
REIGNITE GROWTH:
STRENGTHENING
THE FOUNDATIONS

ELEMENTIS PLC

We are a global specialty chemicals company serving customers in North and South America, Europe and Asia in a wide range of markets and sectors.

The Company has a premium listing in the UK on the London Stock Exchange and is a member of the FTSE 250 and FTSE4Good Indices.

In 2016 we set out on a 3 year programme to Reignite Growth in our business.

2016: Completed a business wide strategic review ✓

**2017: Reignite Growth:
Strengthening the foundations** ✓

HIGHLIGHTS 2017

Revenue

\$782.7m

+27%

2016: \$616.6m

Profit after tax

\$117.6m

+73%

2016: \$68.1m

Basic EPS

25.4c[◇]

+73%

2016: 14.7c[◇]

Ordinary dividend per share

8.80c

+4%

2016: 8.45c

Net cash/(debt)

\$(291.1)m

2016: \$77.5m

Total revenue

\$830.3m[◇]

+26%

2016: \$659.5m[◇]

Adjusted operating profit

\$128.1m^{◇△}

+32%

2016: \$97.0m^{◇△†}

Adjusted diluted EPS

19.5c^{◇△}

+12%

2016: 17.4c^{◇△†}

Adjusted operating cash flow

\$107.1m^{◇△}

+12%

2016: \$96.0m^{◇△}

CONTENTS

Strategic report

- 2 Chairman's statement
- 4 Reignite Growth – 2017 highlights
- 12 CEO's strategic overview
- 14 Our key performance indicators
- 16 Our business segments
- 18 Our focused business model
- 20 Our business segments' performance
- 22 Finance report
- 26 Corporate social responsibility report
- 32 Principal risks and uncertainties
- 37 Going concern and viability statement

Governance

- 40 Board of Directors
- 42 Executive Leadership team
- 44 Chairman's introduction to governance
- 45 Corporate governance report
- 49 Nomination Committee report
- 51 Audit Committee report
- 55 Directors' remuneration report
- 77 Directors' report
- 79 Directors' responsibility statement
- 80 Independent auditor's report

Financial statements

- 90 Consolidated income statement
- 90 Consolidated statement of comprehensive income
- 91 Consolidated balance sheet
- 92 Consolidated statement of changes in equity
- 93 Consolidated cash flow statement
- 94 Notes to the Consolidated financial statements
- 130 Parent company statutory accounts
- 132 Notes to the Company financial statements

Shareholder information

- 137 Glossary
- 138 Five year record
- 139 Shareholder services
- 140 Corporate information

◇ Total operations (both continuing and discontinued).

△ After adjusting items – see note 5.

† Restated – see note 33.

Cautionary statement:

The Annual report and accounts for the financial year ended 31 December 2017, as contained in this document ('Annual Report'), contains information which viewers or readers might consider to be forward looking statements relating to or in respect of the financial condition, results, operations or businesses of Elementis plc. Any such statements involve risk and uncertainty because they relate to future events and circumstances. There are many factors that could cause actual results or developments to differ materially from those expressed or implied by any such forward looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Our Reignite Growth strategy goes through every aspect of our business. It examines, challenges and clarifies actions that need to be taken to help us build a high performing Group.

2017 has seen us strengthen the foundations of Elementis by focusing on our 4 strategic priorities. As a result we are now better placed to Reignite Growth and we look forward to maintaining this momentum during 2018.

PAUL WATERMAN
CEO

REIGNITE GROWTH: STRENGTHENING THE FOUNDATIONS



OUR 4 STRATEGIC PILLARS

PURSUE BEST GROWTH OPPORTUNITIES

What we did in 2017:

Acquired SummitReheis, implemented global key account management and developed Asia Coatings.

[Go to page 4](#)

PURSUE SUPPLY CHAIN TRANSFORMATION

What we did in 2017:

Agreed the sale of the US Colourants business and Surfactants segment, and improved productivity.

[Go to page 7](#)

INNOVATE FOR HIGH MARGINS AND DISTINCTIVENESS

What we did in 2017:

Improved our innovation capabilities, focusing on fewer and bigger opportunities.

[Go to page 8](#)

CREATE A CULTURE OF HIGH PERFORMANCE

What we did in 2017:

Invested in our people, structure and performance management processes.

[Go to page 11](#)

OUR BUSINESS AT A GLANCE

GROUP

Elementis plc is a global specialty chemicals company that delivers Enhanced Performance Through Applied Innovation. Harnessing our expertise in high performing ingredients to refine and improve stability and flow, we enhance our customers' product performance.

In 2017, we operated across 3 business segments: Specialty Products, Chromium and Surfactants.

INVESTMENT PROPOSITION

Unique value chain

We combine the only high grade commercial hectorite mine in the world with our global asset base to serve customers in the Americas, Europe and Asia. We are a market, technology and innovation leader in rheology modifiers and a leading producer of chromium chemicals in the United States.

Robust organic growth

We focus on mission critical products that deliver enhanced performance to our customers in attractive growth sectors such as Personal Care, Energy and Coatings.

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.

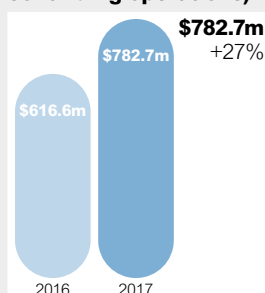
Value creation

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.

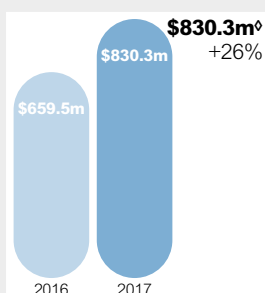
ENHANCED PERFORMANCE THROUGH APPLIED INNOVATION

At Elementis we apply innovation to all parts of our business. Through operations, research and development, sales and marketing we apply innovation with purpose to provide value to our customers. With the application of our unique expertise and premium ingredients, we enhance our customers' product performance and enable distinctiveness in the market.

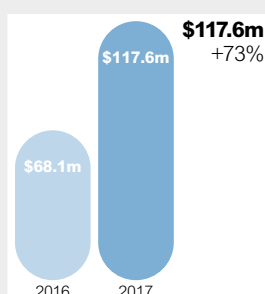
Revenue (from continuing operations)



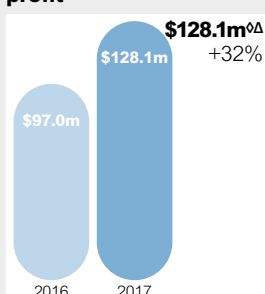
Total revenue



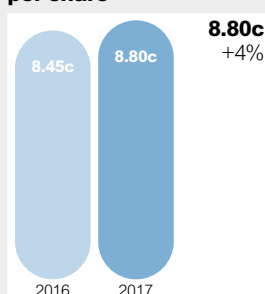
Profit after tax



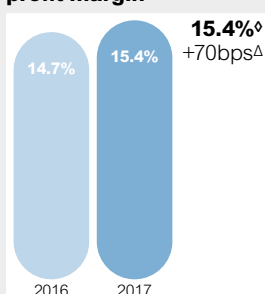
Adjusted operating profit



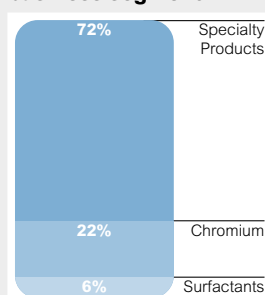
Ordinary dividend per share



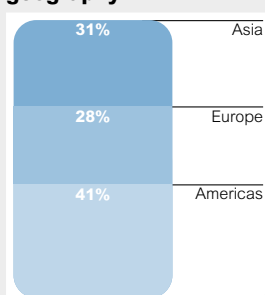
Adjusted operating profit margin



Revenue split by business segment[◇]



Revenue split by geography[◇]



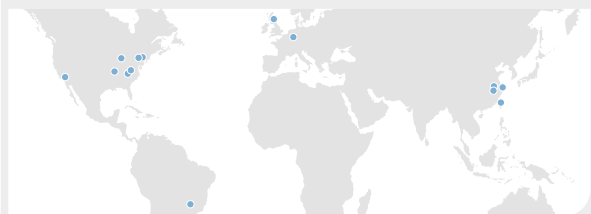
[◇] Total operations (both continuing and discontinued).

^Δ After adjusting items – see note 5.

SPECIALTY PRODUCTS

Through the application of our expertise in high performing ingredients that improve stability and flow we provide high value additives that enhance our customers' product performance. We deliver Enhanced Performance Through Applied Innovation to the Personal Care, Coatings and Energy markets.

Revenue	\$611.0m
Adjusted operating profit	\$109.0m ^Δ
Adjusted operating margin	17.8% ^Δ



Personal Care

A leading global supplier of rheological additives and antiperspirant active ingredients

Revenue

\$179.3m

Coatings

A leading supplier of rheological modifiers and speciality additives to decorative and industrial coatings markets

Revenue

\$372.9m

Energy

A leading supplier of rheological modifiers to enhance the performance of drilling mud over a wide range of conditions

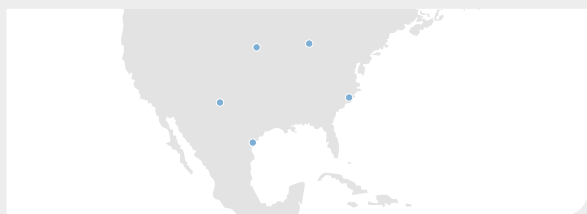
Revenue

\$58.8m

CHROMIUM

We are a leading producer of chromium chemicals with a strong position in North America. We provide chromium chemicals that make our customers' products more durable.

Revenue	\$186.7m
Adjusted operating profit	\$30.1m ^Δ
Adjusted operating margin	16.1% ^Δ



SURFACTANTS

In December 2017, we agreed the sale of the Surfactants business to Kolb Distribution AG for €39m.

This business manufactures a wide range of surface active ingredients and products used as intermediates in the production of chemical compositions.

Revenue	\$47.8m
Adjusted operating profit	\$5.4m ^Δ
Adjusted operating margin	11.3% ^Δ



Our Specialty Products value chain

As part of our Specialty Products business segment value chain, we own and operate in California a mine that is the world's largest source of high quality rheology grade hectorite clay. This raw material, combined with our global manufacturing footprint, puts us in a position to add value to our customers in the Personal Care, Coatings and Energy sectors on an international scale.



The only high quality rheology grade hectorite mine in the world.



Combined with our 14 global manufacturing bases and technical expertise.

A global leader

14 sites

Enables our customers to create innovative, high performance products.



Personal Care

[More on page 16](#)



Coatings

[More on page 16](#)



Energy

[More on page 17](#)

3 business sectors

ANDREW DUFF, CHAIRMAN



The positive results and significant strategic progress made in 2017 are strong evidence that the Group is strengthening the foundations to Reignite Growth at Elementis.

As I reflect on the first year following the launch of the new strategy to Reignite Growth at Elementis, I am pleased to report a year of strong strategic progress, solid earnings growth and good cash flow generation.

The acquisition of SummitReheis, disposal of the Surfactants business and far reaching supply chain initiatives are a few examples of the significant change taking place at Elementis.

I continue to be impressed by the commitment and hard work of all our employees. They are focused on enhancing our customers' product performance through the application of expertise and innovation. On behalf of the Board, I would like to thank the entire team at Elementis.

FINANCIAL RESULTS

In 2017, revenue from continuing operations rose 27% to \$782.7m and revenue from total operations, including the discontinued Surfactants business, increased 26% from \$659.5m to \$830.3m^Δ. Operating profit for the year increased by 7% from \$85.1m to \$91.4m, however this excludes the impact from discontinued operations and adjusting items. Adjusted operating profit for the year grew 32% to \$128.1m^{ΔΔ} compared to \$97.0m^{ΔΔ} in 2016, and profit after tax grew 73% from \$68.1m in 2016 to \$117.6m in 2017, reflecting the contribution from the newly acquired SummitReheis business and underlying growth across all of our 3 business segments. Group adjusted diluted earnings per share rose 12% from 17.4 cents^{ΔΔ} in 2016 to 19.5 cents^{ΔΔ}.

BALANCE SHEET

Following the acquisition in March 2017 of SummitReheis for \$362m, Elementis has moved from a net cash position of \$77.5m at the end of 2016 to a net debt position of \$291.1m at the end of 2017. One of the Group's core strengths is its cash flow generation and 2017 was no different, with adjusted operating cash flow of \$107.1m^{ΔΔ}, up 12% on prior year.

The IAS 19 deficit, on the Group's post retirement benefit plans, declined from \$30.1m at the end of 2016 to \$10.5m at the end of 2017. This was driven by the UK pension plan, which moved further into surplus. The scheme accounts for the majority of the Group's pension obligations.

DIVIDEND POLICY

Under the dividend policy introduced in 2012, the Board undertook to pay approximately one third of earnings, after adjusting items, each year in a combination of interim and final dividends. In addition, a special dividend was paid each year of up to 50% of the net cash balance at the end of the year, provided there were no immediate investment plans for that cash.

Following the acquisition of SummitReheis in 2017, and the movement from a net cash to a net debt position, the Board has revised its dividend policy to reflect our view of the long term earnings and cash flow potential of the Group. Going forward:

- It is our intention to pay progressive ordinary dividends, normally with a dividend cover of at least 2 times adjusted earnings
- The interim dividend paid each year will normally be one third of the prior full year dividend
- We look to maintain balance sheet flexibility and strength in the context of the Company's investment plans. Taking that into account, when net debt is structurally below one times earnings (EBITDA) we will seek to make additional returns to shareholders.

This year the Board is recommending a total ordinary dividend of 8.80 cents per share (2016: 8.45 cents per share), reflecting its confidence in the Group's business model and ability to generate cash, the 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 1 June 2018 in pounds sterling at an exchange rate of £1.00:\$1.4035 (equivalent to a sterling amount of 4.3463 pence per share) to shareholders on the register at 4 May 2018. The Board declared an interim dividend at the time of the Interim Results announcement of 2.70 cents per share (2016: 2.70 cents).

GOVERNANCE

In February 2017 and March 2017, the Board appointed Sandra Boss and Dorothee Deuring respectively as Non-Executive Directors. Their appointments have contributed strongly to the quality of Board discussions and, reflecting their areas of expertise, brought new insights and a diversity of perspective to the strategic conversations taking place. Andrew Christie resigned from the Board at the AGM in May 2017, having served for 9 years. I would like to thank Andrew for his contribution both as a Non-Executive Director and as Chairman of the Remuneration Committee. Steve Good has succeeded Andrew as the Remuneration Committee Chairman.

The interactions and communication flows between executives and Non-Executive Directors have been strong and as a result the new 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 applied fully all of the principles and provisions of the UK Corporate Governance Code during 2017. More information is provided in the Corporate governance report.

In January 2018, we welcomed our new Company Secretary, Laura Higgins, replacing Wai Wong who has stepped down after 10 years' service. Laura brings significant company secretarial experience to us gained from roles in UK and internationally quoted companies. I would personally like to thank Wai for his contribution and commitment over many years.

PEOPLE

Ensuring that we have the right people and talent for the future needs of our business is critical to our continuing success. As a Board we spend considerable time on succession planning, and talent development across our business. Led by Paul Waterman, there have been extensive changes in the structure and composition of the Executive Leadership team and we now have a strong executive team in place to take the Reignite Growth strategy forward.

OUTLOOK

The positive results and significant progress made by the Group in 2017, combined with a strong financial position, are strong evidence that the Group is adopting the right strategy and strengthening the foundations to Reignite Growth at Elementis.

Our priorities in 2018, the second year of the strategy, are to maintain this momentum. We have seen encouraging signs in 2017 and are confident of delivering continued progress in 2018.

ANDREW DUFF

Chairman



Related material

Corporate governance report – page 45

Corporate social responsibility report – page 26

FREQUENTLY ASKED QUESTIONS

Q.

What does a good Board culture mean to you?

A.

As Chairman I am responsible for developing a high performing Board to drive effectiveness and Company performance. The Board culture that I foster is founded on the principles of integrity, respect, transparency and openness. I expect Directors to demonstrate exemplary standards of propriety, diligence and accountability so that this permeates throughout the organisation.

Q.

How has the Board enhanced its understanding of the SummitReheis business?

A.

Following the acquisition of SummitReheis in March 2017, the Board visited our SummitReheis sites in New York, US and in Ludwigshafen, Germany. We met with members of the SummitReheis leadership team and staff. Engaging with both leadership and the front line employees helps myself and the Non-Executive Directors understand the operations and any challenges staff may face so that we can best support them in the Boardroom.

Q.

What are the Board's 3 key priorities for 2018?

A.

1. To receive regular updates from Paul and Ralph and the Executive Leadership team on the Reignite Growth strategy and to consider progress being made against the 4 strategic pillars, supporting and challenging as required.
2. An external Board evaluation will be held during 2018 and I will be working with members of the Board on both the evaluation approach and the improvement areas identified during the 2017 internally held evaluation.
3. Enhancing relationships with our investors, including holding a governance roadshow with our top investors.

◇ Total operations (both continuing and discontinued).

Δ After adjusting items – see note 5.

† Restated – see note 33.

PURSUE BEST GROWTH OPPORTUNITIES

Why this is important for Elementis

Our strategic choices focus on the best, most material opportunities.

Bentone® gel and two tone lipstick

Bentone® gel is a sought after technology for the personal care industry and is used in products such as two tone lipstick produced by South Korean cosmetics brand Laneige. This highly innovative and successful product utilises Bentone® gel technology to keep the 2 colour layers discrete while allowing for easy application and an elegant blend of colour on the lips.



What we achieved in 2017

Key account management

Key account management is about accelerating and deepening how we work and grow with our most important global customers to become their chosen partner. In 2017, we implemented key account processes with our largest Personal Care, Coatings and Energy customers. These processes include online account management tools, relationship maps and account specific strategies linked to our new innovation pipeline process. As a consequence we have improved our dialogue with our key customers and are better placed to deliver Enhanced Performance Through Applied Innovation.

Personal Care global growth

In Personal Care we have a unique advantage by owning the only commercial grade hectorite mine in the world. Hectorite organoclay is all natural and pure white in colour, and is an important ingredient to give products the right viscosity.

In September 2017, we completed the Bentone® gel production capacity expansion at our Livingston site in Scotland. Combined with investment in our salesforce this has supported the geographic expansion and product penetration of our unique hectorite based personal care products.

In March 2017, we completed the acquisition of SummitReheis, a global leader in the antiperspirant actives sector. The integration of SummitReheis was completed in December 2017 and the acquisition is delivering a Personal Care business of scale with attractive growth opportunities.

Coatings Asia

In Asia, the opportunity is clear: expanding our Coatings presence, including building our decorative coatings activities in China and beyond. In 2017, we separated our organisation in Asia into 2 regions, India, Taiwan and South East Asia (ITSEA) and China and North Asia (CANA). This will allow us to build on our strong position in China whilst at the same time increase our presence and focus on the burgeoning economies in ITSEA. In September 2017, we appointed a new Managing Director of ITSEA who is located in Mumbai and leads our business development in this region.



\$179m

Personal Care revenue in 2017
2016: \$63m

€39m

Anticipated proceeds from
Surfactants sale



PURSUE SUPPLY CHAIN TRANSFORMATION

Why this is important for Elementis

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.

Sale of Surfactants

In December 2017, we reached an agreement to sell the business to Kolb Distribution AG for a cash consideration of €39m. The sale simplifies our supply chain and allows us to reallocate capital to higher margin growth opportunities.



What we achieved in 2017

Address disadvantaged assets

In March 2017, we announced the sale of our US Colourants business to Chromaflo Technologies and, in December 2017 we agreed to sell the Surfactants business, including the Delden facility in Netherlands, to Kolb Distribution AG for €39m. By exiting these strategically disadvantaged businesses we have generated cash, simplified our supply chain and are able to reallocate capital to higher margin growth opportunities.

In addition, we have progressed the sale of the Jersey City land, the previous site of our US Colourants business, and are exploring strategic options for the Dental business that we acquired as part of SummitReheis.

Manufacturing productivity

Production within our network of assets is being optimised to improve efficiency and reduce cost. During the year we invested in the relocation of our flash dryer asset from St Louis to Charleston, a project with significant returns.

In 2017, we completed a working capital review and identified \$18m of efficiencies to be achieved by the end of 2020. Implementation in 2018 onwards will see improved demand planning, consistent service level agreements, new inventory management tools and product rationalisation. As the project is rolled out we anticipate an improved underlying working capital performance.

Pursue procurement savings

In 2017, we have continued to focus on procurement savings by diversifying our raw material suppliers, looking at different geographies and lower cost suppliers. As at the end of 2017 just 25% of our raw material supplies were from single suppliers, compared to 36% at the end of 2016. This has helped mitigate cost increases and assure long term supply stability.

In addition, we have taken steps to improve our logistics capabilities with investments in our own infrastructure and engagement with new third party logistics firms. This has improved service levels, data visibility and lowered costs.

**INNOVATE FOR HIGH
MARGINS AND
DISTINCTIVENESS**

**Why this is important
for Elementis**

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

Customer focused innovation in 2017

Customer Problem	Elementis Solution
Personal Care company unable to bring volatile rheology modifier into production site	Elementis developed a non volatile modifier within 4 weeks – no change to product labels and customer product able to move forward
Coatings customer unable to find suitable thickener for waterborne paint airless application	Elementis created a thickener to provide superior coating performance under airless application – product able to move forward to commercialisation
Significant demand from Personal Care companies for an additive that provides emulsification as well as rheological control	Launched Bentone® Luxe in mid 2017 with first sales already registered – customers able to gain rheology modification and emulsification benefit from single product

What we achieved in 2017
Sustain innovation leadership

For our customers we deliver Enhanced Performance Through Applied Innovation. To sustain our innovation leadership position we made several changes in 2017 to how we operate.

Personal Care is now a material business for Elementis and as a result we have increased our resources in this area to support new product development. The acquisition of SummitReheis also brings a new, market leading technology and innovation opportunity to the business.

Implementation of a global research and development function, and alignment with key account initiatives, mean we are now better positioned to be innovation partners to customers.

In addition, we have improved our decision making systems, implemented stage gate processes and installed a new pipeline management tool. These changes ensure that we focus on the most attractive and material innovation opportunities available to us.

Deliver new product pipeline

In 2017, we launched several new products. In Personal Care, our new multifunctional next generation Bentone® Luxe gel realised its first sales. This product combines emulsification with rheological control and opens up new opportunities for our Personal Care business. In Coatings, new acrylic thickeners for decorative applications are delivering cost effective performance to customers in emerging markets, and our organic thixotropes in Europe and North America continue to generate momentum, with revenue growth of 13% in the year.

Our product pipeline is healthy with a range of active projects in late stage development, reflecting the variety of global customers' formulations and needs. We continue to expand the utilisation of our hectorite resources across Personal Care applications, including skin care, and leverage our technological capabilities from Coatings. In Coatings, trends such as the reduction of VOC content and emerging market functional requirements continue to shape our innovation pipeline.

A man and a woman are shown in profile, working on a wall covered with numerous sticky notes. The man is pointing at a note with a pen, and the woman is also pointing at a note. The entire image has a green tint.

3,431

**New Personal Care retail products
launched globally containing
Bentone® gel in 2017**
(Source: Mintel)

1,840

Hours of safety leadership
training completed in 2017



CREATE A CULTURE OF HIGH PERFORMANCE

Why this is important for Elementis

All of our employees are very important to us. Achieving the right organisation is essential to grow the business.

Elementis Code of Conduct

During 2017, we refreshed and relaunched our Elementis Code of Conduct. The Code reflects the spirit of the 5 key principles at Elementis and the relaunch has been supported by new online training.



What we achieved in 2017

Structure

In 2017, we completed the restructuring of our business from a divisional to a functional organisation. The implementation of global functions across the Group means we are better aligned to support strategy execution.

Investment in capability is key to enable our Reignite Growth strategy. As part of this we have established a new global Coatings team, which will be led by Luc van Ravenstein. This will enable Elementis to pursue growth opportunities more quickly and in an integrated way.

We are moving towards a flatter and more transparent structure. Reflective of this we will introduce 4 clear reporting segments in 2018: Personal Care, Coatings, Chromium and Energy.

Process

During the year, we have implemented new performance management processes to ensure optimal resource allocation and strong execution.

The introduction of standardised management information across the business provides more robust performance review.

The implementation of workday®, a standardised and automated human resources system means we have the appropriate levels of employee management and evaluation tools within the organisation.

Quarterly key account management reviews and innovation pipeline reviews between the CEO, marketing and sales ensure that we, as an organisation are focusing on the most material and commercially relevant opportunities.

All of these process improvements mean we are creating a culture that focuses on transparency, delivery and, where necessary, timely interventions.

PAUL WATERMAN, CEO



2017 was a good start, but there is much more to do in 2018 and beyond to realise our aspirations.

In 2017, we have delivered profit growth across all 3 business segments and strong cash flow generation. In the first year of our Reignite Growth strategy implementation we have made material progress. There is still however a lot to do. We as a management team are convinced of Elementis' growth potential and look forward to maintaining the momentum in 2018.

RESULTS

Looking back on 2017, I will start with the Group's financial performance. Revenue from continuing operations rose by 27% on the prior year from \$616.6m to \$782.7m, with strong organic growth and a first contribution from the recently acquired SummitReheis. Operating profit for the year increased by 7% from \$85.1m to \$91.4m, however this excludes the impact from discontinued operations and adjusting items. Group adjusted operating profit rose from \$97.0m^{Δ†} to \$128.1m^{ΔΔ} and profit after tax increased 73% to \$117.6m. Group diluted adjusted EPS increased from 17.4 cents^{Δ†} in 2016 to 19.5 cents^{ΔΔ}.

A hallmark of Elementis is its strong cash generation and in 2017 we delivered adjusted operating cash flow of \$107.1m^{ΔΔ}. Following the acquisition of SummitReheis in March 2017 for \$362m, Elementis moved from a net cash position of \$77.5m in 2016 to a net debt position of \$291.1m. The strong underlying cash generation of the Group combined with portfolio changes will enhance our future free cash flow and continue to strengthen our balance sheet.

HEALTH AND SAFETY

Safety remains our top priority and we take our responsibilities to our employees, customers, suppliers and visitors very seriously. While we continue to deliver safety performance that is amongst the industry leaders, we will not be satisfied until we achieve our goal of no one getting hurt while working at Elementis.

In 2017, we made several improvements to our health and safety programme. We established and communicated our 10 Life Saving Rules, upgraded our online health and safety training programme and implemented a safety recognition programme for recognising manufacturing locations that achieve significant milestones in safety performance. All these changes reflect our desire to reinforce safety as a value and to reduce or eliminate our workforce's exposure to occupational hazards.

COMPLIANCE AND ETHICS

During 2017, we refreshed and relaunched our Code of Conduct (the 'Code'). This reflects the spirit of the 5 key principles at Elementis:

- Behaving with honesty and integrity
- Following the letter and spirit of the law
- Treating each other fairly
- Acting in the best interest of Elementis
- Protecting Elementis' property and documents.

The relaunch of the Code has been supported by new online training encompassing areas including fair dealing, confidentiality and privacy, insider trading and fair disclosure, bribery and other anti-corruption practices. All new employees are required to undertake training on the Code and refresher training is given to all employees periodically. This is supported by comprehensive whistleblowing procedures and an anti-retaliation policy. The Board and Executive Leadership team consider the Code to be critical to the Group's continuing success and in how it meets its corporate responsibilities.

PEOPLE

Every person counts at Elementis. Enabling the organisation to operate efficiently is essential for successful execution of our Reignite Growth strategy. In 2017, we completed the implementation of global functions across the Group and invested in key leadership team capabilities required to deliver the strategy. I have taken the decision to create a global

Coatings team that will be led by Luc van Ravenstein. This will enable Elementis to pursue growth opportunities in Coatings more quickly and in a more integrated way. In addition, Marci Brand will lead our Personal Care business. Marci is an experienced leader who has recently joined Elementis from BP.

After a career with Elementis spanning 40 years, Dennis Valentino, President Chromium, has announced he will retire at the beginning of July 2018. I would like to thank Dennis for the substantial contribution he has made to Elementis. His impact on the business will be long lasting. While we must say goodbye to Dennis, I am pleased to announce that Eric Waldmann has been appointed Vice President, Chromium and will join the Executive Leadership team. Eric is a proven leader who has deep experience in all aspects of our Chromium business.

REIGNITE GROWTH – STRATEGY UPDATE

In November 2016, we launched our new strategy to Reignite Growth at Elementis. As outlined earlier in the Annual report, we have made material progress in the first year of our strategic implementation. Key milestones during the year included:

- The successful acquisition of SummitReheis, the global leader in antiperspirant and pharma actives has transformed the materiality of our Personal Care business and we completed the integration by the end of 2017 as expected
- 23%* revenue growth in our legacy Personal Care business, driven by both geographic expansion and deeper penetration
- Implementation of global key account management to include: training, account toolkits and plans and performance management
- The successful exit of our non-core US Colourants business and a sale agreed to exit our Surfactants business
- The identification of \$18m of working capital efficiency measures that will be pursued in 2018 and beyond.

OUTLOOK

In 2018, we will look to build on the momentum we have created. In terms of growth opportunities, we will continue to grow our Personal Care business via continued geographic expansion and deepened product penetration throughout our customer base. The Coatings team will prioritise growth initiatives at global key accounts and in key geographies such as China, South East Asia and Latin America. In addition, we expect solid performance from both the Chromium and the Energy businesses to continue through 2018. In the global supply chain we will continue to optimise our asset base, drive productivity improvements and pursue working capital efficiency. Our innovation pipeline is focused on material opportunities that address the formulation objectives of our customers and balances resources appropriately between new product opportunities in Personal Care and Coatings.

