EUR 277.0**	**316.8**	**Loans and borrowings**
USD denominated borrowing	**USD 275.0**	**275.0**	**Loans and borrowings**

The impact of hedged items on the statement of financial position is, as follows:

	Foreign currency translation reserve $m	Foreign currency translation reserve $m
Net investment in foreign subsidiaries	**0.6**	(0.2)

21. FINANCIAL RISK MANAGEMENT CONTINUED

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 2017	(7.3)	(79.9)
Effective portion of changes in fair value arising from:		
Derivative cash flow hedging instruments	0.1	–
Amount reclassified to profit or loss	0.3	–
Foreign currency revaluation of the net foreign operations	–	(0.2)
Foreign currency revaluation of borrowings	–	22.9
Tax effect	–	–
As at 1 January 2018	**(6.9)**	**(57.2)**
Effective portion of changes in fair value arising from:		
Derivative cash flow hedging instruments	**1.4**	**–**
Amount reclassified to profit or loss	**(0.1)**	**–**
Foreign currency revaluation of the net foreign operations	**–**	**0.6**
Foreign currency revaluation of borrowings	**–**	**(20.5)**
Tax effect	**–**	**–**
As at 31 December 2018	**(5.6)**	**(72.9)**

22. OPERATING LEASES

	2018 $m	2017 $m
Minimum lease payments under operating leases recognised as an expense in the year	**8.1**	4.5

At the balance sheet date, the Group has undiscounted outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2018 $m	2017 $m
Within one year	**10.6**	4.2
In the second to fifth years inclusive	**19.7**	9.5
After five years	**18.0**	9.9
	48.3	23.6

Operating lease payments represent rentals payable by the Group for certain of its properties, plant and machinery. Leases have varying terms and renewal rights.

23. 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 2018 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.

As mentioned within the critical accounting judgements section in Note 1 – accounting policies, the UK defined benefit scheme had a surplus, under IAS 19 of $22.1m (2017: $21.9m). 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 at 1 January 2018 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. These are also included within this category.

The Group also operates a small number of defined contribution schemes and the contributions payable during the year are recognised as incurred. The pension charge for the defined contribution pension schemes for continuing operations for the year is $3.0m (2017: $3.5m).

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
2018					
Total market value of assets	**671.3**	**108.3**	**–**	**–**	**779.6**
Present value of scheme liabilities	**(649.2)**	**(124.0)**	**(5.6)**	**(10.7)**	**(789.5)**
Net asset/(liability) recognised in the balance sheet	**22.1**	**(15.7)**	**(5.6)**	**(10.6)**	**(9.9)**

	UK pension scheme $m	US pension schemes $m	US PRMB scheme $m	Other $m	Total $m
2017					
Total market value of assets	778.7	120.3	–	–	899.0
Present value of scheme liabilities	(756.8)	(135.2)	(6.2)	(11.3)	(909.5)
Net asset/(liability) recognised in the balance sheet	21.9	(14.9)	(6.2)	(11.3)	(10.5)

Employer contributions in 2018 were $0.5m (2017: $7.3m) to the UK scheme and $1.9m (2017: $2.6m) to US schemes. Top up contributions to the UK scheme in 2019 will be nil based on the 2017 triennial valuation. Further details on agreed future payments to the UK pension scheme are included in the Finance Report.

23. 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
2018					
Balance at 1 January	21.9	(14.9)	(6.2)	(11.3)	(10.5)
Included in profit or loss					
Current service cost	(0.8)	(0.7)	(0.1)	(0.1)	(1.7)
Past service cost	(3.4)	–	–	–	(3.4)
Running costs	(1.2)	(0.4)	–	–	(1.6)
Net interest expense	0.5	(0.5)	(0.2)	(0.2)	(0.4)
	(4.9)	(1.6)	(0.3)	(0.3)	(7.1)
Included in other comprehensive income					
Re-measurements:					
Return on plan assets excluding interest income	(39.8)	(8.9)	–	–	(48.7)
Actuarial gains/(losses) arising from demographic assumptions	22.0	0.3	–	–	22.3
Actuarial gains arising from financial assumptions	39.1	8.1	0.3	–	47.5
Actuarial gains/(losses) arising from experience adjustment	(15.4)	–	–	–	(15.4)
Exchange differences	(1.3)	–	–	0.5	(0.8)
	4.6	(0.5)	0.3	0.5	4.9
Contributions:					
Employers	0.5	1.3	0.6	0.4	2.8
Deficit in schemes at 31 December	22.1	(15.7)	(5.6)	(10.7)	(9.9)

	UK pension scheme $m	US pension schemes $m	US PRMB scheme $m	Other $m	Total $m
2017					
Balance at 1 January	4.3	(23.1)	(6.3)	(5.0)	(30.1)
Liabilities assumed as part of the acquisition of SummitReheis	–	–	–	(4.7)	(4.7)
Included in profit or loss					
Current service cost	(0.8)	(0.5)	(0.1)	(0.2)	(1.6)
Running costs	(0.9)	(0.3)	–	–	(1.2)
Net interest expense	0.3	(0.9)	(0.2)	(0.3)	(1.1)
	(1.4)	(1.7)	(0.3)	(0.5)	(3.9)
Included in other comprehensive income					
Re-measurements:					
Return on plan assets excluding interest income	23.4	13.2	–	–	36.6
Actuarial gains/(losses) arising from demographic assumptions	–	0.7	–	–	0.7
Actuarial gains arising from financial assumptions	(14.1)	(6.1)	(0.4)	0.3	(20.3)
Actuarial gains/(losses) arising from experience adjustment	1.1	0.3	–	–	1.4
Exchange differences	1.3	–	–	*(1.4)*	*(0.1)*
	11.7	8.1	(0.4)	(1.1)	18.3
Contributions:					
Employers	7.3	1.8	0.8	–	9.9
Deficit in schemes at 31 December	21.9	(14.9)	(6.2)	(11.3)	(10.5)

Plan assets

Plan assets comprise:

	UK pension scheme $m	**US pension schemes $m**	**US PRMB scheme $m**	**Total $m**
2018				
Equities	**227.6**	**41.2**	**–**	**268.7**
Bonds*	**367.4**	**54.4**	**–**	**421.9**
Cash/liquidity funds	**76.3**	**12.7**	**–**	**89.0**
	671.3	**108.3**	**–**	**779.6**

	UK pension scheme $m	US pension schemes $m	US PRMB scheme $m	Total $m
2017				
Equities	260.8	60.9	–	321.7
Bonds*	421.8	7.6	–	429.4
Cash/liquidity funds	96.1	51.8	–	147.9
	778.7	120.3	–	899.0

* 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 $502.7m (2017: $557.6m) and associated repurchase agreement liabilities of $135.2m (2017: $135.8m). 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 schemes liabilities.

23. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

All equities, bonds and liquidity funds have quoted prices in active markets. Other assets include insured annuities, an insurance fund and various swap products.

Within the UK pension scheme, the current asset allocation is approximately 33% in a liability matching fund consisting of gilts (fixed interest and index linked), bonds, cash and swaps, 20% in a buy and maintain fund and 47% 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 38% 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
2018				
Opening fair value of plan assets	**778.7**	**120.3**	**–**	**899.0**
Expected return	**18.0**	**4.0**	**–**	**22.0**
Running costs	**(1.2)**	**(0.4)**	**–**	**(1.6)**
Actuarial gains	**(39.8)**	**(8.9)**	**–**	**(48.7)**
Contributions by employer	**0.5**	**1.4**	**–**	**1.9**
Contributions by employees	**0.1**	**–**	**–**	**0.1**
Benefits paid	**(42.7)**	**(8.1)**	**–**	**(50.8)**
Exchange differences	**(42.3)**	**–**	**–**	**(42.3)**
Closing fair value of plan assets	**671.3**	**108.3**	**–**	**779.6**

	UK pension scheme $m	US pension schemes $m	US PRMB scheme $m	Total $m
2017				
Opening fair value of plan assets	702.9	109.8	–	812.7
Expected return	18.7	4.1	–	22.8
Running costs	(0.9)	(0.3)	–	(1.2)
Actuarial gain	23.4	13.2	–	36.6
Contributions by employer	7.3	1.8	–	9.1
Contributions by employees	0.1	–	–	0.1
Benefits paid	(39.9)	(8.3)	–	(48.2)
Exchange differences	67.1	–	–	67.1
Closing fair value of plan assets	778.7	120.3	–	899.0

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
2018				
Opening defined benefit obligation	**(756.8)**	**(135.2)**	**(6.2)**	**(898.2)**
Service cost	**(0.8)**	**(0.7)**	**(0.1)**	**(1.6)**
Past service cost	**(3.4)**	**–**	**–**	**(3.4)**
Interest cost	**(17.5)**	**(4.4)**	**(0.2)**	**(22.1)**
Contributions by employees	**–**	**–**	**–**	**–**
Actuarial gains/(losses)	**45.7**	**8.2**	**0.3**	**54.2**
Benefits paid	**42.7**	**8.1**	**0.6**	**51.4**
Exchange differences	**40.9**	**–**	**–**	**40.9**
Closing defined benefit obligation	**(649.2)**	**(124.0)**	**(5.6)**	**(778.8)**

	UK pension scheme $m	US pension schemes $m	US PRMB scheme $m	Total $m
2017				
Opening defined benefit obligation	(698.6)	(132.9)	(6.3)	(837.8)
Service cost	(0.8)	(0.5)	(0.1)	(1.4)
Interest cost	(18.4)	(5.0)	(0.2)	(23.6)
Contributions by employees	(0.1)	–	–	(0.1)
Actuarial losses	(12.9)	(5.1)	(0.4)	(18.4)
Benefits paid	39.8	8.3	0.8	48.9
Exchange differences	(65.8)	–	–	(65.8)
Closing defined benefit obligation	(756.8)	(135.2)	(6.2)	(898.2)

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 %
2018		
Rate of increase in salaries	**4.2**	**3.00/3.45**
Rate of increase in pensions in payment	**3.1**	**N/A**
Discount rate	**2.8**	**4.0**
Inflation	**3.2**	**2.25**
2017		
Rate of increase in salaries	4.2	3.00/3.45
Rate of increase in pensions in payment	3.1	N/A
Discount rate	2.4	3.4
Inflation	3.2	2.0

The assumed life expectancies on retirement are:

	UK		US	
	2018 years	2017 years	**2018 years**	2017 years
Retiring at 31 December 2018				
Males	**22**	23	**21**	21
Females	**24**	25	**22**	22
Retiring in 20 years				
Males	**24**	25	**21**	21
Females	**25**	26	**23**	23

The main assumptions for the PRMB scheme are a discount rate of 4.0% (2017: 3.4%) per annum and a health care cost trend of 6.5% (2017: 6.5%) per annum for claims pre age 65 reducing to 4.5% per annum by 2022 (2017: 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 2018, the weighted average duration of the defined benefit obligations for the major schemes was as follows:
UK: 13 years
US: 10 years.

23. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Sensitivity analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increased/decreased by 0.5%	Decreased/increased by 7%
Rate of inflation	Increased/decreased by 0.5%	Increased/decreased by 4%
Rate of salary growth	Increased/decreased by 0.5%	Increased/decreased by 0%
Rate of mortality	Increased by 1 year	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.

24. 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. Options are normally exercisable during the six month period following either the third or fifth anniversary of the start of the relevant savings contract.

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 78 to 92. 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:

	2018	2017
Fair value per option (pence)	**155.4**	145.0
Expected volatility (%)	**26**	29.0
Risk free rate (%)	**0.7**	0.2
Expected dividend yield (%)	**3.4**	4.1

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 $2.8m (2017: $2.8m) related to share based payment transactions during the year.