SUMMARY

At Elementis we will maintain focus on actions that will create sustainable value over time. We start with an emphasis on safe, reliable operations that enable our employees to return home safe at the end of each day. Our Code must be understood and followed by everyone to ensure we do what is right, all the time, and to create a place where people love to work. The Reignite Growth strategy is clear and we must ensure all of our resources are allocated to the most compelling value creating opportunities and that our execution is excellent. We are fortunate to have a talented team of people who are dedicated to the success of Elementis and for that I am very grateful. 2017 was a good start, but there is much more to do in 2018 and beyond to realise our aspirations. We are excited about the future.

PAUL WATERMAN
CEO

♦ Total operations (both continuing and discontinued).

Δ After adjusting items – see note 5.

† Restated – see note 33.

* Constant currency.



Related material

Reignite Growth – 2017 highlights – page 4

Our business segments' performance – page 20

Corporate social responsibility report – page 26

Focus on health and safety



Training and empowering our people

Our Life Saving Rules were launched in 2017. All our employees have 'Stop Work Authority' if they see unsafe working conditions.

FREQUENTLY ASKED QUESTIONS

Q.

How does the acquisition of SummitReheis help the Reignite Growth strategy?

A.

As part of our strategy we are focused on pursuing the best growth opportunities, including growth of our Personal Care business. The acquisition of SummitReheis creates a Personal Care business of scale at Elementis with an improved customer proposition and a stronger position in a high growth segment.

Q.

Are you confident you have the right people to deliver this strategy?

A.

Investment in talent is key to enable our Reignite Growth strategy. We have made strides in this area throughout 2017 and will continue to do so as the business develops.

Q.

What improvements have you made to Health and Safety in 2017?

A.

During 2017 we implemented several new safety initiatives including Safety Leadership Training and Life Saving Rules. These programmes were primarily implemented to motivate employees to become more engaged with safety and be more proactive in identifying and addressing potential hazards in the work environment.

OUR KEY PERFORMANCE INDICATORS

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.

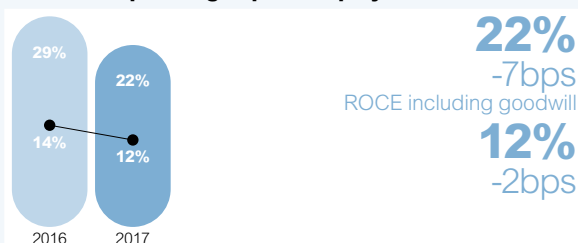
Link to remuneration

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 EPS and total shareholder return which are a subset of the Group's financial KPIs. Further details can be found in the Directors' remuneration report on page 57.

FINANCIAL KPIs

Return on operating capital employed



Description

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.

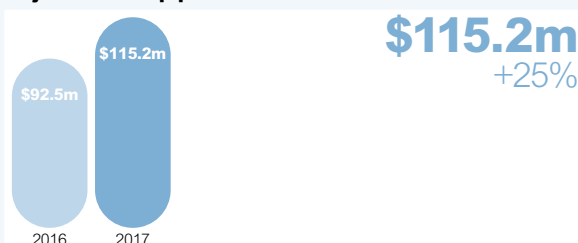
Performance in 2017

The Group's ROCE was 22%^Δ for 2017 (2016: 29%^Δ). ROCE for the Group including goodwill was 12% in 2017 (2016: 14%).

[Link to strategic priority](#)



Adjusted Group profit before tax



Description

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.

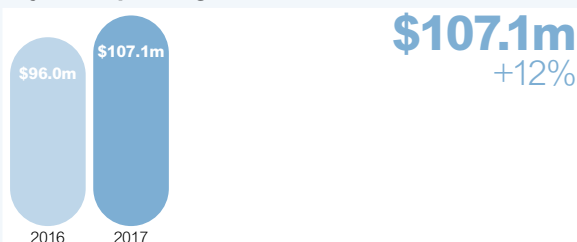
Performance in 2017

In 2017, the adjusted Group profit before tax was \$115.2m^Δ (2016: \$92.5m^Δ).

[Link to strategic priority](#)



Adjusted operating cash flow



Description

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

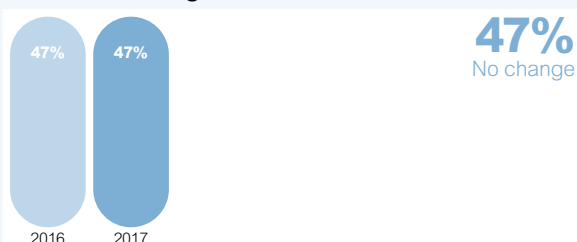
Performance in 2017

In 2017, the adjusted operating cash flow was \$107.1m^Δ (2016: \$96.0 m^Δ).

[Link to strategic priority](#)



Contribution margin



Description

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

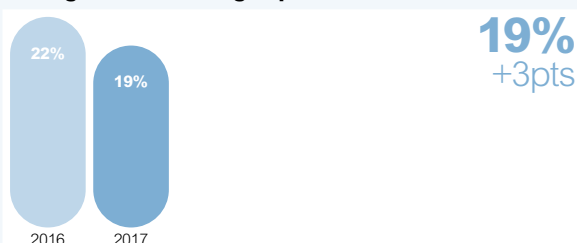
Performance in 2017

In 2017, the contribution margin was 47%^Δ (2016: 47%^Δ).

[Link to strategic priority](#)



Average trade working capital to sales ratio



Description

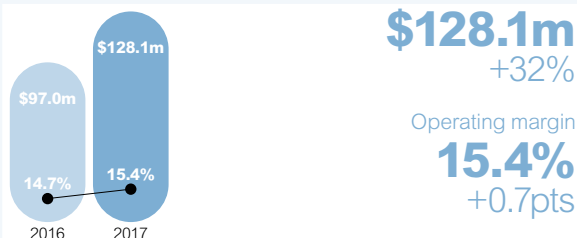
The trade working capital to total revenue ratio is defined as the 12 month average trade working capital divided by total revenue, expressed as a percentage. Trade working capital comprises inventories, trade receivables and trade payables. It specifically excludes prepayments, capital or interest related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

Performance in 2017

The Group's 12 month average trade working capital to sales ratio at 31 December 2017 was 19%^Δ (2016: 22%^Δ).

[Link to strategic priority](#)



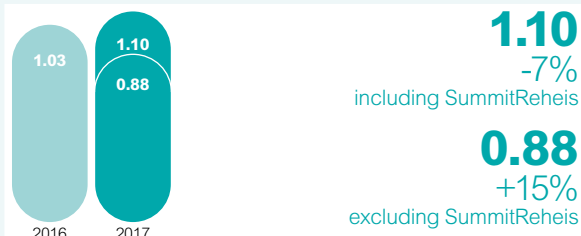
Adjusted operating profit/adjusted operating margin**Description**

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

Performance in 2017

The Group achieved an adjusted operating profit of \$128.1m^Δ for 2017 (2016: \$97.0m^{Δ†}). The Group's adjusted operating margin was 15.4%^Δ compared to 14.7%^{Δ†} in 2016.

[Link to strategic priority](#)

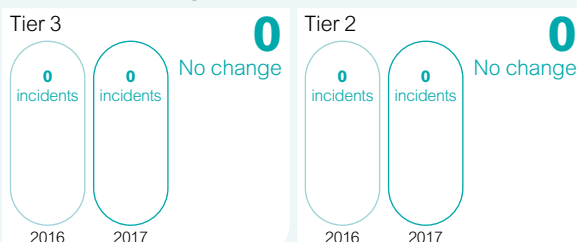
**Total recordable incident rate (TRIR)****Description**

Elementis uses the US Occupational Safety and Health Administration (OSHA) definition for recordable injuries and illnesses. TRIR is the total number of recordable incidents multiplied by 200,000, divided by total hours worked by all employees during the year.

Performance in 2017

The TRIR for the year ended 31 December 2017 was 1.10 (2016: 1.03). The main contributing factor to the increase in 2017 was the acquisition of SummitReheis; excluding SummitReheis performance was 0.88.

[Link to strategic priority](#)

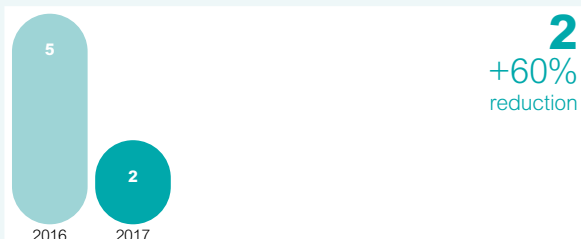
**NON-FINANCIAL KPIS****Environmental impact****Description**

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

Performance in 2017

For the year ended 31 December 2017 there were no Tier 2 and 3 incidents (2016: also the same).

[Link to strategic priority](#)

**Lost Time Accidents (LTA)****Description**

LTA is an injury or illness that requires greater than 3 days away from work not including the day of incident.

Performance in 2017

The LTA for the year ended 31 December 2017 was 2 days (2016: 5 days).

[Link to strategic priority](#)

**Key:****Link to strategic priority**

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

**Related material**

Our business segments – page 16
 Our business segments' performance – page 20
 Corporate social responsibility report – page 26
 Directors' remuneration report – page 55

◇ Total operations (both continuing and discontinued).
 Δ After adjusting items – see note 5.
 † Restated – see note 33.

OUR BUSINESS SEGMENTS

SPECIALTY PRODUCTS

We provide high value functional additives to the Personal Care, Coatings and Energy end markets that improve the flow characteristics and performance of our customers' products and production processes.



2017 revenue

\$179.3m

PERSONAL CARE

Business model

Our Personal Care business supplies rheology modifiers based on organoclay, synthetic and natural ingredients to Personal Care manufacturers. Through our recently acquired SummitReheis operations, we also supply the active ingredient for the production of antiperspirant deodorants.

Customers

Our customers include global and local Personal Care manufacturers.

Competition

Elementis is a leader in organoclay based rheology modifiers and antiperspirant active ingredients. Competitors include BYK, Gulbrandsen and others.

Competition in these segments 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 information

www.elementisspecialties.com



2017 revenue

\$372.9m

COATINGS

Business model

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

Customers

Our customers are manufacturers of decorative and industrial coatings.

Competition

Elementis is a leader in the global rheology modifiers and additives segment. Our competitors include BYK, Ashland, Arkema, Dow Chemicals and others.

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 (e.g. automotive, marine) factors.



2017 revenue
\$58.8m

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.

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

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

Competitors in this market include BYK and multiple regional companies.

Market drivers

The oil price is the primary driver of drilling rig activity levels and the number of wells drilled. However, there are also other important drivers such as well head breakeven cost, the number of wells per rig, the length of lateral drilling and the drilled and uncompleted well count (DUC).

CHROMIUM

We are a leading producer of chromium chemicals. We provide chromium chemicals to customers that make their products more durable and which are used in a wide range of sectors and applications.



2017 revenue
\$186.7m

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. We are the only domestic producer of chromium chemicals in the US.

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

Across our 3 main product categories, the demand drivers are as follows:

- Chrome oxide: construction, coatings and aircraft engine demand
- Chromic acid: construction and infrastructure demand
- Chrome sulphate: beef consumption.

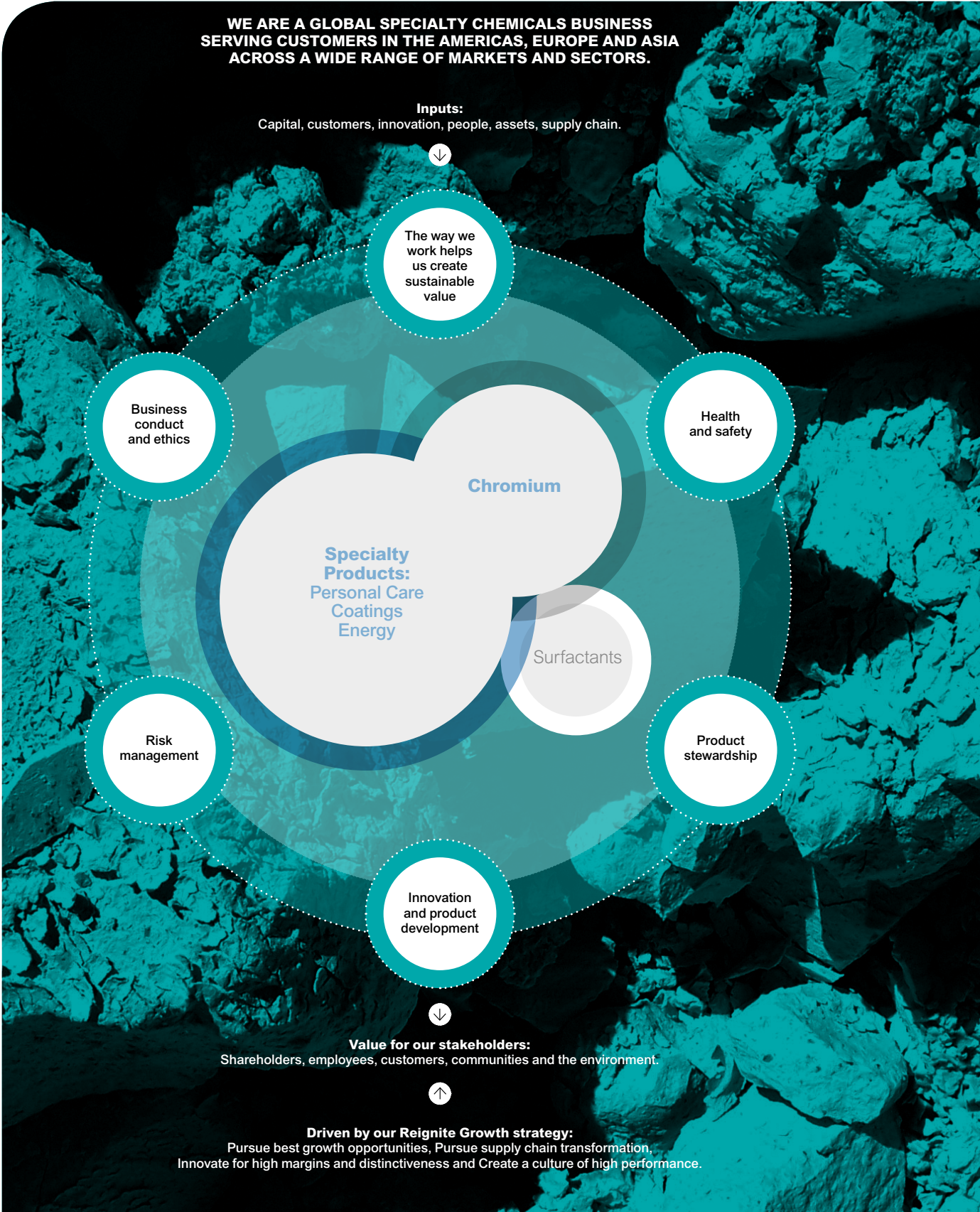


For more information
www.elementischromium.com

SURFACTANTS

In December 2017, we agreed the sale of our Surfactants business to Kolb Distribution AG for €39m.

OUR FOCUSED BUSINESS MODEL



INPUTS WE NEED TO CREATE VALUE

Capital

We operate within a disciplined financial framework to invest in the best opportunities.

Customers

Through our global key account management team, we build and maintain close relationships with our customers to meet their needs.

Innovation

New product development and innovation pipeline is supported by technical service and expertise. Our technical service laboratories work closely with our customers to deliver Enhanced Performance Through Applied Innovation.

People

We have a committed and highly skilled workforce focused on customer collaboration.

Assets

We have a distinctive and unique asset base and own the only high quality rheology grade hectorite mine in the world.

Supply Chain

We have a global manufacturing footprint of 20 sites where safety is aligned to operational performance.

CREATING SUSTAINABLE VALUE

Risk management

We have strong governance and risk management controls in place. Effective risk management supports the successful delivery of our strategic objectives. We have an established risk management framework to identify, evaluate, mitigate and monitor the risks we face as a business.

Health and safety

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.

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.

Innovation and product development

We have a global R&D function focused on strengthening the pipeline of new customer focused product development and innovation.

HOW OUR BUSINESS CREATES VALUE FOR CUSTOMERS

Specialty Products

Provides functional additives that enhance customers' products in applications such as cosmetics, paints and oil and gas exploration.

Chromium

Provides chemicals to customers that make their products more durable such as aerospace alloys, timber treatment and leather production.

Surfactants

Provides surface active ingredients which can be used in textiles, leather, water treatment and construction chemicals.

THE VALUE WE CREATE FOR OUR STAKEHOLDERS

Shareholders

Strong balance sheet and cash generation delivering sustainable returns to shareholders

Dividends paid in 2017

\$77.8m

Employees

Our total global workforce of around 1,600 is critical for the delivery of our Reignite Growth strategy

2017 employee salaries

\$126.9m

Customers

Improving dialogue with our key customers ensures we are better placed to deliver the best growth opportunities

Total revenue from customers

\$830.3m ♦

Communities

Acting responsibly as a company better serves the communities where we operate – we are rated against stringent social and environmental criteria

A member of

FTSE4Good

Environment

We place a great emphasis on protecting people and operating responsibly

Total recordable incident rate of injuries and illnesses (excluding SummitReheis)

0.88

Number of Tier 2 or Tier 3 environmental incidents

Zero

♦ Total operations (both continuing and discontinued).

OUR BUSINESS SEGMENTS' PERFORMANCE

SPECIALTY PRODUCTS

Headlines

- Revenue up 33%* to \$611.0m, driven by organic revenue growth and first time contribution from SummitReheis
- Personal Care revenue up 186%* to \$179.3m driven by geographic expansion and market penetration of hectorite based products and SummitReheis impact
- Coatings revenue up 4%*, excluding impact of US Colourants disposal, to \$372.9m with growth across all regions
- Energy up 65%* to \$58.8m due to global demand recovery
- Operating profit up 34%† to \$109.0m^Δ with strong organic growth and pricing responses.

Financial performance

In Specialty Products, revenue was \$611.0m compared with \$460.4m in the same period last year, representing an increase of 33% on a constant currency basis driven by strong organic growth and a first contribution from SummitReheis. Unless stated otherwise, the remainder of this commentary refers to constant currency movements.

Adjusted operating profit was \$109.0m^Δ, compared with \$81.6m[†] in the previous year, representing a 28% increase. Adjusted operating margin for the period was 17.8%^Δ, up on 17.7%^Δ in the prior year, due to growth of our high margin Personal Care business and pricing actions taken in the period.



COATINGS

Excluding the impact of the US colourants business disposal, Coatings revenue rose 4% to \$372.9m, with growth in all regions. Coatings America (excluding colourants) had a record sales year and finished 7% above 2016 with strong performance in North America, and market share gains in Latin America, supported by the continued ramp up of our New Martinsville plant. Coatings Asia improved by 4% with solid growth in our largest market of China and improved demand in Australasia and South East Asia. In EMEA, Coatings finished up 2% with good performance in continental Europe. Across all regions (excluding colourants) our second half performance was much improved with 7% growth compared to 2% in the first half.



PERSONAL CARE

In Personal Care, revenue rose by 186% to \$179.3m, driven by our existing hectorite based operations and the initial contribution from SummitReheis. Our existing Personal Care business grew 23% in the period with rapid sales growth in our Bentone® gel product range, strong performance in Asia and growth at our key global accounts. This was supported by the completion in September 2017 of the expansion of our Bentone® gel capacity in Livingston, Scotland. SummitReheis performance in the period was resilient with sales of \$102.0m as price increases were activated in response to raw material price inflation.



ENERGY

In Energy, revenue rose by 65% to \$58.8m due to a strong market recovery, geographic expansion of our customers and progress with our global key account. Sales were notably stronger in North America where shale activity levels and efficiency gains are encouraging.

Group performance

Revenue

	Revenue 2016 \$million	Effect of exchange rates \$million	Increase/ (decrease) 2016 \$million	Revenue 2017 \$million
Specialty Products	460.4	0.5	150.1	611.0
Chromium	168.8	–	17.9	186.7
Inter-segment	(12.6)	–	(2.4)	(15.0)
Revenue from continuing operations	616.6	0.5	165.6	782.7
Discontinued operations – Surfactants	43.1	0.7	4.0	47.8
Inter-segment from discontinued operations	(0.2)	–	–	(0.2)
Total revenue from continuing and discontinued operations [◇]	659.5	1.2	169.6	830.3

Adjusted operating profit

	Operating profit 2016 ^Δ \$million	Effect of exchange rates \$million	Increase/ (decrease) 2016 \$million	Operating profit 2017 ^Δ \$million
Specialty Products	81.6	3.4	24.0	109.0
Chromium	27.1	–	3.0	30.1
Central costs	(11.1)	0.5	(5.8)	(16.4)
Adjusted operating profit from continuing operations	97.6	3.9	21.2	122.7
Discontinued operations – Surfactants	(0.6)	0.1	5.9	5.4
Total adjusted operating profit from continuing and discontinued operations [◇]	97.0	4.0	27.1	128.1

CHROMIUM

Headlines

- Revenue up 11% to \$186.7m, driven by strong global volume recovery and improved pricing in response to raw material inflation
- Adjusted operating profit up from \$27.1m^Δ in 2016 to \$30.1m^Δ with organic sales growth partially offset by higher variable and fixed costs.

Financial performance

Chromium revenue in 2017 was \$186.7m compared to \$168.8m in the previous year, an increase of 11% on a constant currency basis. As a result of improved macroeconomic fundamentals volumes rose 9% on 2016 with strong demand in both North America and the rest of the world. The business experienced an increase in demand in the following markets: North America refractory, North America pigments, Spanish tile and rest of the world metal finishing and timber treatment. In response to higher chrome ore prices, average selling prices in 2017 were higher than the previous year.

Adjusted operating profit rose by 11%^Δ to \$30.1m^Δ with strong organic growth and stable contribution margins partially offset by unplanned maintenance costs at the Corpus Christi and Castle Hayne facilities.

SURFACTANTS

Headlines

- Revenue up 9%* on prior year to \$47.8m and operating performance significantly improved due to increased sales in the first half of the year
- Deterioration in performance in second half of 2017 due to the loss of a significant customer
- Sale of Surfactants business to Kolb Distribution AG ('Kolb') for €39m agreed in December 2017.

Financial performance

Revenue in 2017 rose 9% on a constant currency basis to \$47.8m as a result of favourable sales achieved in the first 6 months of the year that did not sustain throughout the year. Volumes were 20% lower than 2016 due to the loss of a key customer in the second half of the year that significantly reduced capacity utilisation at the plant.

Operating performance rose from a loss of \$0.6m^Δ in 2016 to a profit of \$5.4m^Δ due to the increased sales in the first half of the year.

In December 2017, we agreed the sale of the Surfactants business, including the Delden facility, to Kolb for a consideration of €39m. In addition to all of the Surfactants products, the Delden facility also manufactures a range of products sold by the Specialty Products segment. As part of this transaction Elementis will enter into a long term supply agreement with Kolb for continued sourcing of a limited number of Coatings products. This will cost Elementis approximately \$8m per annum.

◇ Total operations (both continuing and discontinued).

Δ After adjusting items – see note 5.

† Restated – see note 33.

* Constant currency.



Related material

Our business segments – page 16
Finance report – page 22

RALPH HEWINS, CHIEF FINANCIAL OFFICER



In 2017 we made progress across key earnings metrics with underlying growth across all 3 business segments, along with the acquisition of SummitReheis.

GROUP RESULTS

In 2017, revenue from continuing operations was 27% higher at \$782.7m compared with \$616.6m last year. Constant currency revenue in our Specialty Products segment increased by 33%, with strong performances in Personal Care and Energy. Personal Care benefited from the first time contribution of SummitReheis and strong growth in our legacy operations, while Energy experienced a strong market recovery. Coatings achieved steady growth as constant currency revenue grew 4% to \$372.9m. In our Chromium segment, revenue increased 11% as a consequence of global demand growth and price increases implemented in response to raw material cost increases.

Operating profit for the year increased by 7% from \$85.1m to \$91.4m, however this excludes the impact from discontinued operations and adjusting items. Adjusted operating profit for the year was \$128.1m^Δ, compared to \$97.0m^{Δ†} in 2016, an increase of 32%, or 27% excluding currency movements. Group adjusted operating margin increased from 14.7%^{Δ†} to 15.4%^Δ, due to growth in our high margin Personal Care sector and pricing actions taken in the period. Profit after tax rose from \$68.1m in 2016 to \$117.6m, driven by underlying earnings growth and a one off tax credit as result of changes to US tax legislation.

ADJUSTING ITEMS

A number of items have been recorded under 'adjusting items' in 2017 by virtue of their size and/or one time nature, in order to provide a better understanding of the Group's results. The net impact of these items on the Group profit before tax for the year is a charge of \$30.9m^Δ (2016: \$17.0m^{Δ†}) of which \$31.3m relate to continuing operations. The items fall into a number of categories, as summarised below.

Restructuring

In 2017, restructuring costs relate to the IFRS 2 cost of buyouts associated with the new CEO and CFO appointed in 2016.

Business transformation

During the year, the Group continued the business transformation started in 2016. Costs were incurred in 2017 in delivery of key account management and working capital improvement phases of the transformation. The costs of these exercises were \$3.4m.

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 2017 have resulted in a \$2.1m provision increase. As these costs relate to non-operational facilities the costs associated are classed as adjusting items.

SummitReheis acquisition costs

In March 2017, the Group completed the acquisition of SummitReheis and as a consequence incurred acquisition related costs of \$9.7m. These include financing costs, legal fees and retention incentives for key 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.

REVENUE

	2017 \$million	2016 \$million
Specialty Products	611.0	460.4
Chromium	186.7	168.8
Inter-segment	(15.0)	(12.6)
Revenue from continuing operations	782.7	616.6
Discontinued operations – Surfactants	47.8	43.1
Inter-segment from discontinued operations	(0.2)	(0.2)
Total revenue from continuing and discontinued operations [◇]	830.3	659.5

OPERATING PROFIT

	2017			2016		
	Operating profit \$million ^Δ	Adjusting items \$million	Adjusted operating profit \$million	Operating profit \$million ^Δ	Adjusting items \$million	Adjusted operating profit restated [†] \$million
Specialty Products	93.5	15.5	109.0	77.5	4.1	81.6
Chromium	28.8	1.3	30.1	23.6	3.5	27.1
Central costs	(30.9)	14.5	(16.4)	(15.7)	4.6	(11.1)
Operating profit from continuing operations	91.4	31.3	122.7	85.1	12.2	97.3
Discontinued operations – Surfactants	5.8	(0.4)	5.4	(0.6)	0.3	(0.3)
Operating profit from continuing and discontinued operations [◇]	97.2	30.9	128.1	84.5	12.5	97.0

ADJUSTING ITEMS

	Specialty Products \$million	Chromium \$million	Central costs \$million	Continuing operations \$million	Discontinued operations \$million	Total \$million
Credit/(charge)						
Restructuring	0.3	–	(0.9)	(0.6)	–	(0.6)
Business transformation	–	–	(3.4)	(3.4)	–	(3.4)
Environmental provisions	–	(1.1)	(1.0)	(2.1)	–	(2.1)
SummitReheis acquisition costs	(2.6)	–	(7.1)	(9.7)	–	(9.7)
Uplift due to fair value of SummitReheis inventory	(4.0)	–	–	(4.0)	–	(4.0)
Sale of Colourants business and closure of Jersey City site	2.5	–	–	2.5	–	2.5
Release of legal provision	–	–	–	–	0.7	0.7
Disposal costs	(0.1)	–	(2.1)	(2.2)	(0.3)	(2.5)
Amortisation of intangibles arising on acquisition	(11.6)	(0.2)	–	(11.8)	–	(11.8)
Total	(15.5)	(1.3)	(14.5)	(31.3)	0.4	(30.9)

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 \$2.5m profit on sale of the business and costs associated with the closure of the site are classed as adjusting item. The site is planned to be disposed of in 2018

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.

Disposal costs

In 2017, Elementis incurred a number of costs associated with the sale of the Delden facility and Surfactants business (planned for 2018). As the profit on sale of the assets and business will be treated as an adjusting item in 2018 the \$2.5m[◇] one-off associated costs are being classed similarly in 2017.

Amortisation of intangibles arising on acquisition

In previous years, Elementis has not adjusted operating profit for the amortisation of intangibles arising on acquisition. Following the acquisition of SummitReheis, the Directors reviewed this policy and concluded that excluding such a charge from the operating profit would provide readers of the accounts with a better understanding of the Group's results on its operating activities. As such, this charge of \$11.8m is included within adjusting items.

CURRENCY HEDGING

Although a large part of the Group's business is transacted in US dollars, the Group also transacts in other currencies, in particular euros, pounds sterling and Chinese renminbi. In order to reduce earnings volatility from these currency exposures, the Group takes out cash flow hedges each year where these are readily available. In 2017, overall currency movements were such that the net impact of these hedge transactions was a charge to operating profit of \$0.3m (2016: loss of \$5.0m).

[◇] Total operations (both continuing and discontinued).

^Δ After adjusting items – see note 5.

[†] Restated – see note 33.

FINANCE REPORT

CONTINUED

CENTRAL COSTS

Central costs are those costs that are not identifiable as expenses of a particular business and comprise expenditures of the Board of Directors and corporate office. In 2017, central costs were \$16.4m, up \$5.3m on the previous year due to an increase in variable remuneration and investment in capability.

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 \$1.2m in 2017 compared to \$1.4m in the previous year.

NET FINANCE COSTS

	2017 \$million	2016 \$million
Finance income	0.2	0.1
Finance cost of borrowings	(9.7)	(0.8)
	(9.5)	(0.7)
Change in discount rate used for environmental provisions	–	(4.5)
Net pension finance costs	(1.1)	(1.0)
Discount unwind on provisions	(1.1)	(1.4)
	(11.7)	(7.6)

Net finance costs increased by \$4.1m to \$11.7m driven by increased net borrowing costs resulting from the acquisition of SummitReheis. Net borrowing costs include the cost of the debt used to finance the acquisition and amortised arrangement and commitment fees on unutilised borrowing facilities, as well as net interest on deposits and borrowings. Pension finance costs, which are a function of discount rates under IAS 19 and the value of the schemes' deficit or surplus positions, were broadly similar with the previous year at \$1.1m (2016: \$1.0m). 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 \$1.1m was \$0.3m lower than the previous year, a result of the reduction at end 2016 of the discount rate used.

TAXATION

Tax charge

	2017 Effective rate per cent	2016 Effective rate ¹ per cent
Reported tax charge	(34.2)	7.2
Adjusting items	56.7	3.7
After adjusting items	22.5	10.9

The tax charge on profits excluding discontinued operations represents an effective rate after adjusting items for the year ended 31 December 2017 of 20.5% (2016: 11.7%). The Group is international and has operations in several jurisdictions and benefits from cross border financing arrangements. Accordingly, tax charges of the Group in future periods will be affected by the profitability of operations in different jurisdictions, changes to tax rates and regulations in the jurisdictions within which the Group has operations, as well as the ongoing impact of the Group's funding arrangements. In 2017, the Group's tax rate was significantly impacted by the reduction in US tax rates as a result of the Tax and Jobs Act which made several major changes to the US tax code including a reduction in the US Federal tax rate to 21% from 35%. This change gave rise to a \$51.0m tax adjusting item and should enable the Group tax rate to remain at around 20% in the medium term.

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.

Diluted earnings per share, after adjusting items, was 19.5 cents^o compared to 17.4 cents^{o†} in the previous year. The year on year increase was a result of higher operating profit which more than offset the impact of a higher tax rate in the current year. Basic earnings per share before adjusting items was 25.4 cents^o compared to 14.7 cents^{o†} in 2016. Adjusting items reduced basic earnings per share by 5.6 cents in 2017 (increase by 2.9 cents in 2016). Adjusting items in 2017 are described earlier in this report.

DISTRIBUTIONS TO SHAREHOLDERS

During 2017, the Group paid a final dividend in respect of the year ended 31 December 2016 of 5.75 cents per share (2016: 5.75 cents) and a special dividend of 8.35 cents per share (2016: 8.00 cents). An interim dividend of 2.70 cents per share (2016: 2.70 cents) was paid on 29 September 2017 and the Board is recommending a final dividend of 6.10 cents per share which will be paid on 1 June 2018.

ADJUSTED CASH FLOW^{oΔ}

The adjusted cash flow is summarised below.

	2017 \$million	2016 \$million
EBITDA ¹	156.0	122.2
Change in working capital	0.4	13.4
Capital expenditure	(41.6)	(35.3)
Other	(7.7)	(4.3)
Operating cash flow	107.1	96.0
Pension deficit payments	(6.3)	(4.7)
Interest and tax	(17.0)	(3.5)
Adjusting items	(10.5)	(5.1)
Other	(1.4)	(0.2)
Free cash flow	71.9	82.5
Dividends paid	(77.8)	(76.2)
Acquisitions and disposals	(361.8)	–
Currency fluctuations	(0.9)	(2.8)
Movement in net cash	(368.6)	3.5
Net cash at start of year	77.5	74.0
Net cash at end of year	(291.1)	77.5

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

The Group delivered adjusted operating cash flow of \$107.1m representing a 12% increase on 2016. This improved performance was driven by increased EBITDA partially offset by a reduced working capital inflow and higher capital expenditure. Working capital performance was a \$0.4m inflow with an improved position in trade payables offset by deterioration in trade receivables and inventories. Capital expenditure of \$41.6m in 2017 was \$6.3m higher than in 2016 as the Group continued to invest in growth opportunities including the Bentone® gel capacity expansion in Scotland.

Free cash flow fell from \$82.5m to \$71.9m as a result of increased interest payments following the acquisition of SummitReheis for \$362m. Pension payments increased from \$4.7m in 2016 to \$6.3m due to timing differences on payments made under the funding agreement concluded with the UK Trustees in 2015.

As a result of the SummitReheis acquisition in March 2017 the Group moved from a net cash position of \$77.5m in 2016 to a net debt position of \$291.1m at the end of 2017.

BALANCE SHEET

	2017 \$million	2016 \$million
Intangible fixed assets	717.2	359.9
Tangible fixed assets	219.5	217.3
Working capital	151.4	118.0
Net tax liabilities	(86.8)	(76.3)
Provisions and retirement benefit obligations	(43.2)	(69.3)
Net cash	(291.1)	77.5
Asset held for sale	35.3	–
Total Equity	702.3	627.1

Group equity increased by \$75.2m in 2017 (2016: decrease of \$26.7m). Intangible fixed assets increased by \$357.3m with intangibles and goodwill associated with the SummitReheis contributing \$159.1m and \$203.0m respectively on acquisition. Working capital increased by \$33.4m driven primarily by underlying growth of the business and the acquisition of SummitReheis. Net tax liabilities increased by \$10.5m, as the tax charge on profits for the year after adjusting items and including discontinued operations of \$23.4m and currency translation adjustments exceeded actual cash tax paid. The additional tax liabilities arising on the acquisition in the year were largely offset by the reduction in US tax rates (which has been recorded as an adjusting item). Movements in provisions and retirement benefit obligations are discussed elsewhere in this report. The Group moved from a net cash to a net debt position as described in the previous section.

ROCE has fallen from 29% in 2016 to 22% in 2017 due to the increase in capital employed (excluding goodwill) arising on the acquisition of SummitReheis.

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

	Year end	2017 Average	Year end	2016 Average
Pounds sterling	0.74	0.78	0.81	0.73
Euro	0.83	0.89	0.95	0.90

PROVISIONS

The Group records a provision in the balance sheet when it has a present obligation as a result of past events, which is expected to result in an outflow of economic benefits in order to settle the obligation. The Group calculates provisions on a discounted basis. At the end of 2017, excluding provisions within liabilities classified as held for sale, the Group held provisions of \$32.7m (2016: \$39.2m), consisting of environmental provisions of \$27.8m (2016: \$31.4m), self insurance provisions of \$2.2m (2016: \$2.5m) and restructuring and other provisions of \$2.7m (2016: \$5.3m).

Within environmental provisions, which decreased by \$3.6m in 2017, there was a \$6.1m utilisation in the year which more than offset the \$2.3m provision increase. 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 \$2.7m balance includes the remaining liability under a right of first refusal agreement, a provision for an ongoing regulatory case in Europe and future payments relating to reorganisation measures taken during 2016.

PENSIONS AND OTHER POST RETIREMENT BENEFITS

	2017 \$million	2016 \$million
Net (surplus)/liability:		
UK	(21.9)	(4.3)
US	21.1	29.4
Other	11.3	5.0
	10.5	30.1

UK PLAN

The largest of the Group's retirement plans is the UK defined benefit pension scheme ('UK Scheme') which at the end of 2017 had a surplus, under IAS 19, of \$21.9m (2016: \$4.3m). The UK Scheme is relatively mature, with approximately two thirds of its gross liabilities represented by pensions in payment, and is closed to new members. Positive asset returns in the year of 6% (2016: 19%) partially offset the \$18.4m financial cost of liabilities (2016: \$24.2m) and other liability adjustments of \$12.9m (2016: \$110.8m) which arose due to lower discount rates based on real corporate bond yields. Company contributions of \$7.3m reflect the funding agreement reached with the UK Trustees in 2015 following the September 2014 triennial valuation. The £5.2m contribution for 2017 under this agreement is currently not required to be paid. This is a result of the earlier than anticipated improvement in the funding status of the UK scheme.

US PLANS

In the US, the Group reports 2 post retirement plans under IAS 19: a defined benefit pension plan with a deficit value at the end of 2017 of \$14.9m (2016: \$23.1m), and a post retirement medical plan with a liability of \$6.2m (2016: \$6.3m). The US pension plan is smaller than the UK plan, in 2017 the overall deficit value of this plan reduced by \$8.2m as the benefit of the improved asset returns of 16% (2016: improvement of 8%), actuarial gains from demographic assumption and employer contributions of \$2.6m (2016: \$2.2m) exceeded the financial cost of the liability for the year of \$5.2m (2016: \$5.4m) and actuarial increases on the liability of \$5.5m (2016: \$3.1m).

OTHER PLANS

Other liabilities at 31 December 2017 amounted to \$11.3m (2016: \$5.0m) and relate to pension arrangements for a relatively small number of employees in Germany, certain UK legacy benefits and 2 pension schemes acquired as part of the SummitReheis transaction.

EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance sheet date.

RALPH HEWINS

Chief Financial Officer

◇ Total operations (both continuing and discontinued).

Δ After adjusting items – see note 5.

† Restated – see note 33.

Operational performance and acting responsibly go hand in hand. Our behaviours make our business more efficient, protect the value of our assets and escalate the delivery of our Reignite Growth strategy.

We are a member of FTSE4Good



FTSE4Good

We received a silver award from EcoVadis



We only use RSPO products in our Personal Care sector

RSPO

Roundtable on Sustainable Palm Oil

PEOPLE

We recognise that our people are critical for the delivery of our Reignite Growth strategy. We are committed to creating an environment that promotes accountability and high performance that is underpinned by a strong safety culture.

Diversity

As a Company operating internationally with a global customer base, the character of our communities is diverse. We consider diversity of our people intrinsic to strong operational performance. Appointments are always made on merit and we seek to leverage the benefits of a wide and diverse talent pool.

A summary of our employment policies appears on page 77 of the Directors' report. Further information about what the Board is doing about gender diversity at Board level is set out in the Corporate governance report on page 46.

Our total number of employees is circa 1,600 and the table below shows the breakdown by gender diversity for different managerial groups.

Gender diversity statistics

	31 December 2017			
	Male		Female	
Board	5	62%	3	38%
Executive leadership team (ELT) ¹	12	92%	1	8%
Senior management ²	47	84%	9	16%
Senior manager ³	18	90%	2	10%
All employees	1,198	77%	366	23%

	26 February 2018			
	Male		Female	
Board	5	62%	3	38%
Executive leadership team (ELT) ¹	8	73%	3	27%
Senior management ²	46	84%	9	16%
Senior manager ³	17	85%	3	15%
All employees	1,198	77%	368	23%

¹ Excluding the CEO and CFO.

² Defined as grade 10 and above, excluding CEO and CFO and the ELT.

³ Defined under the prescribed regulations.

Employees

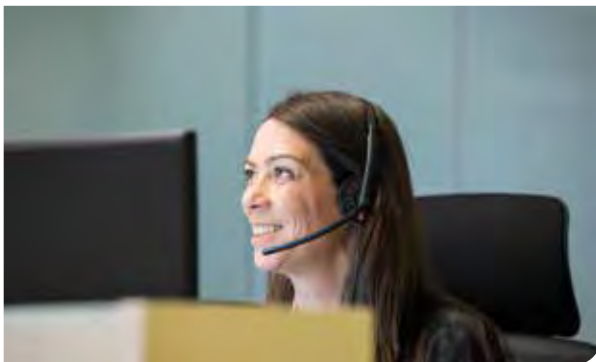
c.1,600

2016: c.1,400

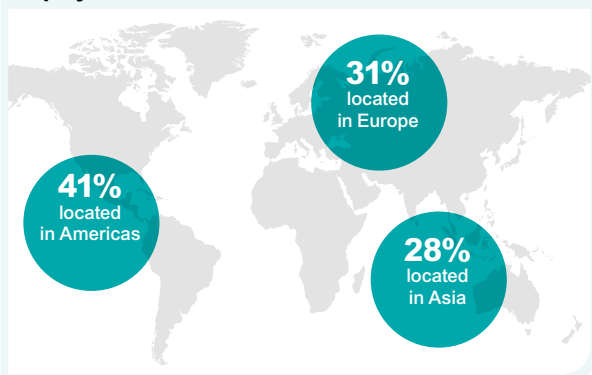
Employee turnover

6.2%

2016: 6.3%



Employee locations



Investment in our people

We continue to recognise the importance of investing in our people. We have introduced a talent management programme to develop management succession plans. We encourage training opportunities for potential candidates to further develop and be considered for internal opportunities as they arise. We have also invested in the level of management below the ELT, who have received the DISC personality training and attended workshops on how the business has shifted from a divisional to a functional organisational structure, in order that they can deliver the Group's strategic priorities. Throughout our sites, we continue to invest in a range of wellbeing initiatives.

2017 people highlights

- Implemented a formal talent management programme to develop succession plans for all key roles
- Adopted a performance management system globally where employees have accountable goals at all levels in the organisation
- Implemented workday® to effectively manage human capital, talent and recruitment throughout the Group
- Integrated SummitReheis US employees into Group systems
- Improved female representation on the ELT from 8%, at 31 December 2017 to currently 27%.

BUSINESS CONDUCT

Business conduct and ethics

Our Code of Conduct (the 'Code') sets out our core values and the standards of conduct expected of everyone who works for Elementis.

Relaunch of our Code of Conduct

During 2017, the Code was refreshed and relaunched jointly by the CEO and the General Counsel and Chief Compliance Officer. A new online training course encompassing the spirit of the 5 core principles was given to all employees.

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 into 6 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 to all employees periodically. The Board and ELT consider the Code to be critical to the Group's continuing success and in how it meets its corporate responsibilities.



Training hours

2,000

2,000 hours of compliance training completed by employees in 2017.

Languages

6

To help employees understand and adopt our values, the Code is translated into 6 languages.



The areas covered under the Code include:

- Fair dealing
- Confidentiality and privacy
- Record keeping
- Communications
- Trade practices and anti-trust 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

CORPORATE SOCIAL RESPONSIBILITY REPORT

CONTINUED

Underpinning our Code is a compliance training programme

Training courses assigned to employees in 2017	Audience
Code of Conduct	All employees
Respect in the workplace	All employees
Global trade sanctions	ELT, management and professional grades
Data privacy (GDPR)	Trialled to GDPR working group (HR/IT/Legal/ Company Secretariat)
Trademark basics	Marketing
Anti-trust	ELT
Eliminating forced labour, slavery, and human trafficking	Initial roll out to ELT, management, professional and sales grades

Human rights

We support the statements in the Universal Declaration of Human Rights, as well as the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the latter being freedom of association and the effective recognition of the right to collective bargaining, the elimination of forced or compulsory labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation. We also support the principles of the UN Global Compact which includes those on fundamental human rights. We prohibit the use of child and forced labour and are committed to the principles of equality of treatment and non-discrimination. Collective bargaining arrangements and union arrangements exist at a number of our locations.

Business practices are in place with our contractors, customers and suppliers in relation to human rights, privacy and safety matters.

Modern slavery

The Modern Slavery Act came into force in 2015. We have taken steps to make sure our employees and supply chain partners are aware of the Act and its requirements. In April 2017, we issued our first statement explaining how we have addressed the risk of slavery and human trafficking in our business. An updated Modern Slavery Act compliance statement will be published on our corporate website, www.elementisplc.com, later in the year.

Bribery and corruption policy

We have a zero tolerance policy for bribery and corruption of any sort. Our Code covers bribery and corruption and is further supported by an anti-corruption policy. Employees are required to report breaches of the policy to a supervisor or the General Counsel and Chief Compliance Officer, and processes are in place to prevent retaliation against any employees who communicate good faith concerns relating to bribery and other business conduct.

Product stewardship

We strive to provide innovative products that create value for our customers and that are safe for people and the environment when used for their intended purpose. An integral part of this process is our commitment to excellence in product safety and global compliance and these core values drive our global product stewardship programme.

To support the highest levels of product safety and regulatory compliance we have comprehensive product safety and product stewardship processes in place to ensure the following:

- The hazards of our products are fully understood and communicated to our customers
- Any risks are managed to minimise potential impacts to people and the environment
- Our products are sold in compliance with all applicable local and country laws and regulations.

Within this context, we regularly review the risks of the chemicals we manufacture, recommend risk management where appropriate, monitor changes in regulations, and make health, safety, and compliance information available to customers, government authorities and the public.

Notable product stewardship accomplishments during 2017, were the successful completion of the EcoVadis Corporate Social Responsibilities assessment, the integration of SummitReheis into our product stewardship and export control systems and a favourable compliance audit by the US authorities.

EU REACh (Registration, Evaluation, Authorisation and restriction of chemicals) as well as the new REACh programmes in China, Korea and Taiwan, were well managed to allow the successful global registration of new innovative products.

We continue to invest in the scientific and regulatory expertise needed to meet the market demands for safer and more sustainable products in an environment of ever increasing number and complexity of chemical regulations. In 2017, we made a significant upgrade in our hazard communications and compliance software to better meet the challenge of new global regulations.

HEALTH, SAFETY AND ENVIRONMENT

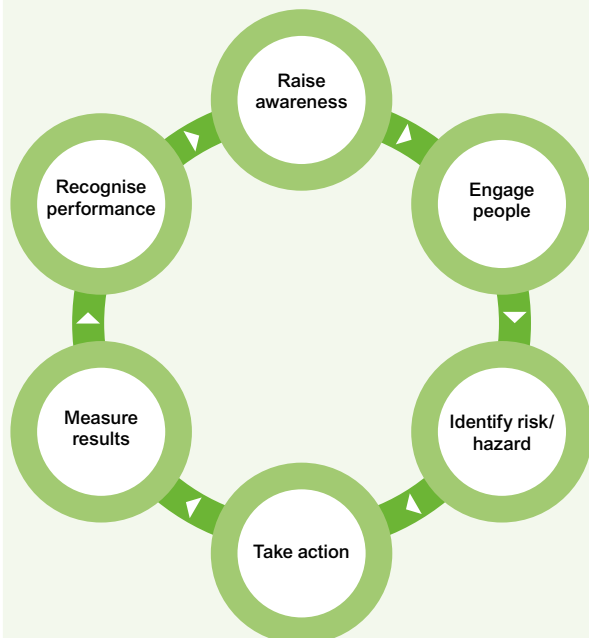
At Elementis, we place a great emphasis on protecting people and operating responsibly. Our Health, Safety, and Environment Policy and Values provides the fundamental basis of how we develop, manufacture and distribute our products around the world. This policy is manifested throughout our global HSE programme which 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



Safety remains our top priority and we take our commitment to safety for our employees, contractors, and all visitors to our facilities seriously. We continue to invest in safer technology and reduce our employees' exposure to occupational hazards. We recognise that creating an injury free work environment requires engaging employees to proactively identify opportunities to improve safety and eliminate risks. All employees understand that they have 'Stop Work' authority and will take action to stop an activity that is not in accordance with our adopted procedures.

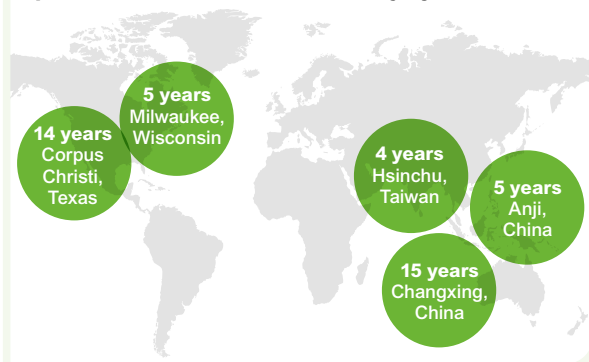
Continuous improvement cycle



Health and safety performance

Elementis uses 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. The following sites have achieved exemplary safety performance in creating an injury free work environment.

Operations without a recordable injury or illness



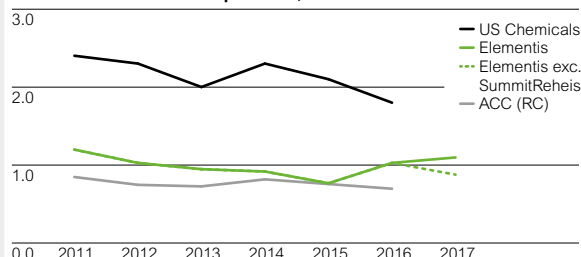
CORPORATE SOCIAL RESPONSIBILITY REPORT

CONTINUED

We use TRIR as our principal measure of safety performance. The below graph shows our performance in comparison with the latest data from the US chemical industry and the American Chemistry Council Responsible Care® members:

Total recordable incident rate

Recordable incidents per 200,000 hours worked



Elementis' expectation is that our performance should show steady improvement. However, over the last 2 years our rate has increased slightly and in response we have implemented a number of initiatives. The main contributing factor to the increase in 2017 is the acquisition of SummitReheis. Excluding the SummitReheis site statistics, the incident rate for Elementis is 0.88. Since the acquisition, a comprehensive integration plan has been developed and we are working diligently with the site teams to ensure that SummitReheis' safety culture is consistent with the policies and values across all our sites.

	2016		2017	
	Elementis	Elementis excluding SummitReheis	Elementis including SummitReheis	
Total Recordable Incident Rate (incidents per 200,000 hours worked)	1.03	0.88	1.10	

Whilst we regret all injuries, it is notable that across the Group only 2 of the recordable incidents resulted in Lost Time Accidents requiring more than 3 days away from work and neither incident required hospitalisation.

2017 safety initiatives

- Promoted 10 Life Saving Rules to prevent serious injury to people working at our facilities
- Launched a global web based training programme
- Introduced a corporate training programme to develop supervisors' safety leadership skills
- Commenced integration of a global software platform for improving the effectiveness of our HSE programmes
- Implemented a safety recognition programme for acknowledging manufacturing locations that achieve significant milestones in safety performance

Environmental performance

Elementis recognises its responsibility for sustaining the quality of the environment in the communities in which we operate to protect biodiversity. Emphasis is placed on using technology that reduces emissions, generates less waste, reduces consumption of natural resources, conserves energy, and takes advantage of opportunities where renewable energy sources are available. In addition, our manufacturing processes are

subject to stringent environmental regulations and compliance requirements. Comprehensive emergency response plans are in place at all locations as a precaution and as a means to mitigate the impact in the unlikely event of a major incident.

2017 environmental highlights

- Continue to operate responsibly – no releases impacting the environment and no environmental penalties
- 'Silver' rating in the 2017 EcoVadis Sustainable Supplier assessment, with a score in the top 10% of all suppliers
- Only used RSPO (Roundtable on Sustainable Palm Oil) certified quaternary amines in manufacturing products for the Personal Care sector and we are exploring how we can further reduce the use of palm oil
- Continued participation with the CDP climate change programme (formerly the Carbon Disclosure Project)
- We modified operations in our Songjiang plant to significantly reduce the level of VOC emissions

Greenhouse gas emissions (GHG)

We report GHG emissions according to the requirements of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

GHG emissions are calculated from energy purchased and process calculations. Energy units are converted into carbon dioxide equivalent ('CO₂e') using official data provided annually by the UK Department for Environment, Food and Rural Affairs ('Defra'). Emission factors associated with non-UK electricity consumption in 2017 were derived from International Energy Agency ('IEA') data.

The principal GHG due to operations at our locations is carbon dioxide from natural gas combustion. There are also GHG emissions from other fuels, chemical reactions in production processes, wastewater treatment and carbon dioxide used for process cooling. Our GHG emissions reporting process has previously been audited by PricewaterhouseCoopers LLP, our internal auditors. The audit report found our procedures to be appropriate and the data collection and conversion process to be robust and supportable.

Elementis' operating sites and principal offices are included within the scope of this reporting requirement. A number of small office locations have been excluded because the level of CO₂e emissions was deemed not to make a material contribution to the total. In addition, the 2017 data is impacted by the addition of 4 sites from the SummitReheis acquired business (pro-rated for our period of ownership).

We provide 2 intensity ratios for measuring our performance in this area: tonnes CO₂e per tonne of production and tonnes CO₂e per kWh of energy consumed. Over a period of years both of these indicators should give an indication of energy efficiency improvements including cleaner fuels consumed. 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.

Greenhouse gas emissions

	2017	2016	Base year (2013)
Scope 1: Combustion of fuel and operation of facilities (tonnes CO ₂ e)	218,198	194,687	221,076
Scope 2: Electricity, heat, steam and cooling purchased for own use (tonnes CO ₂ e)	92,390	88,365	89,500
Total			
Scope 1 and 2 (tonnes CO ₂ e)	310,588	283,052	310,576
Intensity ratio: (tonnes CO ₂ e/tonne production)	0.73	0.74	0.77
Supplementary intensity ratio: (kg CO ₂ e/kWh energy consumed)	0.26	0.26	0.27
Out of Scope: Biofuel (tonnes CO ₂ e)	7,248	7,904	0

CO₂e values were derived using Defra published factors and data from IEA.

Note that Scope 1 and 2 CO₂e emissions are affected by changes in production volumes and product mix.

Energy consumption

	2017		2016	
	Absolute ('000s)	Per tonne of production	Absolute ('000s)	Per tonne of production
Energy consumed (GJ)	5,333	12.6	4,794	12.5

For reference: 1 GJ = 277.8 kWh

Note that energy consumption in 2017 included a significant additional contribution from the SummitReheis sites. Beyond that, energy consumption varies with production volumes and product mix.

Renewable electricity

Electricity at Newberry CA site has 28% renewable energy content.

Reducing emissions

New boilers have been installed at Delden to reduce NO_x emissions.

Reducing consumption

The new boilers at Delden reduced boiler natural gas consumption in 2017 by more than 16% with a consequential reduction in emission level.

Ongoing savings

Air balancing for building heating and ventilation, together with monitoring to optimise building equipment operation, will produce significant ongoing savings at Elementis management headquarters in East Windsor, New Jersey.

Water consumption

Elementis shares the global concern over water scarcity. We operate mostly in areas where water availability is not an immediate issue, nevertheless water consumption is minimised where possible by treatment and recycling. Water consumption data is provided on the corporate website: www.elementisplc.com.

Other environmental data

Our activities are closely regulated via robust environmental permits. Air emissions, discharges and waste are within the normal variability of operations and maintenance activities. Details are provided on the corporate website: www.elementisplc.com.



For more information about our CSR activities and policies

www.elementisplc.com/governance-responsibility/

PRINCIPAL RISKS AND UNCERTAINTIES

Elementis faces a number of uncertainties in the course of its operations and by effectively identifying and managing these risks, we are able to aid delivery of our strategy. The overall responsibility for the risk framework and definition of risk appetite rests with the Board.

RISK APPETITE

The amount of risk that the Board is prepared to accept in return for reward or investment return can vary depending on Company strategy in the relevant area as well as guidance from management and advisers based on appropriate risk analysis. The strategic appetite for risk is therefore decided on a case by case basis at Board level, for example with respect to any corporate transaction or significant capital expenditure project and delegated to the Executive Leadership team to implement as appropriate.

RISK CULTURE

The risk culture within the Group is embedded in the people, its systems and processes, leadership and behaviours that is underpinned by specific standards, for example, as set out in the Code of Conduct or in other Group policies or corporate standards.

RISK REVIEW PROCESS

The principal risks are shown on pages 33 to 36 were selected from a Group risk register made up of 80 risks identified by members of the Executive Leadership team and discussed in the annual management risk review in November 2017 and by the Board in December 2017. These risk reviews involved risk selection and prioritisation after assessing for impact (strategic, financial, operational and reputational) and likelihood of occurrence. Risk controls (prevention and mitigation) and their effectiveness were also part of the consideration process. The impact score, multiplied by the likelihood score, was then modified by a control score to produce a risk priority number, which is used to band risks for management attention. In terms of severity of financial impact, a materiality threshold of \$5m in operating profit was used. The 9 principal risks/risk groupings that are disclosed in the table overleaf were consolidated from a list of 20. This compares to 10 risks disclosed last year consolidated from a list of 14 risks. The risks listed on the following pages do not comprise all those associated with the Group and they are not in order of priority.

BREXIT RISKS

The Board reviewed its assessment on Brexit risks again towards the end of the year and discussed people risk, supply chain risk, regulatory risk (REACH), currency risk and trade tariffs. The Board's previous assessment that there is no material impact on the principal risks faced by the Group remains unchanged.

RISK TRENDS

The following risk trends have changed over the course of the year.

The reduction in likelihood rating for Risk 2 is mainly attributed to an operational incident over which we have better control than an external event such as a hurricane. Our sites have business continuity plans in place that are tested and rehearsed so the sites that experience hurricanes are well placed to manage them by mitigating their impact and potential loss. In terms of operational incidents, our operations and Health, Safety and Environment ('HSE') leadership have reviewed our risk control programmes and have implemented a number of initiatives to improve how operations are managed. This includes for example implementing new life saving rules, carrying out process hazard analysis and mechanical integrity inspections. More details are given in the Corporate social responsibility report on pages 29 to 31.

Risk 3 is shown as decreasing (both in impact and likelihood) because of the work that has been undertaken to improve our supply chain resilience. This includes globalising the supply chain function (which includes procurement, logistics, product stewardship, operations and manufacturing) to improve transparency and accountability, improving qualification of third party suppliers, carrying out a bow tie analysis of our supply chain risks and developing resilience.

Risk 4 is shown as increasing (both in impact and likelihood) owing to the rise in regulatory burden experienced by the businesses as well as the expectation of higher levels of regulation and product stewardship requirements e.g. REACH and similar initiatives around the globe. It also reflects our acquisition of the SummitReheis business which supplies active ingredients, pharma and dental products.

Risk 6 is also shown as decreasing overall despite the impact assessment being stable and its likelihood decreasing. This risk is comprised of 2 risks: industrial espionage resulting in loss of intellectual property ('IP') and, separately, workplace security. The reduction in likelihood rating reflects our increased confidence in our mitigation controls both to industrial espionage and loss of IP, as well as to workplace security. Our operational sites have controlled access, CCTV and employees are given security and safety training.

The Risk 8 assessment reflects the work undertaken on global talent management. Towards the end of 2016, a new talent management review process was implemented for the Executive Leadership team and reviewed in mid-2017. The same process was then rolled out in Q4 2017 to the next tier of management. In addition, the HR leadership, in conjunction with the CEO and Remuneration Committee, has carried out a review of our incentive arrangements. This has resulted in a change to our annual incentive plan and the long term incentive plan. The proposed remuneration policy will be presented to shareholders for approval at the Annual General Meeting. The changes being implemented will strengthen retention and incentivise key employees who play an important role in helping to deliver our Reignite Growth strategy.



Related material

Corporate governance report – page 45.