At 31 December 2018 the following options/awards to subscribe for ordinary shares were outstanding:

Year of grant	Exercise price (p)[1]	Exercisable From	Exercisable To	At 1 January 2018 '000	Granted '000	Adjusted[2] '000	Exercised '000	Expired '000	At 31 December 2018 '000
UK savings related share option scheme									
2014	216.58	01/10/17	01/04/18	4	–	–	(4)	–	**–**
2015	189.72	01/10/18	01/04/19	40	–	1	(32)	–	**9**
2016	160.89	01/10/19	01/04/20	161	–	15	(3)	(10)	**163**
2017	207.40	01/10/20	01/04/21	64	–	5	(1)	(44)	**24**
2018	163.91	01/01/22	01/07/22	–	200	–	–	–	**200**
				269	200	21	(40)	(54)	**396**
US savings related share option scheme									
2016	169.57	31/08/18	31/11/18	330	–	8	(306)	(32)	**–**
2017	217.18	07/09/19	07/12/19	259	–	21	–	(44)	**236**
2018	160.14	05/12/20	05/03/20	–	585	–	–	–	**585**
				589	585	29	(306)	(76)	**821**
Executive share option schemes/awards granted under the LTIP[*]									
2010	52.16	06/04/13	06/04/20	237	–	17	(68)	–	**186**
2011[+]	137.18	04/04/14	04/04/21	150	–	9	(49)	–	**110**
2012[+]	177.81	27/06/15	27/06/22	308	–	19	(84)	(27)	**216**
2015[+]	290.20	01/04/18	01/04/25	529	–	–	–	(529)	**–**
2015[*]	Nil	27/04/18	27/04/25	439	–	–	–	(439)	**–**
2016[Δ]	Nil	07/03/18	07/03/26	226	–	–	(206)	(20)	**–**
2016[+]	218.17	04/04/19	04/04/26	853	–	76	–	(25)	**904**
2016[*]	Nil	04/04/19	04/04/26	914	–	85	–	–	**999**
2016[Δ]	Nil	04/04/19	19/09/26	241	–	22	–	–	**263**
2017[Δ]	Nil	07/03/17	07/03/27	84	–	8	–	–	**92**
2017[#]	Nil	07/03/19	07/03/27	50	–	5	–	–	**55**
2017[~]	Nil	07/03/20	07/03/27	16	–	1	–	–	**17**
2017[+]	264.66	03/04/20	03/04/27	836	–	72	–	(61)	**847**
2017[*†]	Nil	03/04/20	03/04/27	1,435	–	125	–	(86)	**1,474**
2017[Δ]	Nil	01/08/19	01/08/27	58	–	5	–	–	**63**
2018[#]	Nil	05/03/20	05/03/28	–	213	20	–	–	**233**
2018[*†]	Nil	30/04/21	30/04/28	–	1,988	183	–	(30)	**2,141**
2018[*]	Nil	27/06/21	27/06/28	–	6	1	–	–	**7**
2018[*]	Nil	29/10/21	29/10/28	–	38	–	–	–	**38**
2018[*]	Nil	21/12/21	21/12/28	–	570	–	–	–	**570**
				6,376	2,815	648	(407)	(1,217)	**8,215**

1 Option prices were adjusted for by a factor of 1.092715 to reflect the dilutive effects of the 2018 Rights Issue.
2 The number of shares over which outstanding awards were over was adjusted by a factor of 1.092715 to reflect the dilutive effect 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, 2012, 2016, 2017 options shown above include approximately 5,000, 18,000, 93,000, and 57,000 shadow options respectively.
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. The closing balance of
* 2017 and 2018 LTIPs shown above include approximately 14,000 and 78,000 shadow LTIPs respectively.
# Conditional share award under the Deferred Share Bonus Plan
~ Awards made as one-off agreements under the Deferred Share Bonus Plan.

The weighted average remaining contractual life of the above shares outstanding at 31 December 2018 was 7.1 years (2017: 7.2 years).

24. SHARE BASED PAYMENTS CONTINUED

The weighted average exercise prices of options disclosed in the previous table were as follows:

	2018 Average exercise price (p)	2017 Average exercise price (p)
At 1 January	**113.2**	110.9
Granted	**41.7**	114.8
Exercised	**118.9**	125.4
Expired	**147.4**	83.4
At 31 December	**79.8**	120.1
Exercisable at 31 December	**nil**	nil

The weighted average share price at the date of exercise of share options exercised during the year was 153 pence (2017: 287 pence). The number of exercisable options outstanding as at 31 December 2018 was nil (31 December 2017: nil).

25. 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 2018 is disclosed in Note 8 to the parent company financial statements.

26. MOVEMENT IN NET CASH/(BORROWINGS)

	2018 $m	2017 $m
Change in net cash resulting from cash flows:		
Increase in cash and cash equivalents	**45.9**	(31.7)
Decrease in borrowings repayable within one year	**(0.2)**	2.8
Decrease in borrowings repayable after one year	**(257.8)**	(338.8)
	(212.1)	(367.7)
Currency translation differences	**5.1**	(0.9)
Increase in net cash	**(207.0)**	(368.6)
Net cash at beginning of year	**(291.1)**	77.5
Net cash at end of year	**(498.1)**	(291.1)

27. DIVIDENDS

An interim dividend of 2.95 cents per share (2017: 2.70 cents) was paid on 28 September 2018 and the Group is proposing a final dividend of 5.70 cents per share (2017: 6.10 cents) for the year ended 31 December 2018. The total dividend for the year is 8.65 cents per share (2017: 8.80 cents).

The amount payable for the final dividend, based on the anticipated number of qualifying ordinary shares registered on the record date, is $33.0m.

The payment of this dividend will not have any tax consequences for the Group.

Following the Rights Issue in October 2018, dividends per share for periods prior to this have been rebased to reflect the bonus element resulting from this Rights Issue.

	2018			2017		
	Interim	Final	Full-year	Interim	Final	Full-year
Unadjusted dividend per share (cents)	**2.95**	**5.70**	**8.65**	2.70	6.10	8.80
Adjustment factor (x)	**0.9152**	**1.00**		0.9152	0.9152	
Rebased dividend per share (cents)	**2.70**	**5.70**	**8.40**	2.47	5.58	8.05

28. KEY MANAGEMENT COMPENSATION

	2018 $m	2017 $m
Salaries and short term employee benefits	**2.3**	4.7
Other long term benefits	**0.4**	0.6
Share based payments	**1.6**	1.7
	4.3	7.0

The key management compensation given above is for the Board and the business president, Chromium. Directors' remuneration is set out in the Directors' remuneration report on pages 78 to 92.