Risk heat map

Key:

1. Economy/competition
2. Operational incident
3. Supply chain failure
4. Regulation and product stewardship
5. Litigation/compliance
6. Workplace security and IP
7. Technology
8. Talent management
9. Cyber security

- Risk stable ●
- Risk increase ●
- Risk decreased ○

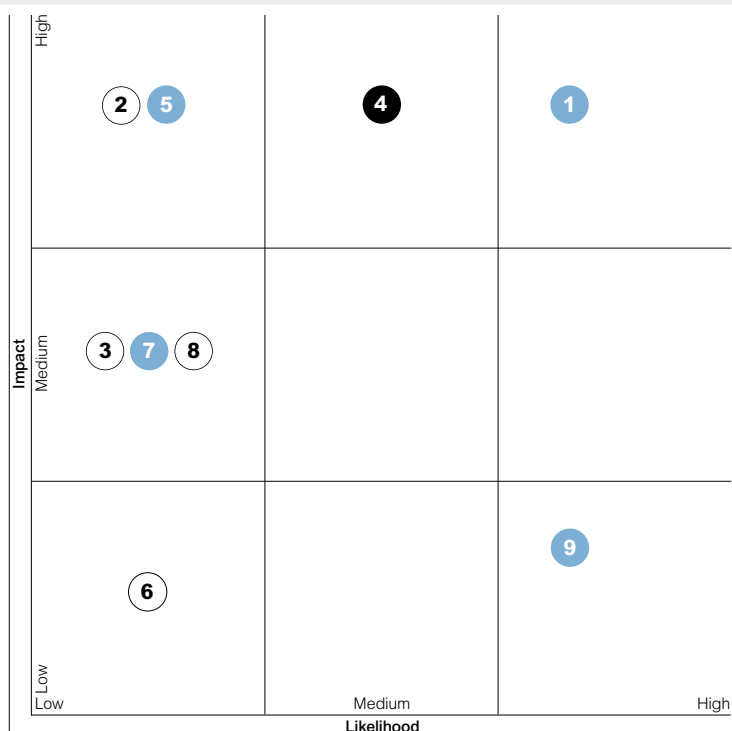


TABLE OF PRINCIPAL RISKS AND UNCERTAINTIES

Risk	Impact and link to strategy	Mitigation	Link to strategic priority
1. Uncertain global economic conditions and competitive pressures in the marketplace (including from currency movement). Risk trend Impact Likelihood	- Sub-optimal global economic conditions can affect sales, capacity utilisation and cash generation, as well as increase competitive pressure in the marketplace, impacting profitability and operating margins - The resultant non-delivery of operating plans can lead to market expectations of Group earnings not being met and slower delivery of stated strategic priorities.	- Specialty Products is well positioned against a deterioration in economic conditions due to its balanced geographic footprint, broad differentiated product offering and the broad application of its technology across different sectors - Chromium business model is flexible and can be adapted to respond to variances in regional demand patterns - Financial performance (including monthly sales, profit and cash flows) is closely monitored with full year forecasts updated 3 times 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 freezing salaries and non-essential capital expenditure items - Currency hedging taken out as appropriate.	Pursue best growth opportunities ✓ Pursue supply chain transformation ✓

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Risk	Impact and link to strategy	Mitigation	Link to strategic priority
2. Business interruption as a result of a major event (e.g. operations/ HSE, IT, transport or workplace incident caused by process/ system failure and/or human error, or by fire, storm and/or flood), or a natural catastrophe (e.g. a hurricane or pandemic). Risk trend Impact  Likelihood 	– Such incidents can disrupt our operations, impact capacity utilisation and add to operating costs, as well as damage reputation, and slow delivery of stated strategic priorities.	– Good housekeeping, preventative maintenance, process and other safety procedures help to mitigate the effects of a major incident – Reliance on hectorite mine and flood risk mitigated by the installation of drainage pumps at the mine in 2011 – Insurance programme and business continuity plans that are tested regularly help to mitigate the effects of a major incident – HSE management programme in place that includes corporate compliance audits involving third party specialists, where appropriate, and insurance property surveys.	Pursue best growth opportunities  Pursue supply chain transformation 
3. Business interruption as a result of supply chain failure of key raw materials (e.g. clays) and/or third party service provision (e.g. transport, infrastructure or IT failure). Risk trend Impact  Likelihood 	– Disruption to supply chain (e.g. third party, service infrastructure, transport or IT failure), all of which can impact capacity utilisation and add to operating costs, and result in slower delivery of stated strategic priorities.	– Raw materials are sourced from a broad and diverse supplier base – Strategic holding of key raw materials – Transport and carrier mitigation plans and insurance in place – Careful vetting, selection and audits/reviews of major suppliers.	Pursue best growth opportunities  Pursue supply chain transformation 
4. Increasing regulatory and product stewardship challenges. Risk trend Impact  Likelihood 	– 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 stated strategic priorities.	– Active REACH programme in which the businesses participate in industry consortia, providing data and information to regulators and experts, to support safety reviews of our products in a broad range of applications – Strong global product stewardship team in place to support the businesses – R&D team aims to develop new products and technologies for use in an evolving market to meet the changing needs of our sophisticated customers and in response to regulatory changes.	Pursue best growth opportunities  Innovate for high margins and distinctiveness 

Risk	Impact and link to strategy	Mitigation	Link to strategic priority
5. Major regulatory enforcement action, litigation and/or other claims arising from products and/or historical and ongoing operations. Risk trend Impact  Likelihood 	– Can lead to higher operating costs and reputational damage, and result in slower delivery of stated strategic priorities as management's focus and attention is distracted.	– Active compliance and risk management programmes in place (including policies, procedures and training) – Insurance programme and risk transfer strategy in place to mitigate 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.	Pursue supply chain transformation 
6. Industrial espionage, workplace security and loss/theft of intellectual property. Risk trend Impact  Likelihood 	– Such incidents can disrupt key operations, add to operating costs, distract management attention and damage reputation, as well as result in slower delivery of stated strategic priorities.	– HR processes in place to ensure new hires undergo appropriate background and reference checks – Implementation of security arrangements at work locations, such as secure entry points/barriers/gates and CCTV or other alarm/monitoring systems in place – Security assessments and compliance audits are carried out, and employees are given safety briefings and training where appropriate – Employment and computer policies (supported by training) ensure employees are made aware of their obligations with regards to confidential information and access controls to protect intellectual property.	Innovate for high margins and distinctiveness  Create a culture of high performance 
7. Disruptive technology advances: failure to identify and mitigate the threat posed by new or imitation technology. Risk trend Impact  Likelihood 	– New technology, methods of production or processes can give competitors a market advantage, and result in slower delivery of stated strategic priorities.	– R&D team aims to develop new products and technologies used in an evolving market to meet the changing needs of our sophisticated customers and in response to competition.	Innovate for high margins and distinctiveness 

PRINCIPAL RISKS AND UNCERTAINTIES

CONTINUED

Risk	Impact and link to strategy	Mitigation	Link to strategic priority
8. Talent management and succession planning: failure to attract, manage, develop and/or retain talent. Risk trend Impact  Likelihood 	– Failure to attract, manage, develop or retain key talent can lead to loss of employees, disrupt growth plans and/or critical business functions, and result in slower delivery of stated strategic priorities.	– Experienced Chief HR Officer supported by in-house and external consulting teams – Management and critical business leader succession planning is a key area of focus for the Board and management team that is kept under review – Implementation of a global HR information system last year to introduce greater systematic processes and transparency, including job grading, to facilitate talent review and succession planning – Talent review using the 9 box matrix talent model.	Create a culture of high performance 
9. Cyber security incident: systems security breach and loss of network connectivity and integrity, and/or loss of business and personal data. Risk trend Impact  Likelihood 	– Systems security breach and loss of network connectivity and integrity can disrupt key operations and add to operating costs – Loss of business and personal data can disrupt key operations and add to operating costs, and result in slower delivery of stated strategic priorities.	– Experienced Chief Information Officer supported by in-house and external consulting teams, with oversight from IT Steering Committee chaired by the CEO – Security controls that include: policies and procedures; staff awareness and training; risk management and compliance; systems and information management and protection; process management; and continuous assessments and monitoring – Use of regional back up data centres in third party locations, cloud based systems with secure entry point and administration controls, encryption technology and multiple authentication systems, website blocking and next generation firewalls with intrusion detection capability – Business continuity and emergency response plans exist that aim to restore network connectivity, recover lost data and return operations to their normal pre-incident level.	Create a culture of high performance 

These principal risks and uncertainties should be read in conjunction with the note on contingent liabilities on page 127.



For more information about risk management

www.elementisplc.com/governance-responsibility/

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 2017 was \$291.1m. It has access to a syndicated revolving credit facility of \$275m and a long term loan facility of \$200m which both have an expiry date of February 2022. There is a mechanism in the agreement for the facility to be increased by a further \$100m subject to other terms.

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 the 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 1 and 3 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 3 years.

A period of 3 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, 3 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 3 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 3 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 risk management section on pages 32 to 36, together with relevant assumptions and qualifications.

STRATEGIC REPORT

The Strategic report was approved by the Board and signed on its behalf by:

PAUL WATERMAN

CEO

27 February 2018



CORPORATE GOVERNANCE

In this section:

40	Board of Directors
42	Executive Leadership team
44	Chairman's introduction to governance
45	Corporate governance report
49	Nomination Committee report
51	Audit Committee report
55	Directors' remuneration report
77	Directors' report
79	Directors' responsibility statement
80	Independent auditor's report

BOARD OF DIRECTORS



Key

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

1. ANDREW DUFF, CHAIRMAN (58)

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, competence and experience

Andrew has a demonstrable track record in delivering value to customers and shareholders through significant boardroom experience gained from large listed companies. This combined with experience in the manufacturing, energy and utilities sectors enables Andrew to lead the Elementis Board. From 2003 until 2009, he was chief executive officer of Npower, the successor entity to Innogy plc which in 2000 was demerged from, restructured and then sold by National Power to RWE, the German electricity and gas company. Andrew was also a member of the RWE's executive committee. Before this Andrew spent 16 years at BP in downstream international markets. Andrew has also been a non-executive director of Wolseley plc, the international plumbing and building materials company, between 2004 and December 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 a member of the corporate responsibility committee, nominations committee and remuneration committee
- Member of the CBI President's Committee
- Trustee of Macmillan Cancer Support
- Trustee of the Earth Trust

Nationality

British



2. PAUL WATERMAN, CEO (53)

Paul was appointed Group CEO on 8 February 2016.

Skills, competence and experience

Paul has a proven track record in developing markets, products and opportunities for creating value, business optimisation and transformation. 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



3. RALPH HEWINS, CFO (54)

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

Skills, competence and experience

Ralph is an accomplished CFO who has a strong track record in finance, strategy development and implementation, and mergers and acquisitions. During his 30 year career with BP, Ralph 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



4. NICK SALMON, SENIOR INDEPENDENT DIRECTOR (65)

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

Skills, competence and experience

Nick brings extensive experience both as a non-executive director and as an accomplished executive. He has been responsible for leading several major restructuring projects and negotiating complex acquisitions and disposals. He was chief executive of Cookson Group plc from July 2004 to December 2012 when Cookson demerged to create 2 new listed companies, Vesuvius plc and the specialty chemicals company, Alent plc. He 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) and a member of the audit committee, nomination committee and remuneration committee
- Independent chairman of South East Water Limited (from April 2015)

Nationality
British



5. STEVE GOOD, NON-EXECUTIVE DIRECTOR (56)

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

Skills, competence and experience

Steve has international experience in specialty chemicals businesses, manufacturing and diverse industrial markets. 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. He was also non-executive director and chairman of the remuneration committee of Cape plc from July 2015 to September 2017.

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 Anglian Water Services (from April 2015) and member of the audit committee, nomination committee and remuneration committee

Nationality
British



6. ANNE HYLAND, NON-EXECUTIVE DIRECTOR (57)

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

Skills, competence and experience

Anne brings substantial financial expertise to the Board. She is currently CFO of Kymab Ltd, a biopharmaceutical 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 BBI Diagnostics Group Ltd and FTSE-listed Vectura Group plc. Previous senior finance positions held include director of corporate finance at 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

Nationality
Irish



7. DOROTHEE DEURING, NON-EXECUTIVE DIRECTOR (49)

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

Skills, competence and experience

Dorothee's background is in corporate finance with experience in the broader chemicals sector. She 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 masters 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 supervisory board of Bilfinger SE (from May 2016) and member of audit committee
- Non-executive director of Röchling Group SE (from May 2016)
- Non-executive director of AXPO Holding AG (from March 2017)

Nationality
Austrian



8. SANDRA BOSS, NON-EXECUTIVE DIRECTOR (50)

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

Skills, competence and experience

Sandra brings strategic experience gained as a consultant to complex global companies on transformational change. She 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 UK and the US. 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 the executive committee of the Bank that oversees the real time gross settlement service and high value payment system (from November 2017)
- A non-executive director of Enstar Group Ltd (from November 2015), chairman of the risk committee and a member of the compensation and nominating committees

Nationality
British/American



Andrew Christie stepped down as a Non-Executive Director on 25 April 2017.

EXECUTIVE LEADERSHIP TEAM



In February 2018, we announced changes to our Executive Leadership team. We appointed global commercial leaders for each of our Coatings, Energy and Personal Care sectors, supported by functional leaders.

1. PAUL WATERMAN, CEO

Full biography can be found on page 40.

2. RALPH HEWINS, CFO

Full biography can be found on page 40.

3. WALKER ALLEN, GENERAL COUNSEL AND CHIEF COMPLIANCE OFFICER

Walker joined Elementis as General Counsel in 1999 and was appointed General Counsel and Chief Compliance Officer in 2006.

Skills, competence and experience

Prior to joining Elementis, Walker was associate general counsel with GE Americom (a GE Capital company) and before that senior business counsel with GE Plastics (a division of General Electric Company). He began his legal career as a lawyer in private practice with two leading New York City law firms, where he specialised in corporate law, securities, and mergers and acquisitions.

Walker is a member of the New York Bar and is admitted as in-house counsel in New Jersey.

Nationality

American



4. MARCI BRAND, VP GLOBAL PERSONAL CARE

Marci joined as VP Global Personal Care in February 2018.

Skills, competence and experience

Marci had a 35 year career with BP in marketing and sales leadership roles in both business to business and business to consumer environments. Her most recent position was VP, global accounts where she was responsible for leading and developing strategic cooperation with selected global partners. Former positions include VP, global industrial, marine and energy (2014 to 2015) and regional VP, North and Latin America (2010 to 2014), both in BP Lubricants.

Marci holds a BSc degree in Marketing from Seton Hall University and is a graduate of the Sales and Marketing Executive Programme from the Kellogg School of Business at Northwestern University.

Nationality

American



5. DANIEL HUGHES, VP BUSINESS DEVELOPMENT AND IT

Daniel was appointed VP Business Development and IT in July 2016, having previously been Chief Information Officer from September 2013. Daniel has held various senior leadership roles in Elementis since February 2007.

Skills, competence and experience

Daniel has been engaged in our worldwide end-to-end business transactions. He also served as integration manager for our SummitReheis, Deuchem, Yuhong, Fancor, Watercryn and Hi-Mar acquisitions. He relocated to China in August 2008 as Vice President, Coatings Asia, integrating our 5 production and 8 sales sites there while developing our strategy, customer facing channels and organisational design. Prior to joining Elementis, he held various senior procurement and supply chain positions at Engelhard Corporation and Ford Motor Company.

Daniel holds a BA Honours degree in Business Studies from the University of East London.

Nationality

American



6. ROB MANGOLD, VP GLOBAL SUPPLY CHAIN & MANUFACTURING

Rob joined as VP Global Supply Chain & Manufacturing in June 2018.

Skills, competence and experience

Rob has over 30 years of experience in Operations. Most recently, Rob was senior VP, manufacturing for Weber-Stephen Products, LLC. Prior to that, he held several executive positions in supply chain and manufacturing with Stepan Chemical Company (a global specialty chemical company based in Illinois) over a 12 year tenure. Rob also has held multiple operations, quality and engineering roles with General Electric in its plastics and advanced materials businesses.

Rob holds a degree in Chemical Engineering from Lafayette College and an MBA in Finance from Williams College of Business at Xavier University.

Nationality
American



7. CHRIS SHEPHERD, CHIEF HUMAN RESOURCES OFFICER

Chris joined Elementis as Chief Human Resources Officer in November 2017.

Skills, competence and experience

Chris has almost 20 years of global human resources experience having spent the first 12 years of his career in manufacturing and supply chain. Most recently Chris held the position of CHRO for BGL Group, a UK Digital Insurance business. He has held prior positions as CHRO at Kantar and Edwards Group and spent over 22 years at Mars Incorporated where he was based in the UK, Italy, China and Singapore.

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

Nationality
British



8. KEN SMITH, VP GLOBAL RESEARCH AND DEVELOPMENT

Ken joined as VP Global Research and Development in October 2008.

Skills, competence and experience

Prior to joining Elementis, Ken worked at specialty chemical company, Rohm and Haas. There he served in a number of technical and commercial roles over a 22 year career. Among his roles was R&D director (coatings additives) global market manager (coatings additives) and global technical manager (architectural coatings).

Ken has a PhD in Chemistry from the University of Bristol.

Nationality
American



9. PAUL RAO, VP GLOBAL ENERGY MARKETS

Paul joined Elementis as VP, Global Energy Markets in April 2014.

Skills, competence and experience

Paul has over 25 years of global oilfield experience in sales, marketing, business development and strategic planning. Paul joined Elementis from Qittut Consulting, a leading Houston based consulting group in the oilfield service industry. Prior experience includes 5 years with Champion Technologies and 16 years with the Nalco Company.

Paul holds a BA in Managerial Studies from Rice University and an MBA from Houston Baptist University.

Nationality
American



10. LUC VAN RAVENSTEIN, VP GLOBAL COATINGS

Luc joined Elementis in January 2012 as Global Business Director, Personal Care and became VP, Personal Care in July 2016. In February 2018, he was appointed VP of global Coatings.

Skills, competence and experience

Luc began his career at Croda where he held various roles in their coatings business before heading up their European personal care business. Whilst at Elementis, and leading the Personal Care business, Luc was responsible for the SummitReheis business post acquisition.

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

Nationality
Dutch/French



11. WENDI WEBER, VP GLOBAL MARKETING

Wendi joined Elementis as VP Global Marketing in January 2017.

Skills, competence and experience

Prior to joining Elementis, Wendi held executive positions at CB&I and CDI Corporation where she held P&L responsibility including business and engineering operations, commercial development, M&A, and strategy. In addition, she brings several years of general management experience in the refining, gas processing, specialty chemicals and petrochemical industries. She has worked at BASF Catalyst and Rhodia Inc. in research and development, global business and manufacturing management roles.

Wendi holds a bachelor's degree in Aerospace Engineering and a master's and doctorate degree in Chemical Engineering from the University of Virginia, and an MBA from the University of Michigan.

Nationality
American



Laura Higgins, Company Secretary

Laura is a member of the ELT. Her biography can be found on page 47.

CHROMIUM

In July 2018, Dennis Valentino, President of Chromium will retire from Elementis. Eric Waldmann became VP Chromium on 1 February 2018. Dennis is in a transitional role to ensure an effective and orderly transfer of duties.

12. DENNIS VALENTINO, PRESIDENT, CHROMIUM

Dennis has been President of Elementis Chromium since April 2009.

Skills, competence and experience

Dennis began his career with Pfizer Pigments in 1975 and held various positions in the Pigments business including VP of its North America coatings unit and VP of manufacturing. When Pfizer Pigments was sold to Elementis plc, Dennis continued his career as part of Elementis Pigments. Dennis became President of Elementis Pigments until the unit was sold in August 2007. He later rejoined Elementis as President of Chromium.

Dennis holds a degree in Chemical Engineering and an MBA from St. Louis University.

Nationality
American



13. ERIC WALDMANN, VP CHROMIUM

Eric was appointed VP Chromium on 1 February 2018.

Skills, competence and experience

Eric has 26 years of experience in the areas of finance, accounting, mergers and acquisitions and sourcing. He has been with Elementis Chromium since 2007 and his most recent position was VP Finance and Sourcing. Prior to joining Elementis, Eric held several positions at Honeywell and ICI in their finance and mergers and acquisitions functions.

Eric holds a bachelor's degree in business administration from Bucknell University, and an MBA from Villanova University. Eric is also a CPA and a member of the American Institute of Certified Public Accountants.

Nationality
American



CHAIRMAN'S INTRODUCTION TO GOVERNANCE

ANDREW DUFF, CHAIRMAN



CHAIRMAN'S LETTER

I am pleased with the pace of progress made and delighted with the level of commitment and contribution that the Board has demonstrated during the year.

Early in 2017, we announced the acquisition of SummitReheis, our largest acquisition in 20 years, and the sale of the US Colourants business and simultaneous closure of the Jersey City site. We ended the year with the announcement of the sale of our Surfactants business.

We have also welcomed 2 new Non-Executive Directors, Sandra Boss and Dorothee Deuring. Both Sandra and Dorothee underwent a process of induction, meeting members of the Executive Leadership team and visiting a number of our key sites.

The Board culture that I foster continues to be founded on the principles of integrity, respect, transparency and openness. Directors are expected to lead by example and exemplify the highest standards of propriety, diligence and accountability. This culture and the values it underpins is not only engendered in the Board, its Committees and the Executive Leadership team but permeates throughout our organisation.

Ralph Hewins and Paul Waterman are enthusiastic and deeply committed to the Reignite Growth strategy and together they bring a renewed focus on delivery of strategy. I would like to thank Paul and Ralph for enhancing the Board's understanding of strategic and operational developments.

Steve Good was appointed Chairman of the Remuneration Committee in April 2017 and has led the review of the Directors' remuneration policy in consultation with major shareholders (as well as implemented a tender process for new remuneration advisers). More details can be found in the Directors' remuneration report on pages 55 to 76.

Anne Hyland continues to chair the Audit Committee and the focus this year has been the impact of the SummitReheis acquisition and other corporate transactions on the financial statements. This was also Deloitte LLP's first full year as our external auditors. Further details on the Committee's activities can be found on pages 51 to 54.

The Nomination Committee carried out an internal effectiveness review of the Board, Committees and individual Directors towards the end of the year. A description of the key findings are set out in the report of that Committee on page 50.

Continuing with its programme of visiting operational sites, the Board held meetings at our principal offices in New Jersey, US in June and also at the headquarters of our Coatings EMEA business in Cologne, Germany in September. The Board also visited the SummitReheis sites in New York, US and Ludwigshafen, Germany. The Board interacts regularly with members of the Executive Leadership team and engages with the wider business to deepen the level of knowledge and increase insight into the operations of the business.

We received a strong level of support from our shareholders for all our resolutions at the 2017 AGM. I would like to express my sincere thanks to you, our shareholders, for your continuing support.

Statement of compliance

The Board is of the view that it has applied fully, throughout 2017, all of the provisions of the UK Corporate Governance Code published in 2016 (the 'Code'). A copy of the Code is available at www.frc.gov.uk. The application of the Code's principles are described in the Corporate governance report on pages 45 to 48.

The sections that follow describe how the Board has applied the principles and provisions of the Code.

ANDREW DUFF

Chairman
27 February 2018

COMPLIANCE WITH THE CODE

As identified on pages 40 and 41, during 2017, the Board comprised 2 Executive Directors (CEO and CFO) and 6 Non-Executive Directors (including the Chairman and Senior Independent Director). In 2017, the number of non-executives increased to 6 following the appointments of Sandra Boss and Dorothee Deuring. At the conclusion of the 2017 AGM, Andrew Christie duly retired from the Board after nearly 9 years as a Non-Executive Director.

Role of the Chairman

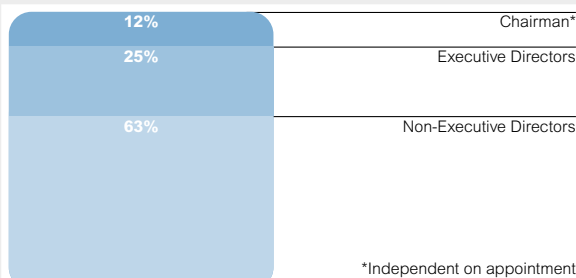
The Chairman is responsible for leadership of the Board, whilst the CEO is responsible for running the Group's businesses. The roles of Chairman and CEO are separate, clearly defined and no individual has unfettered powers of decision making. The Chairman is supported by the Senior Independent Director who is available to shareholders if the normal channels for raising any concern prove to be ineffective or inappropriate.

It is the Chairman's responsibility to set the style and tone in which the Board operates and ensure there is a proper forum and framework for constructive discussion and challenge. The Chairman is responsible for ensuring that the Board as a whole, and each of its individual Directors, are able to contribute effectively in the performance of their roles. This framework includes: access to relevant and quality information, internal and external advice, leadership and business teams; support and development opportunities; understanding the views of market analysts and major shareholders, and maintaining constructive relationships between executive and non-executive members of the Board.

Board appointments

Non-Executive Directors are appointed for 3 year terms that can be renewed by mutual agreement, subject to annual re-election by shareholders, satisfactory performance and meeting independence requirements. Details of the Executive Directors' service contracts and the Non-Executive Directors' letters of appointment (including remuneration and fee levels) are set out in the Directors' remuneration report.

Board composition



Average age of the Board

55 years

Board operation

The Board has a formal programme of activities that are undertaken at scheduled meetings throughout the year and this is supplemented by ad hoc meetings, conference calls or other Board events, as and when appropriate. There were 8 formal meetings in 2017 and the attendance record of each Director is shown in the table overleaf.

The Board is supported in its activities by Board committees that have been delegated specific responsibilities, as set out in their terms of reference. They have also been supported by a formal schedule of matters which allows certain decisions to be retained by the Board and others to be delegated to the Executive Directors within certain parameters.

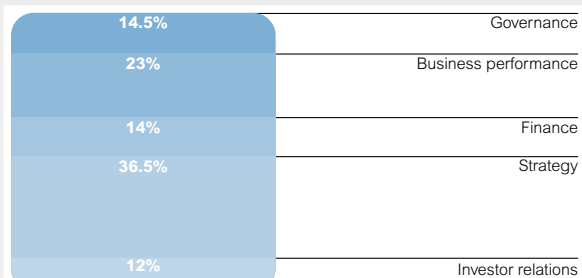
The schedule of matters reserved for the Board includes the following:

- Approval of strategic and annual operating plans
- Approval of financial statements, major acquisitions and disposals
- Approval of risk management and compliance programmes, as well as Group insurance arrangements
- Approval of major projects and capital expenditures
- Approval of major legal settlements and litigation

The Board reviews the business, financial, operational, governance, compliance and HSE performance of the Group at each of its formal meetings, including major business initiatives, threats and opportunities, as well as progress on product innovation and new customers.

Board and Committee dates are scheduled at least a year in advance, as are overseas site visits. A 12 month forward planner helps to ensure that the Board spends an appropriate amount of its time focused on the strategic issues affecting the Group's businesses. To assist the Board in carrying out its duties, information of an appropriate quality is issued in a timely manner ahead of Board and Committee meetings. If there are any Board conflicts or unresolved matters concerning Board decisions (there were none in 2017) these would be recorded in the minutes of meetings.

Board activities



Related material

Board of Directors – page 40
Principal risks and uncertainties – page 32

CORPORATE GOVERNANCE REPORT

CONTINUED

Risk management

The Board has overall responsibility for risk management in the Company and sets the Group's policies, culture and appetite on risk, as well as providing support and oversight to management. The CEO, supported by the Executive Leadership team, is responsible for implementing Group policies, overseeing risk management performance, identifying principal risks and ensuring resources are allocated for effective risk management and mitigation. The Audit Committee plays an important role in supporting the work of the Board and is responsible for monitoring financial reporting, as well as the internal and external audit programmes, which provides assurance on financial, operational and compliance controls.

Examples of the specific types of risk that the Board keeps under regular review include the following:

- Commercial and supply chain risks (e.g. major customers, key supply contracts)
- Strategic risks (e.g. acquisitions, disposals and major capital expenditures)
- Major litigation and compliance risk (e.g. anti-corruption, cyber security, people, intellectual property)
- Operational and HSE risk (e.g. people, process safety, natural events such as a hurricane)
- Financial risks (e.g. market and treasury risks).

Specific agenda items on risk are scheduled throughout the year, for example; legal and compliance risk, operations and HSE, insurance and the Board's formal risk review in December.

Director attendance in 2017

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Andrew Duff	8/8	–	5/5*	–
Paul Waterman	8/8	–	–	–
Ralph Hewins	8/8	–	–	–
Sandra Boss ¹	8/8	3/3	5/5	7/8
Dorothee Deuring ²	7/7	2/2	4/4	7/7
Steve Good ³	8/8	1/1	5/5	8/8*
Anne Hyland ⁴	8/8	3/3*	5/5	2/2
Nick Salmon	8/8	3/3	5/5	8/8
Past Director				
Andrew Christie ⁵	3/3	1/1	2/2	2/2

* Chairman of Committee.

¹ Appointed to the Board on 1 February 2017, Sandra missed 1 Remuneration Committee meeting due to an engagement arranged prior to her appointment to the Board.

² Appointed to the Board on 1 March 2017.

³ Appointed Remuneration Committee Chairman and stepped down from the Audit Committee on 25 April 2017.

⁴ Stepped down from the Remuneration Committee on 25 April 2017.

⁵ Retired from the Board and as Remuneration Committee Chairman on 25 April 2017.

Board independence

The Board considers all the Non-Executive Directors to be independent in character and judgement throughout 2017 and is satisfied that each Director exercises independent judgement.

The Non-Executive Directors provide constructive challenge and help support the Executive Directors in developing strategy and business priorities. The Directors are required at all times to avoid conflicts of interest, act for a proper purpose and in the best interests of the Company, consistent with their statutory duties. No individual or group dominates decision making.

Board evaluation

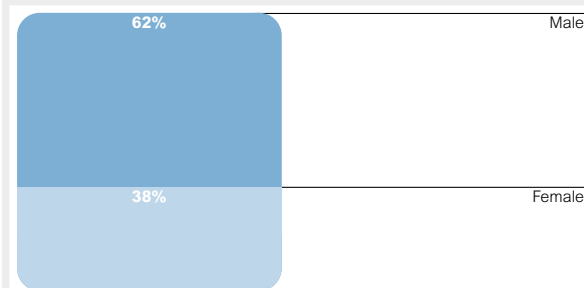
As part of its annual programme of events, the Board carried out an internal evaluation of its performance during the year. Having considered the outcomes of the evaluation, the Board considers that its composition contains the appropriate balance of diversity of views, qualifications, skills, experience and personal attributes necessary to carry out its duties and responsibilities and to provide appropriate depth and resilience. Further details of the evaluation are set out in the Nomination Committee report on page 50. The last externally facilitated evaluation of the Board took place in 2015. An externally facilitated review is expected to take place during the latter part of 2018.

Board diversity

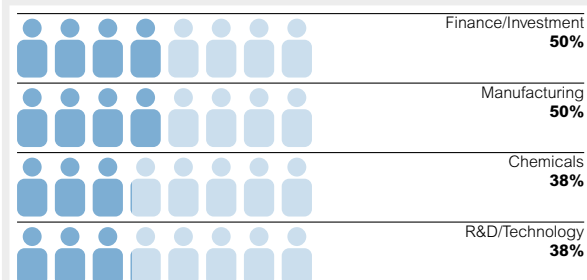
The Board's policy is that appointments should be made on the basis of qualification and merit. The Board agrees that diversity which should be construed in its broadest sense and incorporate gender diversity, is an important factor in Board effectiveness and supports the Code's principles and provisions on gender diversity. The Board is mindful of the Hampton-Alexander review which sets a target for the percentage of women on boards to reach one third by 2020 and the appointments of Sandra Boss and Dorothee Deuring in 2017 meant that Elementis achieved 38% female representation at the end of the year.

With regards to the Parker review and its recommendation of 'Beyond One by 2021' for FTSE 100 companies (and the same aspiration for FTSE 250 companies by 2024), the Board is supportive of these aims, which seek to increase ethnic diversity within UK boardrooms, to better reflect the ethnic diversity of our broader workforce. The Board will take this into account as part of its recruitment practices.

Gender diversity



Board experience



Induction

All new Directors are invited to participate in an induction programme that includes:



	Sandra Boss Non-Executive Director	Dorothee Deuring Non-Executive Director
Meeting members of the Executive Leadership team and corporate advisers.	✓	✓
Tailored training on the duties and responsibilities of a Director of a UK listed company.	✓	✓
Undertaking a programme of site visits.	Site visits 3 ● ● ●	Site visits 3 ● ● ●

Both Sandra Boss and Dorothee Deuring received a tailored comprehensive induction programme.

Company Secretary

The Company Secretary supports the Chairman in ensuring the Board functions efficiently and effectively.



LAURA HIGGINS, COMPANY SECRETARY

Laura joined the Company on 2 January 2018 and became Company Secretary on 31 January 2018.

Skills, competence and experience

Laura brings extensive company secretarial experience from roles in UK and internationally quoted companies across FMCG, Leisure, Broadcasting, Publishing, Mining and Support Service sectors. Her last role was at Britvic plc where she held the position of deputy company secretary.

Laura holds a degree in Law and Legal Studies with History and is a fellow of the Institute of Chartered Secretaries and Administrators.

Nationality

British



Development and support

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 to keep their skills and knowledge up to date, and receive internal briefings on technical and/or other regulatory developments that they need to be made aware of. An example is the training update given by the Company's external legal advisers on the Market Abuse Regulation. The Company Secretary supports the Chairman in ensuring that the Board and Board Committees operate within the governance framework adopted and that communication and information flows within the Board and its Committees and between management and Non-Executive Directors.

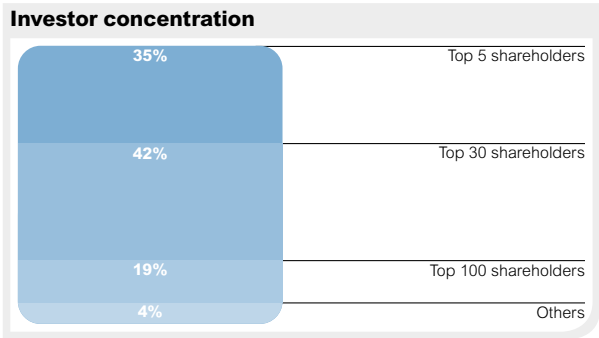
Communications with shareholders

The CEO and CFO are the Company’s principal contacts with investors, analysts and the financial press. The Company maintains a comprehensive programme of activities to ensure their needs are met. This includes stock exchange announcements, investor meetings, the annual report and updates to the corporate website. The Company appointed a Director of Investor Relations midway through 2017 to support the CFO in maintaining and developing communications with investors and analysts.

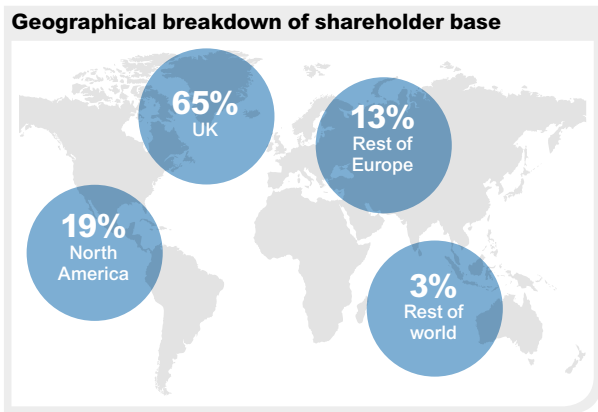
The Board receives regular feedback from shareholders following meetings with management in results and other investor roadshows. Analysts’ forecasts and research reports about the Company and the wider chemicals sector, as well as presentations and reports from the Company’s joint corporate brokers, are provided to all Directors, helping Non-Executive Directors to develop a clear understanding of the views of major shareholders. The Chairman and Senior Independent Director are available for contact by shareholders at any time.

From time to time, where appropriate, the Chairman and the Chairman of the Remuneration Committee will organise a programme of meetings with major shareholders to update them on any significant developments in business strategy, corporate governance matters or consult them on proposals for executive remuneration.

The AGM gives all of the Company’s shareholders the opportunity to speak with the Directors and the chairmen of the Board Committees. The Notice of AGM is dispatched at least 20 working days before the meeting. The Company proposes separate resolutions for substantially separate issues. In line with best practice, voting is conducted by poll. Shareholders have the option to vote either for or against a resolution, or to withhold their vote. The results of the meeting are announced to London Stock Exchange and published on the corporate website.



For more information about Board Committees
www.elementisplc.com/governance-responsibility/



Corporate Governance Code
The FRC is expected to publish an updated version of the Corporate Governance Code in 2018 to implement a number of changes that the Government has consulted on including: stakeholder engagement and additional responsibilities of the Remuneration Committee. The Board will monitor these developments and make the necessary changes to its operation and the terms of reference of its Board committees as appropriate.

NOMINATION COMMITTEE REPORT

ANDREW DUFF, CHAIRMAN, NOMINATION COMMITTEE



The Chairman and members of the Nomination Committee (the 'Committee') are shown on pages 40 to 41, together with their biographical information. During 2017, 5 meetings were held and the attendance records of Committee members are shown below. The CEO is invited to attend all of its meetings, except when the discussion concerns him or when it is a meeting of Non-Executive Directors only, and other Executive Directors are invited to attend where appropriate.

The Committee's terms of reference are available on the Company's website and the following is a summary of its responsibilities:

- Reviewing the size and composition of the Board, together with the skills, knowledge, experience and diversity of its members and making recommendations for change as necessary
- Carrying out an annual performance evaluation of the Board, its committees and individual members
- Succession planning for the Board and Executive Leadership team.

Committee members

6

Scheduled meetings

5

Committee members	Scheduled meetings
Andrew Duff*	5/5
Sandra Boss ¹	5/5
Dorothee Deuring ²	4/4
Steve Good	5/5
Anne Hyland	5/5
Nick Salmon	5/5
Andrew Christie ³ (past Director)	2/2

* Chairman of Committee.

¹ Appointed to the Board on 1 February 2017.

² Appointed to the Board on 1 March 2017.

³ Retired from the Board on 25 April 2017.



ACTIVITIES IN 2017

The following is a description of the work of the Committee to show how it has discharged its responsibilities in 2017, which was reported to the Board:

February

Discussion and approval of the appointment of Dorothee Deuring as an additional Board member, review and agree new Board Committee compositions, consider and approve a new Board diversity policy, and review and approve the Nomination Committee report in the Annual report.

March

Discussion of the Chairman's performance and re-appointment, and approve recommending to the Board the re-appointment of the Chairman for a further 3 year term, subject to performance and shareholder re-election.

July

Discussion of Board performance evaluation approach and form of questionnaire.

September

Discussion of the performance of Nick Salmon (Senior Independent Director) and Steve Good (Remuneration Committee Chairman) and their re-appointment, and approval to the Board the re-appointments of both to their existing roles for a further 3 year term, subject to performance and shareholder re-election.

December

Discussion of the output of the Board evaluation and review of the Chairman's performance which was considered to be effective and satisfactory.

NOMINATION COMMITTEE REPORT

CONTINUED

2017 BOARD EVALUATION

The Board and Committee agreed that, with the changes to its composition in 2016 and 2017, the Board evaluation for the year being reported on would be undertaken without external assistance. This would allow a period for the Board transition to come to an end, at which point it would be appropriate for a more in-depth, externally facilitated evaluation to be carried out. This is planned for 2018.

The 2017 review was undertaken by means of a qualitative questionnaire survey (produced in-house), covering all aspects of the Board's structure, composition and operation, Board interactions (internal and external), and business strategy, risks and priorities. In addition, the survey included specific sections on the Audit, Nomination and Remuneration Committees including how well they were chaired and organised, the quality of Committee papers as well as their effectiveness.

The outcome of the review highlighted that the Board and its Committees are effective and well run, that interactions between the Executive Directors and Non-Executive Directors are strong and positive, and that all Directors contribute effectively and provide appropriate commitment to their role. Notably, the quality of Board materials and discussion had improved greatly which enabled the Board to spend more of its time on strategic matters affecting the Company.

Areas to work on in 2018 included: increasing the Board's interactions with all members of the Executive Leadership team and key advisers, clarifying the Board's appetite for risk in relation to organic growth and acquisition criteria, ensuring that the Board continues to provide appropriate challenge and add value, and ensuring the Executive Directors get the support they need.

Following the evaluation review, the Board is satisfied that all Directors contribute effectively and demonstrate appropriate commitment to their role. Shareholders are therefore asked to support their re-election at the AGM.

Shareholders may find the biographical information provided on pages 40 and 41 useful to help them understand how a Director's background or experience can enhance the contribution he or she is making to the operation and effectiveness of the Board. This will also assist shareholders in assessing the skills and experience of the Board as a whole, when determining how to vote on certain resolutions at the AGM. The information should also be read in conjunction with the Notice of Meeting accompanying this Annual report proposing the re-election of all Directors at the 2018 AGM.

ANDREW DUFF

Chairman, Nomination Committee
27 February 2018

ANNE HYLAND, CHAIRMAN, AUDIT COMMITTEE



On behalf of the Audit Committee, I am pleased to present the Audit Committee report for the year ended 31 December 2017. The purpose of this report is to describe how the Committee has carried out its responsibilities during the year.

MEETINGS AND COMPOSITION OF THE COMMITTEE

The Board is satisfied that Anne Hyland has recent and relevant financial experience as required by the Code and, further, that the Committee as a whole has competence relevant to the sector in which the Company operates.

Following a review of its programme of work, the Committee decided to restructure the frequency of meetings by having 3 formal meetings each year instead of 4, supported by ad hoc meetings as appropriate. Accordingly, 3 meetings were held last year and the attendance of Committee members is shown below.

The Chairman of the Board, both Executive Directors and representatives of both the external auditor, Deloitte LLP (Deloitte) and internal audit provider, PricewaterhouseCoopers LLP (PwC) have a standing invitation to attend all Committee meetings, except when an agenda item concerns either the external or internal auditor or is only for Committee members to meet with the external or internal auditor without management or anyone else being present.

Committee members

4

Scheduled meetings

3

Committee members	Scheduled meetings
Anne Hyland*	3/3
Sandra Boss ¹	3/3
Dorothee Deuring ²	2/2
Steve Good ³	1/1
Nick Salmon	3/3
Andrew Christie ⁴ (past Director)	1/1

* Chairman of Committee.

¹ Appointed to the Board on 1 February 2017.

² Appointed to the Board on 1 March 2017.

³ Stepped down from the Audit Committee on 25 April 2017.

⁴ Retired from the Board on 25 April 2017.

ROLE OF THE COMMITTEE

The Committee's role is to ensure appropriate oversight and review of the presentation and integrity of the Group's financial reporting, internal controls and risk management, internal audit programmes, changes in regulatory requirements, and the independence and appointment of the external auditor.

The terms of reference for the Committee can be found on the corporate website: www.elementisplc.com.

To enable the Committee to discharge its responsibilities, discussions on a broad range of topics and reports were held with management, internal audit provider and the external auditors throughout the year. This provided insight into the progress towards the Company's strategic goals, the challenges and risks the Company faces and how these are managed. The activities of the Committee can be found overleaf. The Committee has an open dialogue throughout the year so the external auditor and the internal audit provider can raise challenges and questions in their audit work and findings, and consider management's responses.

RESPONSIBILITIES OF THE COMMITTEE

The following is a summary of the Committee's responsibilities:

- Monitoring the integrity of the Group's financial statements, financial reporting and related statements, as well as the clarity and completeness of disclosures (including narrative reports and governance statements and accompanying financial and related statements) and informing the Board whether the Annual report and accounts taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
- Ensuring the appropriateness of accounting policies, any changes to these, and any significant estimates and judgements made
- Reviewing the effectiveness of internal control, compliance and risk management systems (including whistleblowing arrangements)
- Overseeing all aspects of the relationship with the internal and external auditors, such as: negotiating and approving their terms of appointment, fees, the scope, manner and programme of work; monitoring resourcing, performance and effectiveness, independence and objectivity taking into account relevant UK professional and regulatory guidelines; approving the policy on non-audit services; making recommendations to the Board for their dismissal or changes; and supervising any tender process.

AUDIT COMMITTEE REPORT

CONTINUED



MAIN ACTIVITIES DURING 2017

Committee meetings usually take place prior to a Board meeting. The Chairman of the Committee subsequently reports on the activities of the Committee and matters of particular relevance to the Board.

The following is a description of the work of the Committee to show how it has discharged its responsibilities in 2017.

February

- Met with Deloitte without management present to review their audit findings
- Reviewed Deloitte's audit report in combination with the 2016 Annual report (and associated preliminary results statement), management representation letter to the auditors, internal control and going concern and viability statements, tax, litigation and compliance reports (including whistleblowing arrangements) and the effectiveness, independence and objectivity of the auditors
- Recommended to the Board the approval of the 2016 Annual report
- Recommended to the Board the re-appointment of Deloitte as external auditor of the Company
- Considered non-audit services and fees undertaken by Deloitte during 2016

July

- Met with senior representatives of Deloitte to consider a lead partner rotation for the 2017 year end audit, met the proposed new lead audit partner and made a recommendation to the Board for their appointment as lead partner
- Discussed the output of the external auditor performance evaluation undertaken in Q2 which involved a detailed questionnaire and responses from key members of the finance function
- Reviewed PwC's H1 internal audit programme report and management's responses to the audit findings
- Assessed in combination with Deloitte's H1 review report, the 2017 interim results announcement (incorporating a management report and condensed financial statements and notes), management representation letter to the auditors and the H1 litigation, compliance and tax reports, as well as the H1 going concern statement (including material uncertainties and principal risks)
- Approved Deloitte's letter of engagement and proposed fee for H1 and year-end audit
- Reviewed and confirmed the Company's compliance programme
- Considered various technical briefings on the UK Corporate Governance Code, the 2016 Guidance for Audit Committees, Tax Transparency Regulations, IFRS 9 (Financial Instruments), IFRS 15 (Revenue Recognition) and IFRS 16 (Leases)

December

- Met with PwC without management present to consider the Group's internal audit programme and control framework
- Reviewed the effectiveness of the internal audit programme and PwC's performance, supported by the results of a survey questionnaire completed by key members of finance staff
- Reviewed the adequacy of resources made available to PwC and the arrangements they have in place to ensure they can deliver an effective internal audit service
- Received PwC's H2 internal audit programme report and management's responses to the audit findings
- Approved the re-appointment of PwC as internal auditors for 2018 and approved an interim plan for the 2018 internal audit programme
- Reviewed an update on the 2017 audit plan and progress from Deloitte
- Noted the progress of tax reforms in the US and potential impact to the Company
- Reviewed the output of the purchase price allocation exercise in respect of the SummitReheis acquisition
- Considered a proposal from management on changes to segmental reporting for the year ending 31 December 2018
- Reviewed the FRC Audit Quality Review team's final report and findings in respect of Deloitte's audit of the Company's financial statements for the year ended 31 December 2016

KEY ACCOUNTING JUDGEMENTS

The primary areas of accounting judgement considered by the Committee in relation to the 2017 financial statements are listed below.

Purchase price allocation for the SummitReheis business

Following the purchase of SummitReheis in March 2017, it was necessary to decide the allocation of the purchase price to goodwill, intangibles and other balance sheet items.

Key areas of judgement surrounded the evaluation of the US customers' list, where 2 significant assumptions were made around the average life of 24 years and attrition rate of 0% of the top 20 US customers for SummitReheis.

The Committee reviewed progress made on the analysis that was conducted by a third party provider and led by management.

Management updated the Committee regularly 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.

Further information is detailed in note 1.

Environmental provisions

A process consistent with 2016 for the evaluation of environmental provisions was followed by management, the key area of judgement being the discount rate used for future liabilities. In 2016, this discount rate was reduced from 4.5% to 2.5%. The Committee considered this discount rate and were satisfied that a rate of 2.5% remained appropriate for 2017.

Further information is detailed in note 1.

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.

During the year, the Board approved the Group's tax strategy. A copy is available on the corporate website: www.elementisplc.com

Further information is detailed in note 1.

Assumptions underpinning the calculation of the Group's defined benefit pension obligations

Pension scheme liabilities are assessed for the Group by independent actuaries. Additionally, management reviews and challenges the underlying assumptions with other third party advisers to ensure that the actuaries' own assumptions are appropriate for the Group. The Committee also discusses the appropriateness of the assumptions, in particular the discount rate applied on the defined benefit future obligation and the right to recognise the surplus on the UK defined benefit pension scheme as an asset.

Further information is detailed in note 1.

Use of adjusting items in the financial results

The Committee considers separate disclosure of adjusting items in light of the FRC recommendations of a balanced and consistent approach. The Committee is mindful of the need to understand the underlying trends of each segment within the business with the impact of large and unusual items separated out as necessary to avoid distortions from adjusting items.

Further information is detailed in note 1.

Revenue recognition

In 2016, the Committee considered the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 Revenue and changed the accounting policy to more accurately reflect the commercial substance of transactions. In 2017, this revised policy was applied consistently to all existing sectors of the Company. Following the acquisition of SummitReheis the Committee considered the application of the Company policy to the acquired operations at the year end and adopted the policy accordingly.

Further information is detailed in note 1.

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

As reported this time last year, the Committee carried out an audit tender process in 2015 that resulted in the appointment of Deloitte as external auditor in April 2016. Deloitte's re-appointment as external auditor's in 2017 was approved by shareholders at the Company's AGM in April 2017.

The Committee therefore confirms that the Company is compliant with the order on mandatory tendering of audit contracts.

AUDIT EFFECTIVENESS

The Chairman of the Committee meets with the audit partner frequently, including for both audit planning and review meetings. The Committee meets the audit partner and usually the senior manager at all of its formal meetings but it is the CFO and finance teams who have most exposure to the audit team.

During the year, the FRC's Audit Quality Review team selected to review the audit of the Company's financial statements for the year ended 31 December 2016. The focus of the review and their reporting is on identifying areas where improvements are required rather than highlighting areas performing to or above the expected level. The Chairman of the Committee received a full copy of the findings of the Audit Quality Review team and discussed these with Deloitte. The Committee confirms that there were no significant areas for improvement identified within the report, or any material issues in relation to the financial statements. The Committee is satisfied that there is nothing within the report that might have a bearing on the audit appointment.

To help the Committee carry out a formal review of Deloitte's performance, a questionnaire based evaluation is undertaken towards the end of each year end audit cycle by members of the finance team globally. The Committee also monitors audit effectiveness by reviewing the Audit Quality Inspection reports published by the FRC. The Committee considers the auditor's performance to be satisfactory and that the audit is effective as measured against their letter of engagement and the scope of services agreed.

AUDIT OBJECTIVITY AND INDEPENDENCE

The Committee considers the auditor's objectivity and independence at least twice a year. It receives reports from Deloitte on its internal quality controls and independence rules, and keeps under review the level of non-audit services Deloitte provides. The Committee is of the view that Deloitte were objective and independent throughout the 2017 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 to office at the AGM in April 2018.

NON-AUDIT SERVICES

In 2017, audit services fees for the Company and its subsidiaries were \$0.9m and non-audit services fees were \$0.6m (2016: audit services for the Company and its subsidiaries: \$0.7m and non-audit services: \$0.3m). These non-audit fees were approved by the Committee. These services consisted mainly of corporate finance advisory services for the Taiwan entity and due diligence support in relation to the acquisition of SummitReheis. Deloitte's knowledge of the business meant that it could provide these services cost effectively and the safeguards described above ensured that the Committee did not consider the provision of these services to affect the auditor's independence and objectivity.

The Company's policy on non-audit services contains guidance on the types of non-audit work that the external auditors may be considered for. This guidance is in addition to other factors that must be taken into consideration, such as the expertise and resources of the firm, whether the services could risk jeopardising audit independence and the fee relative to the audit fee. Examples of services that the external auditors may and may not be allowed to perform under the policy can be found on the Company's corporate website.

Under the policy, the CFO may approve individual engagements where the fee is up to 15% of the Group's audit fee for the year, provided that the 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.

AUDIT COMMITTEE REPORT

CONTINUED

INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEM

The Committee's formal remit includes reviewing 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. The focus of the Committee when it reviews internal audit reports is mainly on financial, operational and compliance risks. PwC, who provide an outsourced internal audit function, play a significant role in the Group's internal control process, which is designed for the purposes of preventing material financial loss and fraud, safeguarding the value of assets (including reputation) and ensuring compliance with laws, regulations and Group policies.

The Group's internal control and risk management system is only designed to manage, rather than eliminate, the risk of failure to achieve business objectives and therefore the Board can only provide reasonable, and not absolute, assurance against material mis-statement or loss. The Board is of the view that an ongoing process for identifying, evaluating and managing significant risks faced by the Group was in place throughout the financial year under review and up to the date that this Annual report was approved. 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 Executive Leadership team levels for the identification, evaluation, mitigation and ongoing monitoring of risks. Further details can be found on pages 32 to 36.

Financial reporting

The Group operates a comprehensive financial reporting system including forecasts, consolidation and monthly reporting. Board reports include full management accounts, comprising monthly and year to date profit and loss statements, cash flow statements and balance sheet, with segmental and individual business performance analyses, as well as relevant performance indicators. Actual monthly results are monitored against budget, forecasts and the previous year's results. Any significant variances are investigated and acted upon as appropriate. As well as monthly management accounts, each operating division prepares an annual and a 3 year operating plan which is approved by the Board. Thereafter a formal re-forecasting exercise is undertaken at least twice a year.

Investment appraisal

There are clearly defined investment guidelines for capital expenditure. All investment expenditure is subject to formal authorisation procedures, with major proposals being considered by the Board. Below Board level, an Investment Commitment Meeting is held on a monthly basis to review projects at stage gates and the capital expenditure pipeline. These meetings are attended by the CEO and CFO.

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 2 to 3 year rotational basis, the internal audit programme includes reviews of Group functions and processes. Examples of some of the internal audits conducted during 2017 include: US and EU shared service centres, forecast and budgeting processes, tax governance, Specialty Products' sites in China, US and Brazil, Chromium's Castle Hayne site and the SummitReheis sites in the US and Germany.

CONTROLS ASSURANCE

The controls assurance framework at Elementis is threefold:

- 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 programme, 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, which was refreshed during 2017, 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

FAIR, BALANCED AND UNDERSTANDABLE

The Board and Committee understand the governance requirements for the Annual report, taken as a whole, to be fair, balanced and understandable, and that 'fair' should mean reasonable and impartial, 'balanced' should mean even handed in terms of being positive and negative and 'understandable' should mean simple, clear and free from jargon or unnecessary clutter.

The Board and Committee consider the Annual report for 2017, taken as a whole, to be fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In coming to this view, the Board and Committee took the following into consideration: (i) meetings between the Audit chairman and the audit partner, as well as between the external auditor and the Committee without management being present, (ii) discussions at the audit clearance meeting; (iii) discussions with management on the progress of the audit at different stages of the audit process; and (iv) feedback obtained from members of the Executive Directors and finance teams, as well as from the Company's brokers and other advisers.

For and on behalf of the Audit Committee.

ANNE HYLAND

Chairman, Audit Committee

STEVE GOOD, CHAIRMAN, REMUNERATION COMMITTEE



I am pleased to present my first Directors' remuneration report since being appointed Remuneration Committee ('Committee') Chairman following last year's AGM.

The Directors' remuneration report is set out in 3 parts:

1. This annual statement and summary.
2. The updated remuneration policy which will be submitted to shareholders in a binding vote at the AGM to be held on 26 April 2018, and will apply from this date.
3. The annual remuneration report which provides detail on Director remuneration in 2017 and the proposed implementation of our remuneration policy for 2018 which is subject to an advisory shareholder vote at the AGM on 26 April 2018.

Committee members

5

Scheduled meetings

8

Committee members	Scheduled meetings
Steve Good*	8/8
Sandra Boss ¹	7/8
Dorothee Deuring ²	7/7
Anne Hyland ³	2/2
Nick Salmon	8/8
Andrew Christie ⁴ (past Director)	2/2

* Chairman of Committee, appointed Remuneration Committee chairman on 25 April 2017.

¹ Appointed to the Board on 1 February 2017, Sandra missed 1 Remuneration Committee meeting due to an engagement arranged prior to her appointment to the Board.

² Appointed to the Board on 1 March 2017.

³ Stepped down from the Remuneration Committee on 25 April 2017.

⁴ Retired from the Board and as Remuneration Committee Chairman on 25 April 2017.

REMUNERATION POLICY

As a global specialty chemicals company that utilises manufacturing technology and scientific innovation to deliver high value products to our clients, our remuneration policy is designed with a natural bias towards long term performance which aligns with the long term nature of our business. This policy is considered to have worked well during the past 3 years and has delivered a majority of incentive pay based on growing profits and delivering above average total shareholder return. The elements of incentive pay include: (i) our long term incentive plan, (ii) half of any annual bonus earned deferred into Company shares for 2 years and (iii) operating share ownership guidelines at a level of 200% of salary.

The AGM in 2018 marks the expiry of our current remuneration policy which was approved in 2015, and consequently during 2017 the Committee undertook a full review of remuneration policy. The review was also considered timely given the Company is under a new leadership team and in the early stages of implementing the Reignite Growth strategy.

2018 Remuneration policy review and outcome

The review process included seeking the Board's views on the effectiveness of the current policy at the same time as undertaking a review of our current policy against institutional investors' 'best practice' expectations. The conclusion of the review was that the current policy framework continues to be aligned with both the long term nature of our business and current best practice. As a result, the Committee is comfortable with retaining the same overall framework with a small number of modifications. These include providing greater flexibility to refine our choice of performance metrics within our incentive plans as further progress is made with the implementation of our Reignite Growth strategy (further details can be found on pages 4 to 11) and the ability to adjust the formula based outcomes of our incentive programmes to ensure pay is aligned with overall Company performance.

A summary of the key points to note in relation to our policy renewal, including the modifications to our current policy, are set out below:

- No changes are proposed to the maximum incentive quantum in 2018 with the maximum annual bonus opportunities of the CEO and CFO remaining at 150% and 125% of salary respectively and the maximum face value of the 2018 long term incentive share awards to remain at 200% and 175% of salary
- No change is proposed to the maximum long term incentive policy award limit for new joiners which is being retained at 250% of salary. However, flexibility is also being introduced to enable awards to be granted in future years to the current Executive Directors at up to 250% of salary. There is no current intention of using this additional flexibility which is being introduced in the context of the new policy enduring for the 3 year policy period through to 2021. The circumstances in which this additional flexibility could be used include (a) a material change to the size and scale of the Company; or (b) a rebalancing from short term to long term performance. Use of this additional flexibility would only be considered following appropriate dialogue with our major shareholders

DIRECTORS' REMUNERATION REPORT

CONTINUED

- Committee discretion is proposed to override incentive pay outcomes in the event that payouts are not considered reflective of overall Company performance having applied the performance conditions for the annual bonus and long term incentive plan. This toughens the current approach of relying on the general discretionary nature of the bonus plan to make adjustments to potential bonus payments with the ability to override future long term incentive plan vesting results being introduced for the first time.
- A reduction to the notice periods in Non-Executive Director letters of appointment from 6 months to 30 days' notice by either party to better reflect current market practice. From a policy perspective, we will retain flexibility to set notice periods at up to 3 months. No change is proposed to the notice period for the role of Chairman which will remain at 6 months both in policy and practice.
- Flexibility is also introduced to set structured strategic targets for a modest part of future long term incentive plan awards. This could become relevant as we make further progress in executing the Reignite Growth strategy but would also only take place following appropriate dialogue with our major shareholders.
- The maximum level of pension benefits (provided either as a contribution to a pension scheme or as cash in lieu of pension) within policy for new Executive Directors is to be reduced from 30% of salary to 25% of salary.