29. CONTINGENT LIABILITIES

As is the case with other chemical companies, the Group occasionally receives notices of litigation relating to regulatory and legal matters. A provision is recognised when the Group believes it has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where it is deemed that an obligation is merely possible and that the probability of a material outflow is not remote, the Group would disclose a contingent liability.

In 2013 the British Government (through HMRC) introduced a UK tax incentive for certain Group financing arrangements. In October 2017, the European Commission opened a State aid investigation into the rules relating to this incentive under the UK controlled foreign company regime. HMRC has provided certain information and maintains that the exemption and the way it is applied does not represent unfair State aid. Elementis could be impacted by the outcome of this investigation as it has, along with many other UK based multinationals, benefited from the arrangements. No provision for this potential liability has been provided in these financial statements as the final outcome remains uncertain.

30. EVENTS AFTER THE BALANCE SHEET DATE

On 26 February 2019 the Group received notice of a payment due in settlement of a commercial dispute with a customer of the Surfactants business disposed of in 2018. The total amount payable of $9.8m has been recognised as a liability at 31 December 2018. This amount was not recognised in previous accounts.

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

31. ACQUISITION

On 23 October 2018 the Group acquired all the shares of Mondo Minerals Holding B.V. (Mondo), for an initial purchase consideration of $500m. Mondo is a leading mine-to-market producer of talc and other mineral products with a strong presence in Northern and Central Europe and a growing customer base in Eastern Europe, Southern Europe, South America and Asia. The Mondo Group supplies talc to customers operating in a wide range of end markets, including industrial sectors (e.g., plastics, paints & coatings, technical ceramics, life sciences) and paper sectors (e.g., paper filler, paper coatings). Mondo uses proprietary flotation process know how and formulation expertise to deliver superior product quality and consistency to its customers.

The acquisitions had the following effect on the Group's assets and liabilities:

	Note	Book value at acquisition $m	Fair value adjustments $m	Fair value of assets acquired $m
Intangible assets	10	19.6	68.7	88.3
Property, plant and equipment	11	226.2	24.1	250.3
Inventories		24.3	1.9	26.2
Trade and other receivables		21.9	(1.1)	20.8
Tax indemnification asset		–	6.6	6.6
Trade and other payables		(18.1)	(1.0)	(19.1)
Other accruals		(26.1)	–	(26.1)
Cash and cash equivalents		39.9	–	39.9
Provisions	15	(2.7)	(1.1)	(3.8)
Corporation tax		(0.4)	0.2	(0.2)
Deferred tax	16	(12.2)	(24.3)	(36.5)
Total identifiable net assets acquired		272.4	74.0	346.4
Goodwill				200.5
Total consideration				546.9
of which:				
Contingent consideration				22.3
Considered paid, satisfied in				524.6
Cash acquired				(39.9)
Net cash outflow				484.7

31. ACQUISITION CONTINUED

The fair value adjustment to inventories of $1.9m is the net of an uplift due to fair value of $2.9m less an increase in provision for obsolescence of $1.0m.

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	Valuation technique
Property, plant and equipment	A cost approach method, benchmarked to market where available, was the method used to value machinery & equipment and buildings. Land that had previously been valued during a purchase price allocation exercise conducted in 2012 was included at NBV due to management's opinion that values had not varied significantly in the intervening period.
Intangible assets	Intangible assets have been categorised into two groups: customer relationships and technology. Customer relationships have been valued using a Multi-period Excess Earnings Method, in which the value is equal to the present value of incremental after-tax cash flows attributable to the asset after deducting contributory asset charges. Technology has been valued using a Relief from Royalty methodology.
Inventories	The market approach has been used to determine fair value based on the net realisable value of the inventory less costs to sell and a reasonable profit margin.

The consideration for the acquisitions has been allocated against identified net assets with the remaining balance recorded as goodwill. The goodwill recognised on acquisition reflects both the capabilities of the acquired entities' personnel and the synergistic opportunities going forward, neither of which can be allocated to an identifiable intangible asset.

Contingent consideration of $22.3m for the Mondo transaction is made up of:

a. $9.4m relating to potential payouts that may be made under an earn-out mechanism dependant on EBITDA performance for the years 2018-2020 exceeding certain thresholds. The potential undiscounted amount payable under the agreement is between $0.0m and $53.0m. The fair value of the contingent consideration arrangement of $9.4m was estimated by calculating the present value of the future expected cash flows based on a weighted probability analysis of a range of payments to give an estimate of the final obligation.
b. a further $12.9m that may be payable subject to the successful conclusion of an historic, pre-acquisition interest deduction dispute with the Finnish Tax authorities.

There were a number of one-off costs associated with the acquisition of Mondo Minerals – primarily the write off of the set-up costs of the previous financing syndicate, now replaced by a new facility, bank and lawyers fees, retention bonuses for Mondo employees, that have not been capitalised in accordance with IFRS 3. However, these have been reflected as adjusting items within Note 5 and recognised in administrative expenses and operating cash.

Acquisitions made during 2018 contributed $21.5m to the Group's revenue and $3.9m to the operating profit.

The estimated contribution of Mondo Minerals to the results of the Group, had the acquisition been made on 1 January 2018, and assuming that the fair value adjustments that arose on acquisition would have been the same at the earlier date, are as follows:

	2018 $m
Revenue	**158.4**
Operating profit	**24.6**

Cashflow relating to acquisitions in 2017 is wholly attributable to the acquisition of SummitReheis, further detail can be found in the 2017 annual report.

32. DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE

On 28 February the Group disposed of Elementis Specialties Netherlands BV, which carried out all of the Group's Surfactants operations. The disposal generated cash flow for the expansion of the Group's other businesses.