The above changes were the subject of consultation with our major shareholders and the leading advisory bodies. The feedback received was generally constructive and overall supportive.

RENEWAL OF SHARE PLANS AT 2018 AGM

At the same time as seeking shareholder approval for a new remuneration policy at the 2018 AGM we will also be seeking shareholder approval to renew our long term incentive plan ('LTIP') and our all employee savings based option schemes. This is due to their expiry around the time of the AGM.

With regard to the new LTIP, which will facilitate the operation of the policy detailed above, this will replicate the terms of the current LTIP for Executive Directors given that our current plan has been updated over time to ensure it remained aligned with evolving best practice (e.g. through including the ability to grant awards subject to both a holding period on vested shares and recovery and withholding provisions). The main change that is being made is the ability to grant restricted shares (i.e. shares that vest based on time only) to participants below Board level, in addition to the current approach of granting performance related share awards. The majority of LTIP participants are based in the US where it is common practice to grant restricted shares. This approach will enable the Company to better compete for the best talent in the US and offer greater flexibility to reward and incentivise talent below Board level. Where restricted share awards are granted, these will be at a lower level (approximately 50% lower) than if performance related share awards were to be granted. As a result, Executive Share Option awards will no longer be granted to participants below Board level.

Our savings based option schemes (for UK and US employees) will operate on the same basis as in prior years. The only amendments to be made to these plans will be updates to reflect the efficient operation of the schemes in each location (e.g. any necessary updates to reflect changes in local legislation, tax rules or securities laws). Elementis remains committed to providing the opportunity for UK and US employees to become owners in our Company.

A summary of the principal features of all schemes being presented for shareholder approval at the AGM is included in separate Circular and Notice of Meeting being sent to all shareholders.

APPLICATION OF REMUNERATION POLICY IN 2018

As detailed above, the current remuneration policy and its application is considered to be working effectively and so no material changes to the current application of policy will take place in 2018. 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 salaries of the CEO and CFO were increased by 3%, \$25,440 and £10,025 respectively, with effect from 1 January 2018.

2018 annual bonus: the same bonus metrics as operated in 2017 are being retained with 70% of the bonus earned against a challenging range of financial targets (50% on adjusted Group profit before tax and 20% on 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 62 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. Details of the strategic targets and performance against them will also be disclosed retrospectively subject to commercial sensitivities.

In line with best practice, the Committee has discretion to modify the overall amount of bonus payable in exceptional circumstances and acting in the best interests of the Company. The actual criteria and weighting will be reviewed annually to ensure they remain appropriate.

2018 LTIP awards: will be granted subject to the same EPS and TSR performance conditions (split 50:50) as operated in 2017. The range of EPS growth targets will be average annual EPS growth of 3% to 10% p.a. for vesting (growth measured from the 2017 EPS result) with TSR based on our performance against the constituents of the FTSE All Share index (excluding investment trusts). EPS is defined as being the fully diluted EPS after adjusting items on total operations (continuing and discontinued). Further details of the targets including rationale for setting the targets are set out on page 62.

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. Therefore, the increase for 2018 will be 3% which was the average rate of increase for the UK salaried workforce in 2017.

REMUNERATION ADVISERS

During the year under review, we carried out a tender process for the role of external adviser to the Committee. It was decided that New Bridge Street, who had been appointed to the role after a tender in 2008 (and again in 2013), would not be invited to participate owing to their length of tenure. Following a competitive tender process, the Committee appointed Korn Ferry as its external advisers with effect from 27 April 2017 with their first act being to support the Committee in the review of remuneration policy detailed above. This exercise was undertaken in conjunction with a management review of below Board level incentives.

VARIABLE REMUNERATION OUTCOME FOR 2017

Annual bonus plan

Elementis delivered a strong performance in 2017, recording growth in profit before tax across all of our business segments at the same time as improving working capital management. Underpinning a successful 2017 was our progress in implementing our Reignite Growth strategy. In summary, adjusted Group profit before tax* grew by 24.5% on the 2016 result, the average trade working capital to sales ratio improved from 22.1% to 18.8% and very good outcomes were achieved against the range of strategic targets set in line with a successful execution of the Reignite Growth strategy. Accordingly, bonuses were payable at 93% and 94% of the maximum for the CEO and CFO respectively. Further details of the targets set for 2017 are disclosed in this year's Annual report on remuneration on pages 70 to 71.

LTIP

The 2015 LTIP awards would normally vest in early 2018 based on performance over the 3 years ended 31 December 2017.

The Company generated total shareholder returns over the period of 23.9% compared to 30.5% for the median performing company in the FTSE All-Share Index (excluding investment trusts) and, therefore, this portion of the award will lapse. Reflecting a combination of the challenging economic environment and the robust nature of the targets set, the threshold EPS targets were not met and this portion of the award will also lapse. As a result, none of the 2015 LTIP awards will vest.

As the current Executive Directors were not in post when the 2015 LTIP awards were granted, they are not affected by this result.

The Committee believes that the overall incentive out-turns detailed above are justified based on the Company's performance over the period and demonstrates that the Committee has, and will continue to, set performance targets under both the short and long term incentives which it considers to be meaningful and appropriately stretching.

SUMMARY

The Committee has considered at length the structure and operation of the incentive plans, as well as target setting, and believe these to be challenging and appropriate. The Committee remains committed to maintaining appropriate and testing targets for the calculation of performance related pay. The shareholders that we consulted were supportive of the proposals and the final proposed policy reflects the feedback we received.

The Committee believes that the policy and our approach to implementation in 2018 are in the best interests of shareholders and we hope that you will support the actions the Committee has taken by voting accordingly at the 2018 AGM.

This Directors' remuneration report for 2017 was prepared by the Committee and has been approved by the Board.

STEVE GOOD

Chairman, Remuneration Committee
27 February 2018

* Underlying Group PBT, adjusted for specific exceptional items is used for determining bonus outcomes.

DIRECTORS' REMUNERATION REPORT

CONTINUED

Remuneration policy report

EFFECTIVE DATE AND DURATION OF REMUNERATION POLICY

The Company's existing Remuneration policy was approved by shareholders at the Company's 2015 AGM and took effect from the date of that meeting. The new policy set out below will be proposed to shareholders for adoption at the 2018 AGM on 26 April 2018. If approved it will apply immediately and will replace the policy approved in 2015.

As detailed in the Chairman's annual statement on remuneration, since the remuneration policy approved by shareholders at our 2015 AGM is considered to be working effectively, the current policy is being renewed on broadly the same terms. However, to enable the Committee to take account of the progress we are making against our Reignite Growth strategy, additional flexibility is being included in our policy renewal in a small number of areas. These are explained in the Chairman's annual statement and include: (i) the ability to introduce strategic targets into future long term incentive awards and (ii) the ability to grant awards to Executive Directors under the LTIP at up to 250% of salary. Other changes include: (i) reducing the notice periods for Non-Executive Directors (other than the Chairman) from 6 months to 30 days (with the ability to set notice periods of up to 3 months to be retained within policy) and reducing the maximum Company pension contribution for new joiners to 25% of salary (from 30% of salary).

POLICY TABLE

The information in the table below sets out the remuneration policy for the different elements that make up total remuneration applying to Directors.

Basic salary

Purpose and link to Company's strategy	Targeted at a level to attract and retain world class executives who are essential to drive the business forward and deliver the Company's strategic goals.
How it operates in practice	Annual salary increases that are broadly in line with the local workforce (in percentage of salary terms), subject to Committee approval. Increases beyond the average of those granted to the local workforce (in percentage of salary terms) may be awarded in certain circumstances, such as where there is a material change in responsibility or experience of the individual, to recognise exceptional performance over a sustained period or a significant increase in the complexity, size or value of the Company. Where new joiners or recent promotions have been placed on a below market rate of pay initially, a series of increases above those granted to the local workforce (in percentage of salary terms) may be given over the following few years subject to individual performance and development in the role. Salaries are normally reviewed in December and any changes are effective from 1 January in the following year.
Maximum potential value	There is no prescribed maximum for salary increases. The Committee will be guided by the general increase for the local workforce and/or broader workforce as a whole, as well as the circumstances listed above. Salaries for 2018: CEO \$873,540 CFO £344,450

Benefits

Purpose and link to Company's strategy	To aid retention and to remain competitive in the marketplace. Healthcare benefits in order to minimise business disruption. Executive Directors may also participate along with other employees in the Group's HMRC approved SAYE or other equivalent savings based share schemes to share in the success of the Group.
How it operates in practice	Life assurance and private medical health insurance are provided. Provision of either a company car (for business and personal purposes) or a car allowance. Payments in connection with an international assignment and payments in connection with a relocation, which would typically be paid for a transitional period only, tailored to the location of each executive. The benefits may include provision of tax advice where, at the Company's request, the international location (or balance of time spent in different locations) is changed. Participation in all employee/savings based share option schemes as above. In addition, benefits in the US, where it is standard, include cover for dental costs, accidental death and disablement, long term disability and club membership.
Maximum potential value	SAYE/savings based schemes are subject to individual limits. These are \$2,000 per month in the US and in the UK up to the HMRC prescribed limit (£500 per month). Other benefits: the Committee will determine the level of benefit as it considers appropriate, taking into consideration local market practice.

Annual bonus scheme

Purpose and link to Company's strategy	To incentivise the senior management team to exceed the annual operating plan approved by the Board at the start of each financial year. To ensure that a significant proportion of an executive's total remuneration is based on corporate/ business financial performance that is linked to the Company's annual operating plan. Through the part deferral of bonuses into deferred shares this enables incentive pay to help executives build and maintain meaningful shareholdings and thereby providing a long term focus.
How it operates in practice	An annual bonus is based on over performance against selected performance measures which are linked to the Company's key performance indicators, or the achievement of strategic and/or operational objectives. Bonus payments are paid following the approval of full year results. Payments are based on salaries at the time of payment. Bonus deferral element: 50% of any cash bonus payable must be awarded in shares and deferred for 2 years. Dividends accrue on deferred shares (which are normally structured as nil cost options or conditional share awards) that vest during the vesting period. Deferred shares are forfeitable for gross misconduct (dismissal for cause). The Committee may seek recovery and/or withholding of bonuses paid that are later found to have been based on performance that was mis-stated or incorrectly calculated, or where the amount of any bonus may have been reduced or withheld due to reasons of gross misconduct. Recovery and withholding provisions will apply for a period of 3 years following payment of any bonus. Detailed provisions are incorporated into the rules of the various schemes which govern the terms of a bonus payment and/or the making of any deferred share or conditional award.
Maximum potential value	CEO: 150% of basic salary. CFO: 125% of basic salary. A higher annual bonus limit of 200% of basic salary may apply for new recruits.
Framework used to assess performance	Performance measures will be mainly financial measures. The Committee reserves the right to select other non-financial targets (including the basis of their measurement) as appropriate considering the Company's strategic objectives for the year ahead. The financial element of the bonus may include (but is not limited to) the Company's key performance indicators which include: Profit before tax or other measures of profitability. Group average trade working capital to sales ratio expressed as a percentage ('AWC') or other cash flow indicators. For any profit related metric, targets will be set at threshold, plan and stretch levels and the amount payable for threshold performance is 0% for financial targets rising on a graduated basis through to 100% becoming payable at the stretch performance level. With regards to non-financial targets, it is not always practicable to set targets on a sliding scale and so targets may be set based on the achievement of specific milestones and/or on a graduated scale. The Committee will consider the bonus outcome each year based on the Company's performance against the measures set at the start of the year. If it considers the quantum to be inconsistent with the Company's overall performance during the year it can override the result of the performance test. For the avoidance of doubt this can be to zero and bonuses may not exceed the maximum levels detailed above. Any use of such discretion would be detailed in the Annual report on remuneration. The Committee keeps performance metrics under review on an annual basis to ensure they continue to remain appropriate and has the discretion to introduce new metrics or remove existing ones and amend their relative weightings. As a result, the performance metrics and weightings may vary in line with the Company's evolving strategy during the life of the policy. The profit related element of annual bonus shall not be less than 50% of the overall bonus opportunity.

DIRECTORS' REMUNERATION REPORT

CONTINUED

Long term incentives

Purpose and link to Company's strategy	The LTIP is the sole long term incentive mechanism for Executive Directors and is intended to align the interests of the executives and shareholders in growing the value of the Group over the long term. When granting awards under the LTIP the Committee generally takes into consideration the need to motivate and retain the Executive Directors and other participants.
How it operates in practice	Awards are normally structured as either nil cost options or conditional share awards which are eligible to be granted annually. Options may be exercisable 3 years from, and within 10 years of, the date of award. Share awards normally vest on the third anniversary of the date of award. A post-vesting holding period of 2 years will apply to annual awards. Recovery and withholding provisions similar to those described in respect of annual bonus payments but relating to the vesting of LTIP awards will apply to awards. Dividends may accrue on shares that vest during the vesting period (and during the post-vesting holding period where awards are structured as nil-cost options) and may be paid in cash or shares.
Maximum potential value	The maximum award limit is set at 250% of basic salary. Current practice is as follows: – CEO: 200% of basic salary – CFO: 175% of basic salary
Framework used to assess performance	Awards are subject to achievement of financial (e.g. EPS) and/or relative TSR performance conditions, measured over a minimum of 3 financial years beginning with the financial year in which the award is made. The Committee also retains flexibility to introduce strategic targets as a performance measure for a minority of an award. For any financial performance condition, threshold vesting will start from 0% and this will increase on a graduated basis with 100% vesting for achieving the stretch targets. TSR will be measured against the constituents of a broad equity index, or a bespoke group of appropriate comparator companies. For any relative TSR performance condition, threshold vesting will start at 3.85% and this will also increase on a graduated basis with 100% vesting for achieving the stretch targets, which for the TSR performance condition will require at least upper quartile performance. In relation to strategic targets, the structure of the target will vary based on the nature of target set (i.e. it will not always be practicable to strategic targets using a graduated scale and so vesting may take place in full if specific criteria are met in full). The metrics and their weighting and targets within the LTIP will be reviewed each year. The Committee will consider the LTIP vesting outcomes for awards granted from 2018 based on applying the performance conditions and if it considers the level of vesting to be inconsistent with the Company's overall performance during the performance period (including its underlying financial performance) it can override the result of the performance test. For the avoidance of doubt this can be to zero. Any use of such discretion would be detailed in the Annual report on remuneration.

Pension

Purpose and link to Company's strategy	To aid retention and remain competitive in the marketplace. To provide appropriate retirement benefits commensurate with local market practice, seniority of the role and tenure with the Company.
How it operates in practice	Policy for the CFO and new recruits is a contribution to a non-Company pension scheme and/or cash in lieu. The policy for the CEO is set out below. CEO An annual salary supplement of 20% of basic salary and, for US employees, participation in 2 defined contribution schemes being: (i) a US 401(k) Plan, where employee contributions are from pre-tax earnings which is capped at 8% up to a maximum of \$270,000 (the compensation limit set by the US Internal Revenue Service (IRS) for 2017). (ii) a Non-Qualified Deferred Compensation Plan (together, the 'Defined Contribution plans'). This plan mirrors the 401(k) Plan except employee contributions are in respect of pensionable remuneration over the limit set by the IRS. The employer match under these 2 plans includes a regular match of up to 4% of total pensionable remuneration and a supplemental match of up to 4%, based on age and length of service.
Maximum potential value	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. Under the policy the maximum for the CEO is 20% of his salary and up to 8% of pensionable remuneration depending on the amount of personal contributions made into the Defined Contribution plans. The maximum for the CFO is an annual salary supplement of 25% of his basic salary.

Share ownership guidelines

Purpose and link to Company's strategy	To align an executive's interests with those of shareholders and to encourage executives to participate and share in the long term success of the Group.
How it operates in practice	Executive Directors are expected to build up a shareholding in the Company that is equal in value to 200% of their basic annual salaries. Shares vesting from share awards, or transferred pursuant to an exercise of any option, granted under any share incentive or employee share saving scheme may not be sold (other than to meet a tax liability) until the above shareholding level has been met. In exceptional circumstances the Committee may allow the Director to sell some, or all, shares received from a share incentive scheme even if the individual has not met the share ownership guidelines, provided they are satisfied that shareholder interests are adequately aligned. The Committee monitors compliance with these guidelines and can make changes to them from time to time.

Non-Executive Chairman and Directors' fees

Purpose and link to Company's strategy	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.
How it operates in practice	Non-Executive Directors' fees are determined by the Chairman and the Executive Directors, having regard to fees paid to Non-Executive Directors in other UK quoted companies and the time commitment and responsibilities of the role. In the case of the Chairman, the fee level is determined by the Committee. As well as taking into consideration the above factors, the Committee sets the fee at an appropriate level necessary to attract a role holder qualified to effectively lead the board of a company of a similar size and prestige as Elementis. Fees are payable in cash and Non-Executive Directors are not eligible to participate in any pension, bonus or share incentive schemes. All Non-Executive Directors are reimbursed for travel and related business expenses reasonably incurred in performing their duties so that they are fully recompensed on a pre-tax basis for undertaking Company business. No individual is allowed to vote on his/her own remuneration.
Maximum opportunity	Fees will be reviewed annually with changes taking effect from 1 January in the following year. It is the Company's policy (other than where there is a step change in the time commitment required of the Non-Executives Directors) that fees paid to the Chairman and other Non-Executive Directors are increased annually in line with the average increase awarded to the UK salaried workforce.

DIRECTORS' REMUNERATION REPORT

CONTINUED

LINK BETWEEN POLICY, STRATEGY AND STRUCTURE

The remuneration policy is principally designed to attract, motivate and retain the Executive Directors and other members of the Executive Leadership team (senior management team) to execute the Company's corporate and business strategies in order to deliver the annual operating plan and sustainable year on year profitable growth, as well as to generate and preserve value for shareholders over the longer term, without encouraging excessive levels of risk taking. The principles and values that underpin the remuneration strategy are applied on a consistent basis for all Group employees.

The remuneration structure for Executive Directors is made up of 2 elements: fixed remuneration (consisting of basic salary, benefits including for example non-contributory health insurance and life assurance and pension provision), and variable remuneration (annual bonus scheme and long term share incentives).

It is Company policy to reward all employees fairly, responsibly and by reference to local market practices, by providing an appropriate balance between fixed and variable remuneration.

CHOICE OF PERFORMANCE MEASURES AND APPROACH TO TARGET SETTING

The performance metrics that are used for annual bonus and long term incentive plans are drawn from a suite of Company KPIs monitored by the Board that are closely linked to the financial KPIs on pages 14 to 15.

In the annual bonus scheme, the financial measures currently used are adjusted Group profit before tax and AWC. Adjusted Group profit before tax is a clear measure of the Company's trading performance and AWC encourages the most efficient use of working capital and is how earnings are converted into cash. These metrics are aligned with the Company's objectives and strategy. In addition, non-financial criteria also form part of the targets set in the bonus scheme and these are based on Company specific business objectives, such as the achievement of specific strategic or operational goals including metrics that take account of business or corporate performance in environmental, social and governance areas and typically incorporate specific HSE related targets or objectives.

With regard to long term performance targets, EPS is currently used since it is aligned with the Company's strategy of delivering profitable growth and creating long term shareholder returns. Use of relative TSR also further aligns shareholders and executives.

Targets for financial metrics are set relative to internal planning expectations after having regard to general economic conditions, external market data, current and past performance of the business and any organic or acquisitive growth plans.

Where appropriate, targets are set based on sliding scales. Only very modest rewards are available for delivering performance at threshold levels or above with maximum rewards requiring outperformance of our challenging plans approved at the start of each year.

The Committee keeps the choice of metrics and targets under review for the both the annual and long term incentive plans each year to ensure they are appropriate in light of the Company's current circumstances. The Committee retains discretion to revise the choice of metric and weightings within the incentives as detailed above. Should the Committee make material changes to the application of remuneration policy from the approach detailed on pages 59 to 60 for 2018 (e.g. introduce a strategic target into a future long term incentive award), appropriate consultation with the Company's major shareholders would take place.

DIFFERENCES IN EXECUTIVE REMUNERATION POLICY COMPARED TO OTHER EMPLOYEES

The Committee is informed of pay structures across the wider Group when setting the remuneration policy for Executive Directors. The Committee considers the general basic salary increase for the broader Group and, in particular the employees based in the US, UK and Europe, when determining salary increases for the Executive Directors.

The same principles and values behind the design of remuneration for the Executive Directors apply to other members of the Executive Leadership team and employees throughout the rest of the Group, with modifications to reflect local market practice (see below in relation to the introduction of restricted shares below the Board level) and the level of seniority and ability to influence Group performance. Overall, the remuneration policy for Executive Directors is more heavily weighted towards variable pay than for other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the Executive Directors given it is the Executive Directors who are considered to have the greatest potential to influence shareholder value creation.

The level of variable pay varies by level of employee within the Group and is informed by the specific responsibilities of each role and local market practice as appropriate.

One change that is to be made below the Board level in 2018 is to introduce the ability to grant restricted shares into the new LTIP. The majority of the senior executive population at Elementis is based in the US where it is common market practice to grant restricted shares. It is considered that the ability to grant restricted shares in tandem with performance related share awards enables the Company to compete for the best talent. Where restricted shares are used, the award levels will be lower than if performance shares were granted since restricted share awards are more valuable to a recipient given there is no performance requirement attached to the vesting of the award. Restricted shares will not be granted to Executive Directors.

HOW THE VIEWS OF EMPLOYEES ARE TAKEN INTO ACCOUNT

Currently, the Group does not actively consult with employees on executive remuneration. The Group has a diverse workforce operating in 10 different countries, with various local pay practices, which would make any cost effective consultation impractical. However, as noted above, when setting the remuneration policy for Executive Directors, the Committee takes into account the pay and employment conditions for other employees in the Group. This process ensures that any annual increase to the basic pay of Executive Directors is not out of proportion with that proposed for other employees.

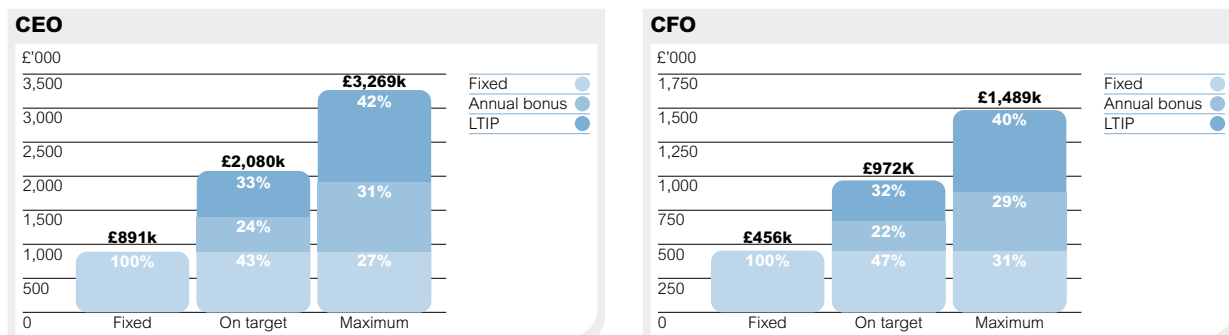
The Committee has considered both the UK Government's proposals on strengthening the voice of stakeholders in companies (in particular the employee voice) and the subsequent December 2017 Financial Reporting Council Consultation on the 2018 UK Corporate Governance Code. As a result, and pending finalisation of the 2018 UK Corporate Governance Code in 2018, the Committee will consider the most appropriate stakeholder engagement model for implementation at Elementis.

COMMITTEE DISCRETION WITH REGARD TO INCENTIVE PLANS

The Committee will operate the annual bonus plan, deferred share bonus plan, LTIP and all employee plans according to their respective rules and in accordance with the Financial Conduct Authority's Listing Rules (Listing Rules) and HMRC rules where relevant. The Committee retains discretion, consistent with market practice, in a number of regards to the operation and administration of these plans. These include the following (plan limits and performance targets restricted to the descriptions detailed in the preceding policy table):

- Who participates in the plans
- The timing of grant of award and/or payment
- The size of an award and/or payment
- The determination of vesting
- Dealing with a change of control (e.g. the timing of testing performance targets) or restructuring
- Determination of a good/bad leaver for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring and special dividends)
- The annual review of performance conditions, including metrics and weightings, for the annual bonus plan and LTIP

The Committee also retains the ability to adjust the targets and/or set different measures and alter weightings for the annual bonus plan and to adjust targets for the LTIP if events occur (e.g. material divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy. The Committee is introducing discretion to override incentive pay outcomes in the event that payouts are not considered reflective of overall Company performance having applied the performance conditions for the annual bonus and LTIP.



CEO AND CFO REWARDS SCENARIO ANALYSIS

The bar charts above illustrate the potential pay opportunities for Executive Directors under 3 different scenarios for 2018. The CEO's remuneration has been converted into pounds sterling using the average exchange rate for 2017 (\$1.2858:£1.00).

- Fixed: comprises fixed pay being the value of salary, benefits and pension (the employer's matching contributions to defined contribution plans are included at the estimated level of 4.5% of salary).
- On target: the amount receivable assumes performance in which 50% of annual bonus is payable and 50% of LTIP awards vest.
- Maximum: the maximum amount receivable should all stretch targets be met and vesting under both the annual bonus scheme and LTIP is 100%.

When valuing the LTIP awards under the 'On target' and 'Maximum' scenarios, these are based on face value as a percentage of salary. The LTIPs also relate to awards to be made in 2018 rather than any awards vesting in 2018. LTIPs exclude buyout awards.

DIRECTORS' REMUNERATION REPORT

CONTINUED

RECRUITMENT POLICY

For Executive Director recruitment and/or promotion situations, the Committee will follow the policy outlined below:

Element	Policy
Basic salary	Basic salary levels will be set in accordance with the Company's remuneration policy, taking into account the experience and calibre of the individual (e.g. typically around market rates prevalent in companies of comparable size and complexity) or salary levels may be set below this level (e.g. if the individual was promoted to the Board). Where it is appropriate to offer a below market rate of pay initially, a series of increases to the desired salary positioning may be given over the following few years subject to individual performance and development in the role.
Benefits	New Directors may be entitled to benefits such as life assurance, private medical health insurance, cover for dental costs, accidental death and disablement, long term disability and provision of either a company car (for business and personal purposes) or a car allowance, club membership or any other appropriate benefit as the Committee reasonably determines. Where necessary the Committee may approve the payment of reasonable relocation expenses to facilitate recruitment for a maximum period of 12 months.
Pension	A Company contribution into a pension plan and/or cash supplement of up to a maximum limit of 25% of salary. Legacy pension arrangements for promotees which may include defined benefit or US style arrangements may continue to operate on their existing terms.
Annual bonus	The annual bonus would operate as outlined for current Executive Directors but where necessary to aid recruitment the maximum bonus opportunity is 200% of basic salary for the life of this policy. Bonus will be pro-rated for the proportion of the year served. Depending on the timing and responsibilities of the appointment it may be necessary to set different performance measures and targets initially.
Long term incentives	Awards under the LTIP will be granted in line with the policy outlined for the current Executive Directors on an annual basis but where necessary to aid recruitment the maximum award is 250% of basic salary for the life of this policy. An award may be made shortly after an appointment (subject to the Company not being in a prohibited period). For an internal hire, existing awards would continue over their original vesting period and remain subject to their terms as at the date of grant. In addition, if the grant of awards for that individual precedes his or her appointment as a Board Director for that financial year, the Committee's policy would include flexibility to top up awards for that year (subject to the overall individual salary limit) based on the executive's new salary.
Buyout awards	In the case of an external hire, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer), this would be provided for taking into account the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. Replacement share awards may be granted using the Company's LTIP (up to the individual limit) or outside of the LTIP if necessary and as permitted under the Listing Rules.
Interim appointments	Where a Director is appointed on an interim basis (e.g. to cover a role until a permanent successor is appointed), the Company may pay additional remuneration to an individual in line with the policy for the role.

OUTSIDE BOARD APPOINTMENTS

The Company's policy is to support executives should he/she wish to take on an external board appointment, provided that there is no conflict of interest and the role does not interfere with the executive's commitment or duties. If an executive does take on an external appointment they may retain any fees paid and will be restricted generally to only one such external appointment.

SHARE OWNERSHIP GUIDELINES

Executive Directors are expected to build up a shareholding in the Company that is equal in value to 200% of their basic annual salaries.

Shares vesting from share awards, or transferred pursuant to an exercise of any option, granted under any share incentive or employee share saving scheme may not be sold (other than to meet a tax liability) until the above shareholding level has been met.

SERVICE CONTRACTS

Executive Directors' service contracts contain a termination notice period not exceeding 12 months.

Name	Date of contract*	Notice period
Paul Waterman, CEO	6 November 2015	12 months
Ralph Hewins, CFO	27 June 2016	12 months

* The date of the service contract is not the same as the date of appointment which for Paul Waterman was 8 February 2016 and Ralph Hewins 12 September 2016.

Copies of the Executive Directors' service contracts are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the AGM.

POLICY ON PAYMENT FOR LOSS OF OFFICE

Termination payments

The maximum amount payable under both the CEO's and CFO's contract is basic salary, benefits and pension for 12 months while each serves his notice period.

For the Executive Directors, the terms covering termination were agreed at the date their contracts were made and both are required to mitigate their loss in the event of loss of office by making efforts to secure a new position.

The Company may pay compensation in lieu of the notice period of basic salary only, to be paid in monthly instalments (pro-rated for the actual notice period). This would apply if the Company terminates his/her contract for any reason other than for cause, or if he/she serves notice to terminate his contract in 12 months' time.

Payments in lieu of notice to both the CEO and CFO may be reduced or ceased if either secures a new position. In both cases, the payments will only be ceased if the salary in a new position is equal to or more than the salary on termination; if not the monthly payments will be reduced by the gross salary earned by the CEO or CFO in his new position each month.

The above summary only addresses contractual rights to payments in lieu of notice, or during the relevant Director's notice period, and may not reflect any settlement or compromise sums which are separately agreed at the point of termination.

Treatment of incentive plans

Annual bonus plan

If an Executive Director resigns and serves his/her notice period, the Committee retains discretion to make a pro-rata payment based on performance. The same applies in certain circumstances such as if the individual's employment is terminated on the grounds of ill health or disability. No bonus is payable for termination for cause.

In line with the Company's policy, rules of the annual bonus scheme incorporate a requirement to defer half of the amount of bonus vesting for 2 years in the form of share awards under the deferred share bonus plan. In certain 'good leaver' circumstances (e.g. ill health, death), the Committee, acting fairly and reasonably, may waive deferral.

Deferred share bonus plan

If an Executive Director's employment is terminated before a deferred share award vests (after 2 years), then the awards would vest in full on the date of leaving unless termination is for cause in which case the awards would lapse.

LTIP

As with the annual bonus plan, the Company's current (and proposed) LTIP also includes a number of discretions in connection with an Executive Director leaving employment. Other than in certain defined 'good leaver' circumstances, awards lapse on cessation of employment. Where an individual ceases employment for one of the defined 'good leaver' events (i.e. ill health, disability, redundancy within the meaning of UK legislation or its overseas equivalent, transfer out of the Group/sale of business or retirement with employer's consent and, in the case of the new LTIP, any other reason at the discretion of the Committee), the award will remain eligible to vest on its normal vesting date (unless the Committee uses its discretion to vest the award on the date of cessation of employment) in all cases subject to a pro-rata reduction to reflect the portion of the vesting period that has elapsed (unless the Committee determines otherwise) and the application of the performance condition. In the event of a death of an Executive Director the default is for the award to vest at the date of death unless the Committee determines otherwise in which case it will vest at the normal vesting date with pro-rating and performance conditions applied as described in other 'good leaver' circumstances.

Similar provisions apply in the event of a change of control, with performance measured up to the date of the relevant event, and a pro-rata reduction applying unless the Committee determines otherwise.

It is the Committee's policy to exercise these discretions in a way that would be in the best interests of the Company and depending on the individual circumstances of each case.

PAYMENTS AGREED PRIOR TO THE EFFECTIVE DATE OF THIS POLICY

Any agreements entered in good faith prior to the commencement of the 2018 remuneration policy will remain eligible to operate on their original terms.

DIRECTORS' REMUNERATION REPORT

CONTINUED

NON-EXECUTIVE DIRECTORS' TERMS OF APPOINTMENT

Non-Executive Directors are appointed for a 3 year term, subject to annual re-election by shareholders. For Non-Executive Directors who have served for 9 years or more, they may be appointed for a further year at a time. Each letter of appointment currently provides that the Director's appointment can be terminated by the Company on 6 months' notice on any grounds without claim for compensation. Following the 2018 AGM, the letters of appointment of the Non-Executive Directors will be amended to 30 days' notice by either party, which is the application of the new remuneration policy where a limit of up to 3 months is permitted. All other terms will remain the same. The Chairman's letter of appointment will remain with a 6 months' notice period.

Non-Executive Directors are not eligible to participate in any pension, bonus or share incentive schemes. No individual is allowed to vote on his/her own remuneration.

The table below provides further details of the letters of appointment that the Non-Executive Directors held with the Company during 2017.

Name	Date of appointment	Date of last re-appointment	Date of expiry
Non-Executive Directors			
A Duff	01/04/14	01/04/17	01/04/20
S Boss	01/02/17	N/A	01/02/20
D Deuring	01/03/17	N/A	01/03/20
S Good	20/10/14	20/10/17	20/10/20
A Hyland	01/06/13	01/06/16	01/06/20
N Salmon	20/10/14	20/10/17	20/10/20
Former Non-Executive Directors			
A Christie ¹	11/08/08	11/08/14	N/A

¹ Andrew Christie stepped down as a Non-Executive Director following the conclusion of last year's AGM on 25 April 2017.

Copies of all letters of appointment of Non-Executive Directors are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the AGM.

SHAREHOLDER ENGAGEMENT

The views of shareholders are important to the Committee. Regular dialogue and engagement with the Company's shareholders are encouraged. Consultation with major shareholders (representing more than 40% of the share register) and shareholder representative bodies was sought before proposing this remuneration policy.

Annual report on remuneration

This Annual report on remuneration shows how the Company's policies and practices on Directors' remuneration will be applied in 2018 and how they were applied in relation to payments in respect of the financial year ended 2017. This report and the Chairman's annual statement on remuneration will be put to an advisory shareholder vote at the 2018 AGM.

IMPLEMENTATION OF REMUNERATION POLICY FOR 2018

This first section of the Annual report on remuneration describes how the Committee intends to implement the remuneration policy for the financial year ending 31 December 2018.

Basic salaries

The Committee considered carefully salary increases for 2018 and decided to award Paul Waterman and Ralph Hewins each a salary increase as shown in the table below, which is consistent with the average increase last year for the respective US and UK salaried workforce.

	Salary as at 1 January 2018	Salary as at 1 January 2017	Increase
Paul Waterman	\$873,540	\$848,100	3%
Ralph Hewins	£344,450	£334,425	3%

Pension and benefits

For the year to 31 December 2018, Paul Waterman and Ralph Hewins will receive the benefits set out in the Remuneration policy report.

Annual bonus

The maximum bonus opportunity will be 150% of basic salary for Paul Waterman and 125% of basic salary for Ralph Hewins.

Any bonus will be payable dependent on the achievement of financial and non-financial performance targets split 70:30. Of the financial elements these will have the following weights: adjusted Group profit before tax 50% and AWC 20% (relative to total bonus opportunity). 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. AWC is the 12 month average working capital to sales ratio expressed as a percentage. For both the adjusted Group profit before tax and AWC conditions, targets will be set on a sliding scale with the threshold, plan and stretch targets set at levels considered to be sufficiently challenging and bonus accrual at these levels under both conditions are 0%, 50% and 100%, respectively, and linear in between.

For Paul Waterman and Ralph Hewins, the non-financial performance targets have been set which are specific, measurable and objective and are linked to the achievement of Company specific objectives that are based on the Company's strategic priorities outlined on pages 4 to 11 in the Strategic report. These include targets for (i) safety, compliance and risk management, (ii) supply chain transformation, (iii) culture and (iv) specific strategic targets.

Each of the performance elements (adjusted Group profit before tax, AWC and non-financial objectives) is separate and capable of paying out independently. Bonus outcomes will only be approved subject to the Committee confirming that it considers the level of payment to be consistent with the Company's overall performance during the year. The Committee may modify the proposed payment where this is not the case. Relevant disclosures relating to the factors considered by the Committee will be included in next year's Annual report on remuneration.

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.

Bonus payments are based on salaries at the time of payment.

All employee share plans

Executive Directors will be entitled to participate in any all employee share plans on the same terms as any other eligible employee.

DIRECTORS' REMUNERATION REPORT

CONTINUED

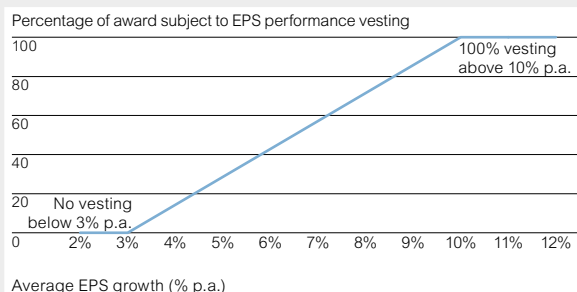
LTIP

For the year to 31 December 2018, the CEO's and the CFO's awards will be 200% and 175%, respectively, of their basic salaries.

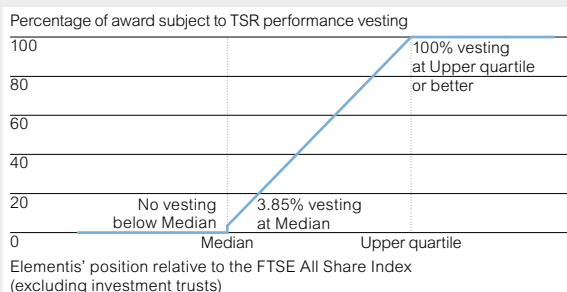
The performance targets that are intended to apply to the awards to be granted in the current year are the same as for 2017 in respect of both the EPS and TSR conditions, which are capable of paying out independently. However, 2018 awards will be subject to the additional requirement that the Committee will only confirm the vesting result based on the EPS and TSR conditions if it considers the total level of vesting to be consistent with the Company's overall performance during the 3 year performance period. Relevant disclosures relating to the factors considered by the Committee will be included in relevant Annual report on remuneration.

For the EPS condition, the chart below shows that awards will vest on a linear scale from 0% to 100% for average annual EPS growth of 3% to 10%, respectively (2017: 3% to 10%). The range of targets is considered to be appropriately demanding noting (i) that vesting takes place from 0% (as opposed to the market norm of 25%), (ii) the uncertain and challenging macroeconomic environment and (iii) the baseline 2017 EPS result benefited from a significant but unsustainable profit contribution from the Surfactants business, now held for sale. The potential impact of future exchange rate volatility, differing forecast growth rates in our key markets and the cyclical nature within our business segments necessitates a broad target range that is considered demanding at the top end of the range but potentially achievable at the lower end but with modest vesting potential. As a result of these factors, the Committee was comfortable that the target range is appropriately demanding.

Vesting schedule EPS performance condition



Vesting schedule TSR performance condition



For the TSR condition, the chart shows that awards will vest on a linear scale from 3.85% to 100% for median to upper quartile performance, respectively. The TSR condition will be measured against the companies comprising the FTSE All Share Index (excluding investment trusts). The TSR peer group was reviewed as part of the Committee's policy review with the Committee concluding that the continued use of the FTSE All Share Index was appropriate given Elementis sits towards the middle of the index in terms of size and the broad range of sectors included in the peer group ensures that the potential for external events to result in extreme vesting results is minimised. The Committee also considered the introduction of a bespoke peer group but concluded that there was an insufficient number of direct comparators to provide a robust TSR comparator group.

NON-EXECUTIVE DIRECTORS' REMUNERATION

For the year to 31 December 2018, the fees payable to the Chairman and Non-Executive Directors will be as shown below:

	2018 £	2017 £
Chairman	185,470	180,075
Non-Executive Director	48,750	47,330
Additional fees:		
Senior Independent Director	8,470	8,230
Chairman of Audit or Remuneration Committee	8,470	8,230

Fees were increased by 3% in line with the UK salaried workforce increase in 2017.

REMUNERATION PAYABLE TO DIRECTORS FOR 2017 (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 2017 is set out in the table below.

£'000	Year	Fixed			Sub-total	Performance related				Sub-total	Total
		Salary/fees	Benefits	Pension		Bonus	LTIP	Other			
Executive Directors											
Paul Waterman, CEO ^{1, 3}	2017	660	68	169	897	948	–	623	1,571	2,468	
	2016	541	39	140	720	230	–	632	862	1,582	
Ralph Hewins, CFO ^{2, 3}	2017	334	25	84	443	405	–	140	545	988	
	2016	100	10	25	135	38	–	–	38	173	
Non-Executive Directors											
Andrew Duff, Chairman	2017	180	–	–	180	–	–	–	–	180	
	2016	175	–	–	175	–	–	–	–	175	
Sandra Boss ⁴	2017	43	–	–	43	–	–	–	–	43	
	2016	–	–	–	–	–	–	–	–	–	
Dorothee Deuring ⁵	2017	39	–	–	39	–	–	–	–	39	
	2016	–	–	–	–	–	–	–	–	–	
Steve Good	2017	53	–	–	53	–	–	–	–	53	
	2016	46	–	–	46	–	–	–	–	46	
Anne Hyland	2017	56	–	–	56	–	–	–	–	56	
	2016	54	–	–	54	–	–	–	–	54	
Nick Salmon	2017	56	–	–	56	–	–	–	–	56	
	2016	54	–	–	54	–	–	–	–	54	
Past Directors											
Andrew Christie ⁶	2017	18	–	–	18	–	–	–	–	18	
	2016	54	–	–	54	–	–	–	–	54	
Total	2017	1,439	93	253	1,785	1,353	–	763	2,116	3,901	
Total	2016	1,024	49	165	1,238	268	–	632 ⁷	900	2,138 ⁸	

1 Paul Waterman is based in the US and paid in US dollars. He received an annual salary of \$848k (2016: \$825k). His pension comprises 20% of his salary and employer contributions to defined contribution pension schemes. FX used is the 2017 average rate of \$1.2858:£1.00. Bonus shown is equivalent to 139.5% of salary. Other payments for 2017 relate to the tranche of his buyout award that will vest on 7 March 2018 and has been valued using the average share price for the 3 months ended 31 December 2017 and based on 91.4% vesting.

2 Bonus shown is equivalent to 117.5% of salary.

3 Taxable benefits for Paul Waterman consist of a car or car allowance, private health care, dental, life assurance, accidental death and disablement cover, long term disability insurance. The increase in benefits shown over 2016 is largely due to a \$30,000 contribution towards costs incurred in having to prepare and file tax returns in the UK for 2016/17 and 2017/18 as a result of him being required to spend greater time than envisaged on appointment in the UK as a consequence of the Reignite Growth strategy. Taxable benefits for Ralph Hewins consist of a car allowance, private health care and life assurance.

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

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

6 Andrew Christie stepped down as a Non-Executive Director on 25 April 2017.

7 As required by remuneration reporting regulations, the valuation of the Executive Directors' LTIP awards for 2016 (which related to buyout awards which vested on 7 March 2017) has been restated using the actual share price 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.

8 Including 2 former Executive Directors who also served during 2016 (David Dutro and Brian Taylorson), this amount becomes £2,750k. David Dutro's and Brian Taylorson's remuneration was disclosed in the 2016 Annual Report.

DIRECTORS' REMUNERATION REPORT

CONTINUED

DETERMINATION OF ANNUAL BONUS OUTCOME FOR PERFORMANCE IN 2017

This section shows the performance targets set in respect of the 2017 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 2 years.

Full year bonus	Relative weighting of performance conditions	FY 2017 bonus plan targets				Percentage of salary vesting		
		Threshold	Plan	Stretch	Actual result	Percent of maximum	Paul Waterman CEO	Ralph Hewins CFO
Maximum as % salary							150%	125%
PBT (\$ million)	50%	97.9	105.8	115.6	115.2	98%	73.5%	61.25%
AWC (%)	20%	23.4	22.4	21.4	18.8	100%	30%	25%
Non-financial	30%				n/a	n/a	36%	31.25%
Total full year payment	100%						139.5%	117.5%

Bonus payments under the adjusted Group profit before tax and AWC performance condition last year increased on a linear basis with 0% payable for threshold performance, 50% for plan performance and 100% for stretch performance. The Committee exercised discretion to adjust the original Group profit before tax and AWC targets (threshold, plan and stretch) for the following: SummitReheis acquisition, sale of the US Colourants business and for amortisation of intangibles arising on acquisition. The adjustments were made to ensure that the condition was no more or less challenging than when initially set (e.g. the Group profit before tax target was increased to reflect the expected additional earnings arising from the SummitReheis acquisition) 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 2017 annual bonus challenging individual 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 targets were weighted one third based on safety, compliance and risk management, one third based on people management and one third on the wider strategic targets.

Based on the performance delivered against the targets set for non-financial targets, the Committee determined that Paul Waterman had met 36% of salary (equivalent to 80% of maximum opportunity) and Ralph Hewins had met 31.25% of salary (equivalent to 83.33% of maximum opportunity).

The basis of determining the individual scores is summarised in the table below using a colour coding for ease of reference:

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

2017 Bonus Assessment for CEO and CFO – Common objectives to both CEO and CFO

Measure	Objectives	Performance	Summary scoring
Safety, compliance and risk management	Reducing the injury rate to below 0.81 per 200,000 hours worked (excluding SummitReheis since their approach to measuring injuries was on a different basis to the approach used at Elementis resulting in insufficient data to enable their inclusion in an adjusted target); Reducing the number of severe injuries or Lost Time Accidents (LTA) to 2 or less; Improving environmental performance such that there were no Tier 2 or 3 environmental incidents	The LTA target of 2 was achieved with a total of 2 along with the target relating to eliminating Tier 2 or 3 environmental incidents. However, despite improved performance versus the prior 2 years, the recordable injury rate was marginally above the target at 0.88	●
Actions to deliver 'Pursue best growth opportunities' strategic priority	Growth in global Personal Care and Asia Coatings operating profit and integration of SummitReheis	The Personal Care performance target was achieved in full but the challenging environment in Asia resulted in the target not being met. SummitReheis was integrated ahead of the Board's planning and cost expectations	●

Measure	Objectives	Performance	Summary scoring
Actions to deliver 'Pursue supply chain transformation' strategic priority	Addressing disadvantaged assets; and completing the working capital (WC) strategic review	Targets relating to the disadvantaged assets were achieved which included the sale of US Colourants; closure of Jersey City site and the announced sale of Surfactants all in line with the Board's planning. Strong progress was achieved in relation to implementing a revised WC strategy	●
Actions to deliver 'Create a culture of high performance' strategic priority	Effective working of core processes including capital expenditure and performance management	Targets relating to improved controls of working capital, product rationalisation and performance management were delivered in line with the Board's approved plans	●
People management	Improving gender diversity in recruitment processes and delivering a step change in talent management and succession planning	Targets relating to gender diversity were met as evidenced by improvements in the gender mix in senior positions and the development of succession planning profiles was completed	●

CEO specific objectives

Measure	Objective	Performance	Summary scoring
Actions to deliver 'Pursue best growth opportunities' strategic priority	Implementing global key account (GKA) management	Targets relating to the appointment of GKA managers were met. The planned roll out of new processes and capability are in progress	●
Actions to deliver 'Innovate for high margins and distinctiveness' strategic priority	Sustaining innovation leadership; new innovation pipeline process; and technology driven growth strategy	Targets relating to the globalisation of the R&D function and the implementation of innovation process with a strong pipeline were achieved	●

CFO specific objectives

Measure	Objective	Performance	Summary scoring
Group tax strategy and pension scheme	New Group tax strategy; UK and US pension scheme strategy	Targets relating to achieving Board approval of a new Group tax strategy, pension funding strategy and investment strategy were achieved	●

DIRECTORS' SHARE BASED AWARDS

Determination of 2015 LTIP awards

The threshold EPS and TSR targets were not met and therefore these awards have lapsed in full. The current Executive Directors do not hold any 2015 LTIP awards.

Buyout awards in respect of Paul Waterman's recruitment

The Committee agreed to make replacement awards to Paul Waterman (as explained in last year's report), representing all equity related remuneration being forfeited by him on joining Elementis. Tranche 2 of the award will vest on 7 March 2018 to the extent the performance conditions are met (applicable to 42.5% of the award).

A portion of the Tranche 2 award (57.5% or 129,745 shares) was subject only to a service requirement of 2 years from the date of award (reflecting a minimum vesting value of the forfeited awards). The balance of the award (42.5% or 95,900 shares) was subject to performance conditions which were in nature similar and equivalently challenging to those of the forfeited awards.

Based on the performance assessment set out below, 79.7% of the performance based award will vest, a total of 91.4% including the service requirement.

Dividend rights

At the time of vesting Paul Waterman is entitled to a payment in respect of dividends that would have been paid on the shares during the period of grant of the award and the date of delivery of the shares. The cash payment will be £52,026.

Performance related outcome (in respect of 42.5% of the award or 95,900 shares):

Cash targets \$m (30% weight)

Threshold	Payout	Plan	Payout	Stretch	Payout	Result	Payout
81.1	20%	86.1	25%	91.1	30%	90.8*	29.7%*

* 2017 operating cash excluding SummitReheis.

DIRECTORS' REMUNERATION REPORT

CONTINUED

HSE targets (30% weight)

Goals	Payout	Result	Payout
Environmental performance in 2017 vs set metrics	15%	Achieved in full – the targets were to reduce the number of Tier 2, Tier 2a and Tier 3 environmental incidents and/or prosecutions to below the 3 year average. Since no Tier 2 and 3 incidents were recorded and Tier 2a had 9 recorded versus a 3 year average of 10.67, the targets were achieved in full.	15%
Safety performance in 2017 vs set metrics	15%	Achieved in full – the targets were to reduce the safety recordable incidents and the number of LTAs below the 3 year average. These were achieved in full with rates of 11 and 2 versus the 3 year averages of 11.67 and 3.33.	15%

Business operational targets (40% weight)

Goals	Payout	Result	Payout
Business segment and central cost targets	20%	Not met	0%
Talent management and succession planning objectives	20%	Achieved in full – implementation of Group wide incentive and executive talent management programs following Board approval and delivered on time	20%
Total performance elements achieved			79.7%

Buyout awards in respect of Ralph Hewins's recruitment

As reported in last year's report, Ralph Hewins was awarded 84,434 nil cost options to buyout forfeited share based remuneration when he left his previous employer to join Elementis. These options have no performance conditions (reflecting the profile of the forfeited awards) but are subject to a 2 year holding period. In addition, part of Ralph's forfeited remuneration included an amount of his bonus which would have been deferred for 3 years had he not left his former employer and these were bought out and matched through an award of 15,977 nil cost options which vest after 3 years (no performance conditions were attached to these reflecting the vesting profile of the forfeited remuneration).

Type of share award	Grant date	Number of awards	Face value of award at grant (£'000s) ¹	Percentage that would vest at threshold performance	End of the vesting period	A summary of performance targets and measures
Nil cost option	07.03.17	84,434	246	No performance conditions	07.03.2017	N/A
Nil cost option	07.03.17	15,977	46	No performance conditions	07.03.2020	N/A

¹ The share price used to determine the number of awards granted was 291.00 pence, being the average mid-market closing share price on the dealing day preceding the date of grant.

Annual LTIP awards granted in the year (audited)

LTIP awards made in 2017 are set out in the table below and are subject to EPS and TSR performance conditions (split 50:50) over the 3 years to 31 December 2019 as shown in the table below.

Award holder	Type of share award	Grant date	Number of awards	Face value of award at grant (£'000s) ¹	Percentage that would vest at threshold performance	The end date of the performance period	A summary of performance targets and measures
Paul Waterman	Nil cost option (restricted stock unit)	03.04.17	469,024	1,356	0% of the award subject to the EPS condition and 3.85% of the award subject to the TSR condition.	31.12.2019	Average annual EPS growth of 3% to 10% and TSR performance of median to upper quartile.
Ralph Hewins	Nil cost option	03.04.17	202,366	585			

¹ The share price used to determine the number of awards granted was 289.20 pence, being the average mid-market closing share price on the dealing day preceding the date of grant.

Details of awards in 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 10 year period, with a further limitation of 5% in any 10 year period on discretionary plans. Based on the number of awards that remain outstanding as at the year end, the Company's headroom for all plans is 4.7% and for discretionary plans 3.9% of issued share capital.

DIRECTORS' SCHEME INTERESTS (AUDITED)

The interests of the persons who were Directors during the year in the issued shares of the Company were:

					Scheme interests				Vested but unexercised share options
	Interest type	Grant date	Option price (p)	01.01.17	Granted during 2017	Exercised during 2017	Lapsed during 2017	31.12.17	
Executive Directors									
Paul Waterman	A	07.03.2016	–	225,645	–	205,793	19,852	–	–
	A	07.03.2016	–	225,645	–	–	–	225,645	–
	B	04.04.2016	–	487,816	–	–	–	487,816	–
	C	07.03.2017	–	–	43,953	–	–	43,953	–
	B	03.04.2017	–	–	469,024	–	–	469,024	–
Total scheme interests				939,106	512,977	205,793	19,852	1,226,438	Nil
Ralph Hewins	D	19.09.2016	–	240,693	–	–	–	240,693	–
	C	07.03.2017	–	–	6,535	–	–	6,535	–
	E	07.03.2017	–	–	15,977	–	–	15,977	–
	D	07.03.2017	–	–	84,434	–	–	84,434	84,434
	B	03.04.2017	–	–	202,366	–	–	202,366	–
	F	05.09.2017	226.63	–	7,942	–	–	7,942	–
Total scheme interests				240,693	317,254	–	–	557,947	84,434

Notes

- A Replacement awards structured as restricted stock units made under standalone arrangements that borrow terms from the LTIP as amended. Paul Waterman retained 130,360 shares following the exercise and sale of options over 205,793 shares granted under tranche 1 of his buyout award granted under the LTIP at a price of 295.1 pence giving him a pre-tax gain of c.£607k.
- 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 and 2017. 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 72.
- 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. Vesting conditions as set out on page 70.
- 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 72.
- E Replacement awards structured as nil cost options made under standalone arrangements that borrow terms from the DSBP as amended. Vesting conditions as set out on page 72.
- 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 124.

DIRECTORS' REMUNERATION REPORT

CONTINUED

DIRECTORS' SHARE INTERESTS (AUDITED)

The interests of the Directors (including any connected persons) during the year (and from the year end to 27 February 2018) in the issued shares of the Company were:

	01.01.17 ¹	Share interests		31.12.17 ²	Shareholding level met as at 31.12.17
		Acquired during 2017	Disposed during 2017		
Executive Directors					
Paul Waterman ³	35,000	145,360	—	180,360	No ⁴
Ralph Hewins	—	—	—	—	No ⁴
Non-Executive Directors					
Andrew Duff	50,000	—	—	50,000	n/a
Sandra Boss	—	10,000	—	10,000	n/a
Dorothee Deuring	—	10,000	—	10,000	n/a
Steve Good	10,000	—	—	10,000	n/a
Anne Hyland	10,000	—	—	10,000	n/a
Nick Salmon	10,000	—	—	10,000	n/a
Past Director					
Andrew Christie	10,000	—	—	10,000	n/a

1 Or from date of appointment if later.

2 Or as at date of resignation if earlier.

3 Paul Waterman retained 130,360 shares following the exercise and sale of options over 205,793 shares granted under tranche 1 of his buyout award granted under terms borrowed from the LTIP at a price of 295.1 pence giving him a pre-tax gain of c.£607k.

4 As per the Remuneration policy, share awards vesting over time will contribute to meeting the shareholding level.

The market price of ordinary shares at 31 December 2017 was 288.1 pence (2016: 277.4 pence) and the range during 2017 was 259.1 pence to 317.1 pence (2016: 180.6 pence to 277.4 pence).

As at 27 February 2018, the Trustee of the Company's Employee Share Ownership Trust ('ESOT') held 869,207 shares (2017: 455,000). 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 27 February 2018, 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 2017 and 27 February 2018 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, the details of which can be found in the Remuneration policy report. 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 69. Ralph Hewins received a salary supplement of 25% of his basic salary in lieu of any other retirement benefit (pro-rated for 2016). The amount received is shown in the table below and in the Directors' emoluments table.

DIRECTORS' RETIREMENT BENEFITS (AUDITED)

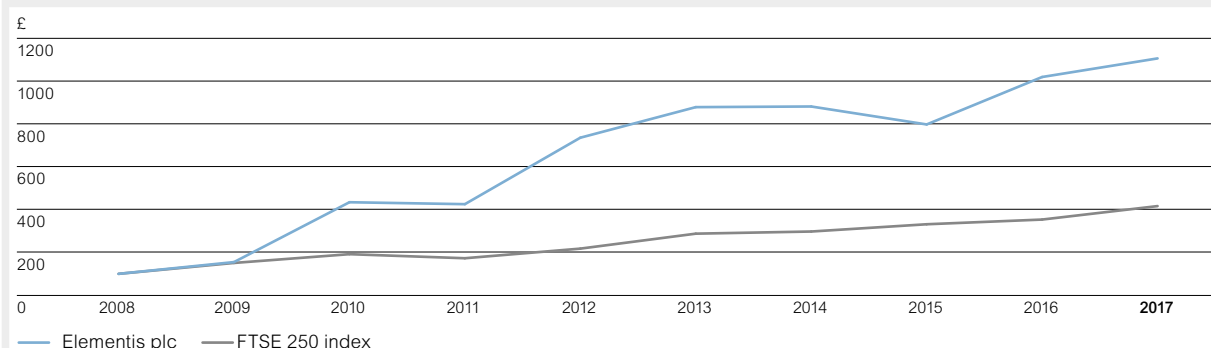
	Defined contribution plans		Salary supplement	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Paul Waterman	37	23	132	117
Ralph Hewins	n/a	n/a	84	25

TOTAL SHAREHOLDER RETURN PERFORMANCE AND CHANGE IN CEO'S PAY

The graph below illustrates the Company's total shareholder return for the 9 years ended 31 December 2017, 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 2017 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
CEO pay (total remuneration – £'000s)	576	1,031	2,964	3,560	2,252	1,573	763	1,553 ¹	2,468
Annual bonus award against maximum opportunity	0%	100%	100%	81%	56%	50%	0%	27.5%	93.0%
LTIP vesting against maximum opportunity	88%	0%	100%	100%	100%	65%	0%	91.2% ²	91.4% ³

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 replacement awards which vested in March 2017.

3 Relates to Paul Waterman's replacement awards vesting 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 2017 and the preceding financial year.

REMUNERATION AGAINST DISTRIBUTIONS

£m	2017	2016	Change
Remuneration paid to all employees (see note 8 to the Consolidated financial statements) ¹	86.7	77.7	11.6%
Total dividends paid in the year ²	61.7	55.1	12.0%

1 The amounts for 2017 and 2016 have been converted from dollars into pounds sterling using the average USD/GBP exchange rates for those years.

2 2017 and 2016 include a special dividend payment of \$38.7m (£31.0m) and \$37.0m (£27.1m) respectively.

PERCENTAGE CHANGE IN CEO'S PAY

The table below shows the change from 2016 to 2017 of the CEO's pay with regard to the 3 elements set out below and the corresponding change of these elements across all employees within the Group.

	% Change from 2016 to 2017 ¹		
	Salaries	Benefits	Bonus ²
CEO pay (total remuneration) ³	7.4%	47.8%	312.1%
All employees ⁴	16.1%	22.4%	412.5%

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 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.