The results of the discontinued operations, which have been included in the consolidated income statement on the line 'Profit from discontinued operations', were as follows:

	Year ended 31 December 2018 $m	Year ended 31 December 2017 $m
Revenue	**4.8**	47.8
Expenses	**(15.2)**	(42.0)
Profit before tax	**(10.4)**	5.8
Attributable tax expense	**2.0**	(0.9)
Net profit attributable to discontinued operations (attributable to owners of the Company)	**(8.4)**	4.9

Revenue includes $nil related to inter-segment sales in 2018 (2017: $0.2m).

During the year, Elementis Specialties Netherlands BV contributed $1.1m (2017: $7.2m) to the Group's net operating cash flows and paid $0.6m (2017: $2.6m) in respect of investing activities.

The Group recognised a total loss on current year disposal of:

	Year ended 31 December 2018 $m
Consideration received	47.9
Net assets disposed of	(42.0)
Disposal costs	(2.2)
Recycling of deferred foreign exchange gains	(4.2)
Loss on disposal	(0.5)

Details of assets and liabilities at the date of disposal are provided in the following table:

	Year ended 2018 $m
Goodwill	**3.2**
Intangible assets	**2.4**
Property, plant and equipment	**38.0**
Inventories	**8.6**
Trade and other receivables	**11.1**
Cash and bank balances	**2.8**
Total assets classified as held for sale	**66.1**
Trade and other payables	**(20.3)**
Pensions	**(0.4)**
Tax liabilities	**(3.4)**
Bank overdrafts and loans	–
Total liabilities associated with assets classified as held for sale	**(24.1)**
Net assets of disposal group	**42.0**

2017 Assets Held for Sale
In the 2017 Annual Report, we disclosed that the Group intended to dispose of Elementis Specialties Netherlands BV and that the disposal process was sufficiently advanced for the business to be classified as a disposal group held for sale.

The major classes of assets and liabilities comprising the operations classified as held for sale were as follows:

	Year ended 2017 $m
Goodwill	3.1
Intangible assets	2.3
Property, plant and equipment	36.9
Inventories	6.8
Trade and other receivables	9.1
Cash and bank balances	–
Total assets classified as held for sale	58.2
Trade and other payables	(18.2)
Tax liabilities	(4.7)
Bank overdrafts and loans	–
Total liabilities associated with assets classified as held for sale	(22.9)
Net assets of disposal group	35.3

PARENT COMPANY STATUTORY ACCOUNTS
ELEMENTIS PLC

BALANCE SHEET
at 31 December 2018

	Note	2018 £m	2017 £m
Fixed assets			
Investments	6	**771.8**	769.7
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		**783.9**	781.8
Creditors: amounts falling due after more than one year			
Amounts due to subsidiary undertakings		**(146.4)**	(333.7)
Net assets		**637.5**	448.1
Capital and reserves			
Called up share capital	9	**28.9**	23.1
Share premium account		**176.4**	12.8
Capital redemption reserve	9	**83.3**	83.3
Other reserves		**250.5**	250.5
Share option reserve	9	**2.9**	2.9
Profit and loss account		**95.5**	75.5
Equity shareholders' funds		**637.5**	448.1

The Company recognised a loss for the financial year ended 31 December 2018 of £1.3m (2017: £3.6m).

The financial statements of Elementis plc, registered number 3299608, on pages 156 to 163 were approved by the Board on 5 March 2019 and signed on its behalf by:

PAUL WATERMAN
CEO

RALPH HEWINS
CFO

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	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 2017	23.1	12.0	83.3	250.5	2.8	137.8	509.5
Comprehensive income							
Profit for the year	–	–	–	–	–	(3.6)	(3.6)
Transfer	–	–	–	–	–	–	–
Total other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	(3.6)	(3.6)
Transactions with owners							
Issue of shares by the Company	–	0.8	–	–	–	–	0.8
Share based payments	–	–	–	–	–	1.9	1.9
Transfer	–	–	–	–	0.1	(0.1)	–
Dividends paid	–	–	–	–	–	(60.5)	(60.5)
Total transactions with owners	–	0.8	–	–	0.1	(58.7)	(57.8)
Balance at 31 December 2017	23.1	12.8	83.3	250.5	2.9	75.5	448.1
Balance at 1 January 2018	**23.1**	**12.8**	**83.3**	**250.5**	**2.9**	**75.5**	**448.1**
Comprehensive income							
Profit for the year	–	–	–	–	–	**(1.3)**	**(1.3)**
Transfer	–	–	–	–	–	–	–
Total other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	**(1.3)**	**(1.3)**
Transactions with owners							
Issue of shares by the Company	**5.8**	**163.6**	–	–	–	–	**169.4**
Share based payments	–	–	–	–	–	**2.1**	**2.1**
Transfer	–	–	–	–	–	–	–
Dividends received	–	–	–	–	–	**50.0**	**50.0**
Dividends paid	–	–	–	–	–	**(30.8)**	**(30.8)**
Total transactions with owners	**5.8**	**163.6**	–	–	–	**21.3**	**190.7**
Balance at 31 December 2018	**28.9**	**176.4**	**83.3**	**250.5**	**2.9**	**95.5**	**637.5**

The Company's distributable reserves amount to £95.5m (2017: £75.5m) at the end of the period.

For more information on the the dividend issued and the dividend per share please see Note 27 of the Group financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS OF ELEMENTIS PLC
FOR THE YEAR ENDED 31 DECEMBER 2018

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 106 to 155, 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 Group undertakings are included in the balance sheet at cost less impairment.

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 2014 can be found in the 2016 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 Holdings 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 2018.

Changes in accounting policies
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. There has been no impact from these new standards, please see Note 1 of the Group financial statements for further details.

Share based payments
The fair value of share options granted to employees is recognised as an expense with a corresponding increase in equity. Where the Company grants options over its own shares to the employees of its subsidiaries it recognises in its individual financial statements an increase in the cost of investment in its subsidiaries equivalent to the equity settled share based payment charge recognised in its subsidiaries' financial statements, with the corresponding credit being recognised directly in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Classification of financial instruments issued by the Company
Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

a. They include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company.

b. Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that the definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

4. PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO SHAREHOLDERS
As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. A loss of £1.3m (2017: £3.6m loss).

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 78 to 92.

6. INVESTMENTS

	Unlisted shares at cost £m	Unlisted loans £m	Capital contributions £m	Total £m
Cost at 1 January 2018	0.1	759.0	10.6	769.7
Additions	–	–	2.1	2.1
Net book value 31 December 2018	0.1	759.0	12.7	771.8
Net book value 31 December 2017	0.1	759.0	10.6	769.7

The investment in unlisted loans is with Elementis Holdings Ltd, an indirect wholly owned subsidiary. The investments in unlisted shares are in Elementis Group BV and Elementis Overseas Investments Ltd, both wholly owned subsidiaries. Capital contributions relate to share based payment awards made to employees of subsidiary companies.

NOTES TO THE COMPANY FINANCIAL STATEMENTS OF ELEMENTIS PLC
FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

6. INVESTMENTS CONTINUED

The trading subsidiaries and associates of Elementis plc, all of which are wholly owned, excluding Alembic Manufacturing Limited, where the Group holds a 25% interest, are as follows:

Subsidiary undertakings		Country of incorporation and operation
Adentatec GmbH	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 Specialties (Anji) Ltd	Organoclays	People's Republic of China[9]
Elementis Specialties (Changxing) 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]
SRL Dental GmbH	R&D for Personal Care	Germany[12]
Mondo Minerals BV	Talc products	Netherlands[13]
Mondo Minerals Deutschland GmbH	Talc products	Germany[14]
Mondo Minerals Nickel Oy	Talc products	Finland[15]
Mondo Trading (Beijing) Company Ltd	Talc products	People's Republic of China[16]

1 Registered office Konrad-Adenauer-Straße 13, 50996 Koln, Germany.
2 Registered office Unit 6 Wimbourne Buildings, Atlantic Way, Barry Docks, Barry, South Glamorgan CF63 3RA, UK.
3 Registered office 92, Kuang-Fu North Road, Hsinchu Industrial Park, Hukou, Hsinchu Taiwan, ROC.
4 Registered office Flat P, 14/F, Haribest Industrial Building, 45-47 Au Pui Wan Street, Fotan, Shatin N.T Hong Kong.
5 Registered office 99 Lianyang Road, Songjiang Industrial Zone, Shanghai, China.
6 Registered office Dr.-Konrad-Wiegand-Str. 9, 63939 Worth 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 Huibutai, Majiadu Village, Dipu Town, Anji County, Huzhou City, Zhejiang Province, China.
10 Registered office Sian Town, Changxing County, 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 Kajuitweg 8, 1041 AR, Amsterdam, Netherlands.
14 Registered office Friedrichsallee 14, 42117, Wuppertal, Germany.
15 Registered office Talkkitie 7, 83500, Outokumpu, Finland.
16 Registered office Nan Zhugan Hutong no.6, floor 9, 01-007, Dongcheng District, 100010, Beijing, China.

Non-trading and dormant subsidiaries of Elementis plc, all of which are wholly owned within the Group, are as follows:

Subsidiary undertakings		Country of incorporation and operation
Agrichrome Ltd	Non-trading	United Kingdom[1]
American Chrome & Chemicals Inc	Dormant	United States of America[2]
Deuchem Holding Inc	Dormant	Samoa[3]
Deuchem International Inc	Dormant	Samoa[3]
Elementis America Shared Services Inc	Dormant	United States of America[2]
Elementis Australia Ltd	Dormant	United Kingdom[1]
Elementis Benelux NV	Non-trading (in liquidation)	Belgium[4]
Elementis BV	Dormant	Netherlands[5]
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 Finance (Australia) Ltd	Dormant	United Kingdom[1]
Elementis Finance (Europe) Ltd	Non-trading	United Kingdom[1]

Subsidiary undertakings		Country of incorporation and operation
Elementis Finance (Germany) Ltd	Non-trading	United Kingdom[1]
Elementis Finance (Ireland) Ltd	Non-trading	Ireland[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[5]
Elementis Group Ltd	Dormant	United Kingdom[1]
Elementis Holdings Ltd	Non-trading	United Kingdom[1]
Elementis London Ltd	Dormant	United Kingdom[1]
Elementis Nederland BV	Non-trading	Netherlands[5]
Elementis New Zealand Ltd	Dormant	United Kingdom[1]
Elementis NZ Ltd	Non-trading	New Zealand[8]
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[9]
Elementis Securities Ltd	Non-trading	United Kingdom[1]
Elementis Service Centre NV	Non-trading	Belgium[10]
Elementis Services GmbH	Non-trading	Germany[7]
Elementis Specialties (India) Private Ltd	Non-trading	India[11]
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[12]
Iron Oxides s.a.de. CV	Dormant	Mexico[13]
Mondo Minerals Holding BV	Non-trading	Netherlands[14]
Mondo Minerals International BV	Dormant	Netherlands[14]
NB Chrome Ltd	Dormant	United Kingdom[1]
Reheis, Inc.	Non-trading	United States of America[2]
SRL Coöperatief U.A.	Non-trading	Netherlands[5]
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 Strawinskylaan 411, 1077XX Amsterdam, Netherlands.
6 Registered office 8th Floor, Block E, Iveagh Court, Harcourt Road, Dublin 2, Ireland.
7 Registered office Stolberger Str.370, 50933, Koln, Germany.
8 Registered office KPMG, P O Box 1584, 18 Viaduct Harbour Avenue, Maritime Square, Auckland, New Zealand.
9 Registered office 10th Floor, Menara Hap Seng, No. 1 & 3 Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia.
10 Registered office Pegasuslaan 5, 1831 Machelen (Brab.), Belgium.
11 Registered office Unit-B, Ground Floor, Jaswanti Landmark, Mehra Industrial Estate, L.B.S. Marg, Vikhroli (W), Mumbai 400079, India.
12 Registered office C/o Stewart McKelvey Stirling Scales,44 Chipman Hill, Suite 1000 ON E2L 4S6, Canada.
13 Registered office Calle San Ignacio N 105, 22106 Tijuana,Baja California, Mexico.
14 Registered office Kajuitweg 8, 1041 AR, Amsterdam, Netherlands.
15 Registered office Kajaanintie 54, 88620, Korholanmaki, Finland.

Notes:
Other than 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, with the exception of Elementis Specialties (India) Private Ltd for which the relevant date is 31 March, have accounting periods ending 31 December.
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

	2018 £m	2017 £m
Group relief receivable	**12.7**	12.7

8. CREDITORS: AMOUNT FALLING DUE WITHIN ONE YEAR

	2018 £m	2017 £m
Accruals and deferred income	**0.6**	0.6

9. SHARE CAPITAL AND RESERVES

	2018 Number '000	2018 £m	2017 Number '000	2017 £m
Called-up allotted and fully paid:				
Ordinary shares of 5 pence each				
At 1 January	**463,938**	**23.1**	463,496	23.1
Issue of shares	**116,456**	**5.8**	442	–
At 31 December	**580,394**	**28.9**	463,938	23.1

In October 2018 the group undertook a rights issue on the basis of 1 share for every four fully paid ordinary shares held. The issue was resulted in the issue of 116,058,808 ordinary shares at £1.52 per share.

397,326 ordinary shares with an aggregate nominal value of £19,866 were allotted and issued for cash to various employees at subscription prices between 170 pence and 226 pence on the exercise of options under the Group's share option schemes.

The total subscription monies received by the Company for these shares was £172.5m as a result of the rights issue and employee allotments. The holders of ordinary shares are entitled to receive dividends and entitled to one vote per share at meetings of the Company.

The Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The Capital redemption reserve represents the nominal value of the shares redeemed.

The share options reserve comprises amounts accumulated in equity in respect of share options and awards granted to employees.

Details of the Shared-based payments in the year are set out in Note 24 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 2018. Unless otherwise stated, the undertakings listed below are all 100% owned, either directly or indirectly, by Elementis plc. The Company will guarantee the debts and liabilities of the UK subsidiaries listed below at the balance sheet date in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company Number
Agrichrome Limited	100	–	2228826
Elementis Finance (Germany) Limited	100	–	5531634
Elementis Finance (US) Limited	100	–	9303101
Elementis Germany Limited	100	–	48664
Elementis Group (Finance) Limited	100	–	9303017
Elementis Group Limited	100	–	4048541
Elementis Overseas Investments Limited	100	–	8008981
Elementis Securities Limited	100	–	597303
Elementis UK Limited	100	–	656457
Elementis US Limited	100	–	8005226
SRL Performance Limited	100	–	9622186

UNAUDITED PRO FORMA INFORMATION

To better understand the full year performance of the business segments operated by the Group as at 31 December 2018 the information below includes the results for the Talc segment for the ten months prior to acquisition

Group performance	Continuing operations $m[1]	Talc 1 Jan to 22 Oct $m[2]	Pro forma continuing operations $m
Revenue	822.2	136.9	959.1
Adjusted operating profit	132.6	20.7	153.3
Adjusted operating margin	16.1%	15.1%	16.0%
Adjusted EBITDA	163.2	36.6	199.8
Net Debt	498.1		498.1
Net Debt / EBITDA *			2.49

External revenue by business segment	Continuing operations $m[1]	Talc 1 Jan to 22 Oct $m[2]	Pro forma continuing operations $m	%
Personal Care	210.3		210.3	21.9%
Coatings	362.2		362.2	37.8%
Talc	21.5	136.9	158.4	16.5%
Chromium	173.3		173.3	18.1%
Energy	54.9		54.9	5.7%
	822.2	136.9	959.1	100.0%

External revenue by geography	Continuing operations $m[1]	Talc 1 Jan to 22 Oct $m[2]	Pro forma continuing operations $m	%
North America	290.3	6.0	296.3	30.9%
Europe	233.2	116.1	349.3	36.4%
Rest of World	298.7	14.8	313.5	32.7%
	822.2	136.9	959.1	100.0%

Mondo performance	12 months to 31 Dec 2018 €m[2]	12 months to 31 Dec 2017 €m[2]
Revenue	134.3	122.2
Adjusted operating profit	20.8	16.5

* Net Debt/EBITDA where EBITDA is the Adjusted EBITDA on continuing operations of the Group and including full prior months of Mondo is the definition of Net Debt/ EBITDA for Elementis' core banking covenants.

1 Source – Elementis annual accounts.

2 Source – Mondo management accounts for the relevant period.

FIVE YEAR RECORD

	2018 $m	2017 $m	2016 restated[2] $m	2015 restated[2] $m	2014 $m
Turnover					
Continuing operations	**833.2**	782.7	616.6	623.4	723.5
Discontinued operations	**4.8**	47.6	42.9	53.8	66.9
Group turnover	**838.0**	830.3	659.5	677.2	790.4
Operating profit after adjusting items					
Continuing operations	**132.6**	122.7	97.6	119.8	145.2
Discontinued operations	**(0.6)**	5.4	(0.6)	4.5	4.9
	132.0	128.1	97.0	124.3	150.1
Adjusting items	**(57.5)**	(30.9)	(12.5)	2.8	6.3
Profit before interest	**74.5**	97.2	84.5	127.1	156.4
Other expenses	**(1.6)**	(1.2)	(1.4)	(2.1)	(1.9)
Net interest payable	**(17.9)**	(11.7)	(7.6)	(4.2)	(6.3)
Profit before tax	**55.0**	84.3	75.5	120.8	148.2
Tax	**(13.6)**	33.3	(7.4)	(26.2)	27.2
Profit attributable to equity holders of the parent	**41.4**	117.6	68.1	94.6	175.4

	2018 $m	2017 $m	2016 restated[2] $m	2015 restated[2] $m	2014 $m
Basic					
Earnings per ordinary share (cents)	**7.9**	23.3	14.7	20.5	38.1
Earnings per ordinary share after adjusting items (cents)	**17.0**	18.1	17.6	21.4	25.1
Diluted					
Earnings per ordinary share (cents)	**7.9**	23.0	13.5	18.7	34.8
Earnings per ordinary share after adjusting items (cents)	**16.9**	17.9	16.1	19.0	23.0
Dividend per ordinary share (cents)	**8.65**	8.80	16.80	16.45	15.40
Dividend per ordinary share rebased[3] (cents)	**8.40**	8.05	15.38	124.3	115.5
Interest cover (times)[1]	**8.0**	13.5	138.6	124.3	115.5
Equity attributable to equity holders of the parent	**915.6**	702.3	627.1	653.8	644.1
Net cash	**(498.1)**	(291.1)	77.5	74.0	64.2
Weighted average number of ordinary shares in issue during the year (million)	**526.3**	513.0	510.0	509.4	508.5

1 Ratio of operating profit after adjusting items to interest on net borrowings.
2 Restated following the adjustment for amortisation of intangibles 2016 and 2015 restated but not prior years. This is not expected to be material.
3 Following the rights issue in October 2018, dividend per share for periods prior to this have been rebased to reflect the bonus element resulting from this rights issue.

GLOSSARY

ACC	American Chemistry Council
ACT	Advance Corporation Tax
AGM	Annual General Meeting
AWC	Average trade working capital
Board	Board of Directors of Elementis plc
Brexit	The withdrawal of the UK from the EU
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CO_2	Carbon dioxide
CO_2e	Carbon dioxide equivalent
Company	Elementis plc
CR	Corporate responsibility
DB Scheme	Defined benefit scheme
DEFRA	Department for Environment and Rural Affairs
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
ESOS	Executive share option scheme
ESOT	Employee share ownership trust
EU	European Union
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
GDP	Gross domestic product
GHG	Greenhouse gases
GJ	Gigajoule
Group	Elementis plc and its subsidiaries
HMRC	HM Revenue and Customs
HSE	Health, safety and environment
IA	Investment Association
IFC	Inside front cover
IFRS	International Financial Reporting Standards
ISS	Institutional Shareholder Services
KPI	Key performance indicator
kWh	Kilowatt hour
LDI	Liability driven instrument
LTA	Lost time accident
LTIP	Long term incentive plan
Mondo	Mondo Minerals Holding B.V. and its subsidiaries
NIC	National Insurance Contributions
OSHA	Occupational Safety and Health Administration
PRMB	Post retirement medical benefit
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
RCF	Revolving credit facility
RfR	Relief from royalty
ROCE	Return on capital employed
SAYE	Save as you earn
SID	Senior Independent Director
SummitReheis	SRLH Holdings, Inc. and its subsidiaries
TSR	Total shareholder return
UK	United Kingdom
UN	United Nations
US	United States
VOC	Volatile organic compound

SHAREHOLDER SERVICES

Range of holdings	Number of shareholders	Percentage of total shareholders	Ordinary shares (million)	Percentage of issued share capital
1 – 499	4432	49.9%	0.788000	0.14%
500 – 999	1148	12.93%	0.820629	0.14%
1,000 – 4,999	2255	25.4%	4.899359	0.84%
5,000 – 9,999	455	5.12%	3.048649	0.53%
10,000 – 49,999	290	3.27%	5.715973	0.98%
50,000 – 99,999	64	0.72%	4.465933	0.77%
100,000 – 499,999	123	1.38%	28.865617	4.97%
500,000 – 999,999	33	0.37%	24.174449	4.17%
1,000,000 Plus	81	0.91%	507.615608	87.46%

Category	Number of shareholders	Percentage of total shareholders	Ordinary shares (million)	Percentage of issued share capital
Private individuals	8156	91.84	14.94168	2.57%
Nominee companies	437	4.92	467.645177	80.58%
Limited and public limited companies	243	2.74	89.670519	15.45%
Other corporate bodies	44	0.50	8.123311	1.40%
Pension funds, insurance companies and banks	1	0.00	0.01353	0.00%

BOILER ROOM 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 about such scams on their website, including tips to protect your savings and how to report a suspected investment scam. This information can be accessed at www.fca.org.uk/consumers/scams/investment-scams

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 made to the Company's registrars:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
Tel: 0371 384 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 8.30 am to 5.30 pm, 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.

PAYMENT OF DIVIDENDS

Shareholders who wish dividends to be paid directly into bank or building society account should contact Equiniti for a dividend mandate form. This method of payment removes the risk of delay or loss of dividend cheques in the post.

ELECTRONIC COMMUNICATIONS

Shareholders can elect to receive shareholder documents electronically by registering with Shareview at www.shareview.co.uk. This will save on printing and distribution costs, creating environmental benefits. When you register, you will be sent an email notification to say when shareholder documents are available on our website and you will be provided with a link to that information. When registering, you will need your shareholder reference number which can be found on your share certificate or proxy form. Please contact Equiniti if you require any assistance or further information.

SHARE DEALING SERVICES

Equiniti provides a share dealing service that enables shares to be bought or sold by UK shareholders by telephone or over the internet. For telephone share dealing please call 0345 603 7037 between 8.30 am and 4.30 pm (lines are open until 6.00 pm for enquiries) and for internet share dealing please visit: www.shareview.co.uk/dealing.

CORPORATE INFORMATION

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REGISTERED NUMBER
3299608

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CORPORATE BROKERS
JP Morgan Cazenove

PUBLIC RELATIONS
Tulchan Communications

FINANCIAL CALENDAR

5 March 2019	Preliminary announcement of final results for the year ended 31 December 2018
30 April 2019	Annual General Meeting
30 April 2019*	Trading update
2 May 2019	Ex-dividend for final dividend for 2018 payable on ordinary shares
3 May 2019	Record date for final dividend for 2018 payable of ordinary shares
31 May 2019	Payment of final dividend for 2018 on ordinary shares
30 July 2019*	Interim results announcement for the half year ending 30 June 2019
5 September 2019*	Ex-dividend date for interim dividend for 2019 payable on ordinary shares
6 September 2019*	Record date for interim dividend for 2019 payable on ordinary shares
27 September 2019*	Payment of interim dividend for 2019 on ordinary shares

* Provisional date.

ANNUAL GENERAL MEETING
The Annual General Meeting of Elementis plc will be held on 30 April 2019 at 11.00 am at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG. The Notice of Meeting is included in a separate document.

PRINCIPAL OFFICES

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