4 Excluding SummitReheis.

DIRECTORS' REMUNERATION REPORT

CONTINUED

STATEMENT OF SHAREHOLDER VOTING

The resolution to approve the 2016 Directors' remuneration report (excluding the remuneration policy) was passed on a poll at the Company's last AGM held on 25 April 2017. The current remuneration policy was approved at the AGM held on 22 April 2015. 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
2016 Directors' remuneration report (2017 AGM)	306,052,827	84.18	57,504,708	15.82	2,877,541
2014 Directors' remuneration policy (2015 AGM)	322,589,945	98.93	3,497,051	1.07	24,478,522

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 40 to 41, together with their biographical information. 8 meetings were held during 2017 and the attendance records of Committee members are shown on page 55. All meetings were also attended by the Chairman of the Board and the CEO. Other Non-Executive Directors who are not members of the Committee have a standing invite to attend and the CFO and Chief Human Resources Officer 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.

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 2017, Committee members attended various external seminars on the latest developments on executive remuneration and all Board 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

As reported in the Committee Chairman's annual statement, Korn Ferry replaced New Bridge Street as its external advisers with effect from April 2017. The Committee is satisfied that there was no over reliance on Korn Ferry and that advice received was independent. Korn Ferry are a member of the Remuneration Consultants Group and voluntarily operate under the code of conduct. As well as being remuneration adviser, Korn Ferry also supported the Nomination Committee in the recruitment process that led to the appointments of Sandra Boss and Dorothee Deuring as Non-Executive Directors in the early part of the year. Fees paid to New Bridge Street during the year was £13,732 (excluding VAT). Fees paid to Korn Ferry for remuneration advisory services in 2017 were £75,660 (excluding VAT) and related to the review of the remuneration policy, carrying out a shareholder consultation programme, advice in the design and drafting of a new LTIP and a new UK all employee plan. The Committee are satisfied that the advice received by Korn Ferry was independent and objective.

Management also retained Korn Ferry in its review of Board level incentives and in carrying out various benchmarking studies. Those fees are not included in the figure above.

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 2017 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
27 February 2018

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 2017.

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 4 to 11
Indication of future developments	Page 13
Dividend	Page 24
Results	Pages 22 to 25
Financial assets and liabilities	Page 91
Principal risks	Pages 32 to 36
R&D activities	Pages 8 to 9
People	Pages 26 to 27
Greenhouse gas emissions	Pages 30 to 31
Going concern	Page 37
Viability statement	Page 37
Long term incentive plans	Pages 124 to 126
Dividend waiver	Page 78

TAKEOVER DIRECTIVE DISCLOSURES

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 40 and 41.

DIRECTORS AND THEIR SHARE INTERESTS

The current Directors and their biographical details are detailed on pages 40 and 41. Changes to the Directors and Company Secretary during the year and up to the date of this report, are set out below:

Name	Title	Effective date
Sandra Boss	Non-Executive Director	Appointed 1 February 2017
Dorothee Deuring	Non-Executive Director	Appointed 1 March 2017
Andrew Christie	Non-Executive Director	Resigned 25 April 2017
Wai Wong	Company Secretary	Resigned 31 January 2018
Laura Higgins	Company Secretary	Appointed 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 2017 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 (the 'Articles'). Rules about the appointment and replacement of Directors are also set out in the Articles.

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. No other Directors were in receipt of a conflict authorisation from the Board during the year.

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.

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 Corporate social responsibility report.

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 through email. Telephone conference calls are held by the CEO to employees worldwide and these serve as an informal forum for employees to ask questions about the Group.

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

DIRECTORS' REPORT

CONTINUED

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 37.

SHARE CAPITAL

The Company's share capital consists of ordinary shares, as set out in note 9 on page 108. All of the Company's issued ordinary shares are fully paid up and rank equally in all respects. The rights attached to them, 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 2017 the ESOT held 869,207 shares in the Company (2016: 455,000). A dividend waiver is in place in respect of all shares that may become held by the Trust.

SUBSTANTIAL SHAREHOLDERS

As at 27 February 2018, the following interests in voting rights over the issued share capital of the Company had been notified.

	Ordinary shares	Percentage of issued ordinary share capital
Ameriprise Financial, Inc. and its group	46,395,441	10.00
AXA Investment Managers S.A.	46,255,532	9.98
APG Asset Management N.V.	31,251,876	6.74
Blackrock, Inc.	27,132,773	5.85
FMR LLC	23,192,771	5.00
Aberdeen Asset Managers Limited	23,056,448	4.97

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.

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 long term loan and \$275m revolving credit facility and, in the event of a change of control, any lender among the facility syndicate, of which there are 8 with commitments ranging from \$35m to \$75m, 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.

POLITICAL DONATIONS

The Group made no political donations during the year (2016: 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.

AUDITORS

Deloitte LLP were appointed the Company's auditors by shareholders at the 2016 Annual General Meeting ('AGM') and were re-appointed at the 2017 AGM. A resolution is included in the Notice of Meeting for the 2018 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 Thursday 26 April 2018 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 a separate circular which has been sent to shareholders and is available on the Elementis corporate website: www.elementisplc.com.

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 114 to 119.

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
27 February 2018

DIRECTORS' RESPONSIBILITY STATEMENT

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 judgements 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
- 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
- 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
- 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 27 February 2018 and is signed on its behalf by

RALPH HEWINS

CFO

27 February 2018

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 give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 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 ('FRS') 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 of Elementis plc (the 'parent company') and its subsidiaries (the 'Group') 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 33;
- the parent company balance sheet;
- the parent company statement of changes in equity; and,
- the parent company statutory accounts related notes 1 to 13.

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') 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 provisions; – Acquisition accounting for SummitReheis; and, – Revenue recognition.
Materiality	The materiality that we used for the Group financial statements was \$5.0m which equates to 4.8% of profit before tax adjusted for discontinued operations, acquisition and restructuring costs and other adjusting items.
Scoping	We have performed full scope audits of 5 components and specified audit procedures of 2 components, comprising 93% of the Group's revenue and 99% of the Group's profit before tax.
Significant changes in our approach	Following the announcement of the acquisition of SummitReheis, we have identified a new key audit matter to report in respect of the acquisition accounting of SummitReheis and 2 new components consisting of SummitReheis US and SummitReheis Europe. We do not consider deferred tax assets and post-retirement benefits as key audit matters as these were not the areas that had greatest impact on our audit.

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 confirm that we have nothing material to report, add or draw attention to in respect of these matters.

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.

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 33-36 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 37 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 37 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 confirm that we have nothing material to report, add or draw attention to in respect of these matters.

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.

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 provisions

Key audit matter description

In line with other companies within the chemicals industry, Elementis holds provisions for the monitoring and remediation of a number of operating and legacy sites, including those sold off or no longer occupied. In accordance with Elementis' environmental provision policy, a provision is recognised for the restoration of contaminated land. As at 31 December 2017, Elementis holds a provision of \$31.6m (2016: \$31.4m) against these liabilities.

The accounting for these provisions involves judgement as to the estimated future cash flows required to remediate these sites. The determination of these cash flows and the discount rates applied is fundamental to this 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 52.

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 discussion with management and the Group's external environmental consultants on the identified environmental issues to confirm our understanding of the current situation and the process by which management and the external consultants 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;
- For a sample of locations, challenging the key assumptions and inputs to forecast the cash flows and agreeing the inputs to supporting documentation;
- Engaging our internal valuation experts to challenge the appropriateness of the discount rates applied by comparison to our own internal benchmark data;
- Reviewing the previous estimates made of expected 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 SummitReheis

Key audit matter description

In March 2017, Elementis acquired SummitReheis for a consideration of \$370.3m. The acquisition meets the definition of a business combination and is therefore required to be accounted for under IFRS 3 'Business Combination'.

Management commissioned independent valuation experts to assist with the identification and valuation of the separate intangible assets. The acquisition of SummitReheis resulted in the identification and recognition of goodwill of \$203.0m and other intangible assets of \$159.1m.

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, growth rates and asset lives of separately identifiable intangible assets.

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 52. Further details are disclosed in note 10 and note 31.

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

Our procedures included:

- Reviewing the relevant sale and purchase agreement;
- Testing the cash value of consideration to relevant transaction agreements and bank statements;
- 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's 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 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.

Key observations

We noted no material misstatements in respect of the judgements taken by management and concluded that the disclosures made are adequate.

Revenue recognition

Key audit matter description

Revenue is recognised when significant risks and rewards of ownership have been transferred to the buyer and an adjustment is made at the period end for goods which have been despatched but have not yet met the criteria for recognition. This adjustment is made using management's best estimate of the date at which goods reach the destination port. Management have determined, based on the shipping terms, to recognise revenue at a reliable estimate of the date at which goods reach the destination port. 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 53.

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

We have performed the following procedures in order to address the key audit matter:

- reviewed and assessed the commercial arrangements covering shipments, to determine the correct point of revenue recognition for different shipment arrangements and agreements with customers;
- selected 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; and,
- substantively tested post year end credit notes raised to determine if revenue was inappropriately recognised in the year.

Key observations

From the work performed, we concluded that revenue recognised in the year is appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELEMENTIS PLC

CONTINUED

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	\$5.0 million (2016: \$4.7m)	\$2.5m (2016: \$2.4m)
Basis for determining materiality	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. In the prior year, materiality was set on the basis of forecast profit before tax on the basis of 6.2% of the Group's profit before tax.	A factor of 3% of net assets was used capped to an appropriate component materiality 50% (2016: 50%) of Group materiality.
Rationale for the benchmark applied	We have revisited the basis of our materiality calculation from last year and have excluded acquisition, restructuring and other adjusting items. Our rationale for these 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 \$250 thousand (2016: \$235 thousand) for the Group and \$125 thousand (2016: \$115 thousand) for the parent company, as well as differences below that threshold that in our view, warranted reporting on the qualitative grounds. We also report to the Audit Committee on the 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 audit increased for 2017 due to the acquisition of SummitReheis and we therefore identified an additional 2 components in relation to this, in addition to the 6 components from the prior year. Of these 8 components, 7 are considered to be significant to the Group:

- the Specialty Products operations in the US;
- the Chromium operations in the US;
- the Specialty Products operations in the UK;
- the Specialty Products operations in Taiwan, including the Chinese operations;
- the Surfactants operations in the Netherlands;
- the SummitReheis operations in the US; and,
- the SummitReheis operations in Europe.

All 7 of these locations were subject to full scope audits or audits of specified account balances which were performed by local component teams, except the Speciality Products UK operations where the Group audit team performed the audit without the involvement of a component team.

Our audit work at the 7 locations was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from \$2.5m to \$2.8m (2016: \$2.35m 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 93% (2016: 88%) of the Group's revenue and 99% (2016: 94%) of the Group's profit before tax.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

As part of the audit process, the senior members of the audit team visited 6 of the 7 significant locations (2016: 5 of 5) set out above; in addition the Group Audit Partner visited US component team twice. During our visits, we attended key meetings with component management and auditors, and reviewed detailed component audit work papers.

In addition to the planned program of visits, all key component audit teams were represented during a centralised planning meeting prior to the commencement of our detailed audit work. The purpose of this planning meeting was to ensure a good level of understanding of the Group's businesses, its core strategy and a discussion of the significant risks and our planned audit report.

We also send detailed instructions to our component teams, include them our team briefing, discuss their risk assessment, and review documentation of the findings from their work.

The parent company is located in the UK and audited directly by the Group audit team.

	Revenue	Profit before tax
Full scope audit	81%	98%
Audit of specified account balances	12%	1%
Review at Group level	7%	1%

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELEMENTIS PLC

CONTINUED

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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

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 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 re-appointments of the firm is 2 years, covering the years ending 31 December 2016 to 31 December 2017.

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).

CHRISTOPHER POWELL, FCA, (SENIOR STATUTORY AUDITOR)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

27 February 2018



FINANCIAL STATEMENTS

In this section:

90	Consolidated income statement
90	Consolidated statement of comprehensive income
91	Consolidated balance sheet
92	Consolidated statement of changes in equity
93	Consolidated cash flow statement
94	Notes to the Consolidated financial statements
130	Parent company statutory accounts
132	Notes to the company financial statements of Elementis plc

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 \$million	2016 \$million
Revenue	2	782.7	616.6
Cost of sales		(487.6)	(384.6)
Gross profit		295.1	232.0
Distribution costs		(98.1)	(72.2)
Administrative expenses		(105.6)	(74.7)
Operating profit	2	91.4	85.1
Other expenses		(1.2)	(1.4)
Finance income	3	0.2	0.1
Finance costs	4	(11.9)	(7.7)
Profit before income tax		78.5	76.1
Tax	6	34.2	(7.2)
Profit from continuing operations		112.7	68.9
Profit/(loss) from discontinued operations	32	4.9	(0.8)
Profit for the year		117.6	68.1
Attributable to:			
Equity holders of the parent		117.6	68.1
		117.6	68.1
Earnings per share			
From continuing operations			
Basic (cents)	9	24.3	14.9
Diluted (cents)	9	24.0	14.8
From continuing and discontinued operations			
Basic (cents)	9	25.4	14.7
Diluted (cents)	9	25.0	14.6

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 \$million	2016 \$million
Profit for the year	117.6	68.1
Other comprehensive income:		
Items that will not be reclassified subsequently to profit and loss:		
Remeasurements of retirement benefit obligations	18.1	(2.6)
Deferred tax associated with retirement benefit obligations	(7.3)	(0.5)
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	(0.2)	(16.5)
Effective portion of change in fair value of net investment hedge	22.9	(1.4)
Effective portion of changes in fair value of cash flow hedges	0.1	(0.3)
Fair value of cash flow hedges transferred to income statement	0.3	0.9
Exchange differences on translation of share options reserves	0.1	(0.7)
Other comprehensive income	34.0	(21.1)
Total comprehensive income for the year	151.6	47.0
Attributable to:		
Equity holders of the parent	151.6	47.0
Total comprehensive income for the year	151.6	47.0

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2017

	Note	2017 31 December \$million	2016 31 December \$million
Non-current assets			
Goodwill and other intangible assets	10	717.2	359.9
Property, plant and equipment	11	219.5	217.3
ACT recoverable	16	16.2	23.0
Deferred tax assets	16	0.2	16.1
Total non-current assets		953.1	616.3
Current assets			
Inventories	12	143.6	121.3
Trade and other receivables	13	124.6	96.0
Derivatives	21	0.9	–
Current tax assets		4.3	–
Cash and cash equivalents	20	55.0	82.6
Total current assets		328.4	299.9
Assets classified as held for sale	32	58.2	–
Total assets		1,339.7	916.2
Current liabilities			
Bank overdrafts and loans	19	(2.7)	(5.0)
Trade and other payables	14	(117.7)	(98.9)
Derivatives	21	–	(0.4)
Current tax liabilities		(14.1)	(6.7)
Provisions	15	(10.8)	(9.5)
Total current liabilities		(145.3)	(120.5)
Non-current liabilities			
Loans and borrowings	19	(343.4)	(0.1)
Retirement benefit obligations	23	(10.5)	(30.1)
Deferred tax liabilities	16	(93.4)	(108.7)
Provisions	15	(21.9)	(29.7)
Total non-current liabilities		(469.2)	(168.6)
Liabilities classified as held for sale	32	(22.9)	–
Total liabilities		(637.4)	(289.1)
Net assets		702.3	627.1
Equity			
Share capital	17	44.4	44.4
Share premium		21.9	20.9
Other reserves	18	99.0	75.2
Retained earnings		537.0	486.6
Total equity attributable to equity holders of the parent		702.3	627.1
Total equity		702.3	627.1

The financial statements on pages 90 to 129 were approved by the Board on 27 February 2018 and signed on its behalf by:

PAUL WATERMAN
CEO

RALPH HEWINS
CFO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY **FOR THE YEAR ENDED 31 DECEMBER 2017**

	Share capital \$million	Share premium \$million	Translation reserve \$million	Hedging reserve \$million	Other reserves \$million	Retained earnings \$million	Total equity \$million
Balance at 1 January 2016	44.4	20.2	(62.0)	(7.9)	162.9	496.2	653.8
Comprehensive income							
Profit for the year	–	–	–	–	–	68.1	68.1
Other comprehensive income							
Exchange differences	–	–	(17.9)	–	(0.7)	–	(18.6)
Fair value of cash flow hedges transferred to the income statement	–	–	–	0.9	–	–	0.9
Effective portion of changes in fair value of cash flow hedges	–	–	–	(0.3)	–	–	(0.3)
Remeasurements of retirement benefit obligations	–	–	–	–	–	(2.6)	(2.6)
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	(0.5)	(0.5)
Transfer	–	–	–	–	(2.4)	2.4	–
Total other comprehensive income	–	–	(17.9)	0.6	(3.1)	(0.7)	(21.1)
Total comprehensive income	–	–	(17.9)	0.6	(3.1)	67.4	47.0
Transactions with owners							
Purchase of own shares	–	–	–	–	–	(0.9)	(0.9)
Issue of shares by the Company	–	0.7	–	–	–	–	0.7
Share based payments	–	–	–	–	2.6	–	2.6
Deferred tax on share based payments recognised within equity	–	–	–	–	–	0.1	0.1
Dividends paid	–	–	–	–	–	(76.2)	(76.2)
Total transactions with owners	–	0.7	–	–	2.6	(77.0)	(73.7)
Balance at 31 December 2016	44.4	20.9	(79.9)	(7.3)	162.4	486.6	627.1
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	–	–	–	–	1.0
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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 \$million	2016 \$million
Operating activities:			
Profit for the year		117.6	68.1
Adjustments for:			
Other expenses		1.2	1.4
Finance income		(0.2)	(0.1)
Finance costs		11.9	7.7
Tax charge		(33.3)	7.4
Depreciation and amortisation		39.7	28.0
Decrease in provisions		(8.5)	(3.5)
Pension payments net of current service cost		(6.3)	(4.7)
Share based payments		2.8	2.6
Operating cash flow before movement in working capital		124.9	106.9
(Increase)/decrease in inventories		(2.2)	1.7
Increase in trade and other receivables		(2.4)	(9.6)
Increase in trade and other payables		11.5	22.5
Cash generated by operations		131.8	121.5
Income taxes paid		(9.1)	(2.7)
Interest paid		(8.0)	(0.9)
Net cash flow from operating activities		114.7	117.9
Investing activities:			
Interest received		0.1	0.1
Disposal of property, plant and equipment		3.3	0.3
Purchase of property, plant and equipment		(43.2)	(34.0)
Purchase of business net of cash acquired		(361.8)	–
Acquisition of intangible assets		(1.7)	(1.6)
Net cash flow from investing activities		(403.3)	(35.2)
Financing activities:			
Proceeds from issue of shares by the Company and the ESOT		1.0	0.7
Dividends paid		(77.8)	(76.2)
Purchase of shares by the ESOT		(2.4)	(0.9)
Increase in net borrowings		336.0	–
Net cash used in financing activities		256.8	(76.4)
Net increase in cash and cash equivalents		(31.8)	6.3
Cash and cash equivalents at 1 January		82.6	79.1
Foreign exchange on cash and cash equivalents		4.2	(2.8)
Cash and cash equivalents at 31 December	20	55.0	82.6

No cash or cash equivalents are included in assets held for sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. ACCOUNTING POLICIES

Elementis plc is a public company limited by shares incorporated and domiciled in England. 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 130 to 136.

Basis of preparation

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

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 78.

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.

a. Revenue recognition

In making its judgement, the Directors have considered the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 Revenue and, in particular whether the Group had transferred the significant risks and rewards of ownership of the goods to customers. Following further assessment of the terms of shipment, the Directors have concluded that international shipments should not be recognised within revenue until they reach the destination port, as they believe that this more accurately reflects the commercial substance of the transaction.

b. 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.

c. 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.

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

In order to determine the value of the separately identifiable intangible assets on a business combination, the Group are 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 US customers' list, where two large assumptions were made around the average life of 24 years and attrition rate of 0% of the top 20 US customers for SummitReheis.

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 has been reliably estimated.

Environmental provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. 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 3 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.

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.

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 pounds sterling 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

1. ACCOUNTING POLICIES CONTINUED

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.

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 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 10.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other

assets in the unit on a pro-rata basis. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

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

Trade receivables are non interest bearing and are stated at their nominal amount which is the original invoiced amount less provision made for bad and doubtful receivables. Estimated irrecoverable amounts are based on the ageing of receivables and historical experience. Individual trade receivables are written off when management deem them no longer to be collectable.

Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets containing a non-current asset (a disposal group), is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and is highly probable within 1 year. 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.

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 measure 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. 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. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

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 cost or 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

1. ACCOUNTING POLICIES CONTINUED

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 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 liabilities, foreign currency losses and changes in the fair 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 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- IAS 7 (amendments) Disclosure Initiative
- IAS 12 (amendments) Recognition of Deferred Tax Assets for Unrealised Losses
- Annual Improvements to IFRSs: 2014-2016 Cycle

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 IFRSs that have been issued but are not effective for periods starting on 1 January 2017, but will be effective for later periods:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IFRS 2 (amendments) Classification and Measurement of Share-Based Payment Transactions
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments

The Directors have done an initial assessment of IFRS 9 and IFRS 15, and they do not believe they will have a material impact on the financial statements of the Group in future periods. The Directors have done an initial assessment of IFRS 16, and they do not believe it will have a material impact on the net profit of the Group in future periods. Further details of the leases held by the Group are given in note 22.

The Group is currently in the process of performing a further detailed review on the impact of these new standards. Details of the review will be provided in the Half-year report 2018.

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. The three reportable segments, Specialty Products, Surfactants and Chromium, each have distinct product groupings and, with the exception of Surfactants which shares a common management structure with Specialty Products, 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:

Specialty Products:

- Production of rheological and other specialty additives, compounded products and colourants.

Chromium:

- Production of chromium chemicals.

In 2017, the Surfactants business, which is involved in the production of surface active ingredients, was reclassified 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.

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:

- Coatings
- Energy
- Personal Care
- Chromium.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

2. OPERATING SEGMENTS CONTINUED

Segmental analysis for the year ended 31 December 2017

	2017						
	Specialty Products \$million	Chromium \$million	Segment totals \$million	Central costs \$million	Total of continuing operations \$million	Discontinued operations \$million	Total of all operations \$million
Revenue	611.0	186.7	797.7	–	797.7	47.8	845.5
Internal revenue	–	(15.0)	(15.0)	–	(15.0)	(0.2)	(15.2)
Revenue from external customers	611.0	171.7	782.7	–	782.7	47.6	830.3
Operating profit before allocations	95.8	29.6	125.4	(34.0)	91.4	5.8	97.2
Head office cost allocations	(2.3)	(0.8)	(3.1)	3.1	–	–	–
Profit/(loss) before interest	93.5	28.8	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	93.5	28.8	122.3	(9.6)	112.7	4.9	117.6

	2017						
	Specialty Products \$million	Chromium \$million	Segment totals \$million	Central \$million	Total of continuing operations \$million	Asset held for sale \$million	Total of all operations \$million
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
Derivatives	–	–	–	0.9	0.9	–	0.9
Tax assets	–	–	–	4.5	4.5	–	4.5
Cash and cash equivalents	–	–	–	55.0	55.0	–	55.0
Segment assets	913.9	142.2	1,056.1	225.4	1,281.5	58.2	1,339.7
Trade and other payables	(73.1)	(30.6)	(103.7)	(14.0)	(117.7)	(15.2)	(132.9)
Operating provisions	(1.4)	(15.9)	(17.3)	(15.4)	(32.7)	(3.0)	(35.7)
Bank overdrafts and loans	–	–	–	(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)

Information by geographic area	North America \$million	United Kingdom \$million	Rest of Europe \$million	Rest of the World \$million	Discontinued operations \$million	Total \$million
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)

Segmental analysis for the year ended 31 December 2016

	2016						
	Specialty Products \$million	Chromium \$million	Segment totals \$million	Central costs \$million	Total of continuing operations \$million	Discontinued operations \$million	Total of all operations \$million
Revenue	460.4	168.8	629.2	–	629.2	43.1	672.3
Internal revenue	–	(12.6)	(12.6)	–	(12.6)	(0.2)	(12.8)
Revenue from external customers	460.4	156.2	616.6	–	616.6	42.9	659.5
Operating profit before allocations	79.7	24.5	104.2	(19.1)	85.1	(0.6)	84.5
Head office cost allocations	(2.2)	(0.9)	(3.1)	3.1	–	–	–
Profit/(loss) before interest	77.5	23.6	101.1	(16.0)	85.1	(0.6)	84.5
Other expenses	–	–	–	(1.4)	(1.4)	–	(1.4)
Finance income	–	–	–	0.1	0.1	–	0.1
Finance expense	–	–	–	(7.7)	(7.7)	–	(7.7)
Taxation – after adjusting items	–	–	–	(10.9)	(10.9)	(0.2)	(11.1)
Taxation – on adjusting items	–	–	–	3.7	3.7	–	3.7
Profit for the year	77.5	23.6	101.1	(32.2)	68.9	(0.8)	68.1

	2016					
	Specialty Products \$million	Surfactants \$million	Chromium \$million	Segment totals \$million	Central \$million	Total \$million
Fixed assets	495.5	21.8	72.9	590.2	(13.0)	577.2
Inventories	78.4	3.6	39.3	121.3	–	121.3
Trade and other receivables	62.4	6.9	24.9	94.2	1.8	96.0
ACT recoverable	–	–	–	–	23.0	23.0
Deferred tax assets	–	–	–	–	16.1	16.1
Cash and cash equivalents	–	–	–	–	82.6	82.6
Segment assets	636.3	32.3	137.1	805.7	110.5	916.2
Trade and other payables	(60.8)	(7.9)	(22.8)	(91.5)	(7.4)	(98.9)
Operating provisions	(3.4)	(2.3)	(17.9)	(23.6)	(15.6)	(39.2)
Bank overdrafts and loans	–	–	–	–	(5.1)	(5.1)
Derivatives	–	–	–	–	(0.4)	(0.4)
Current tax liabilities	–	–	–	–	(6.7)	(6.7)
Retirement benefit obligations	–	–	–	–	(30.1)	(30.1)
Deferred tax liabilities	–	–	–	–	(108.7)	(108.7)
Segment liabilities	(64.2)	(10.2)	(40.7)	(115.1)	(174.0)	(289.1)
Net assets	572.1	22.1	96.4	690.6	(63.5)	627.1
Capital additions	21.4	3.2	11.6	36.2	1.6	37.8
Depreciation and amortisation	(16.8)	(1.7)	(8.5)	(27.0)	(1.0)	(28.0)

Information by geographic area	North America \$million	United Kingdom \$million	Rest of Europe \$million	Rest of the World \$million	Total \$million
Revenue from external customers	223.8	20.5	167.8	247.4	659.5
Non-current assets	445.4	33.4	40.7	57.7	577.2
Capital additions	23.4	1.1	8.9	4.4	37.8
Depreciation and amortisation	(20.0)	(1.2)	(2.6)	(4.2)	(28.0)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

3. FINANCE INCOME

	2017 \$million	2016 \$million
Interest on bank deposits	0.2	0.1

4. FINANCE COSTS

	2017 \$million	2016 \$million
Interest on bank loans	9.7	0.8
Pension and other post retirement liabilities	1.1	1.0
Increase in environmental provisions due to change in discount rate (see note 5)	–	4.5
Unwind of discount on provisions	1.1	1.4
	11.9	7.7

5. ADJUSTING ITEMS AND ALTERNATIVE PERFORMANCE MEASURES

	2017 \$million	Adjusting items on discontinued operations \$million	2017 \$million	2016 restated \$million	Adjusting items on discontinued operations \$million	2016 restated \$million
Restructuring	0.6	–	0.6	2.7	0.3	3.0
Business transformation	3.4	–	3.4	2.4	–	2.4
Environmental provisions						
Increase in provisions due to additional remediation work identified	2.1	–	2.1	3.5	–	3.5
Increase in provisions due to change in discount rate	–	–	–	4.5	–	4.5
SummitReheis acquisition costs	9.7	–	9.7	0.8	–	0.8
Uplift due to fair value of SummitReheis inventory	4.0	–	4.0	–	–	–
Sale of Colourants business and closure of Jersey City site	(2.5)	–	(2.5)	–	–	–
Release of legal provision	–	(0.7)	(0.7)	–	–	–
Disposal costs	2.2	0.3	2.5	–	–	–
Amortisation of intangibles arising on acquisition	11.8	–	11.8	2.8	–	2.8
	31.3	(0.4)	30.9	16.7	0.3	17.0
Tax credit in relation to adjusting items	(5.7)	–	(5.7)	(3.7)	–	(3.7)
Adjusting tax item (US tax reform)	(51.0)	–	(51.0)	–	–	–
	(25.4)	(0.4)	(25.8)	13.0	0.3	13.3
Cash flows relating to adjusting items	(10.5)			(5.1)		

A number of items have been recorded under 'adjusting items' in 2017 by virtue of their size and/or one time nature in, 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 \$30.9m (2016: debit of \$17.0m). 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 – in 2016 a review to define the long term strategy and internal transformation necessary was performed by an external consultant. The costs incurred in 2017 relate to delivery of the global key account management, and working capital improvement, phases of the transformation, following this strategic review.

Increase in environmental provisions due to additional remediation work identified – assessments at the end of both 2016 and 2017 have resulted in an increased provision required at a number of our legacy sites. As these costs relate to non-operational facilities the costs associated are classed as adjusting items.

Increase in environmental provisions due to change in discount rate – in 2016, the rate used to discount future liabilities relating to the environmental provisions was reduced from 4.5% to 2.5%. This resulted in an increase in the environmental provisions required. As the provisions relate to non-operational facilities the interest charge required was classed as classed as an adjusting item. There has been no change in the discount rate for 2017.

SummitReheis acquisition costs – these are one-off costs associated with the acquisition of SummitReheis – 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 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.

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 adjusting item. The site is planned to be disposed of in 2018.

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.

Disposal costs – in 2017 Elementis incurred a number of costs associated with the sale of the Delden facility and Surfactants business (planned for 2018). As the profit on sale of the assets and business will be treated as an adjusting item in 2018 the one-off associated costs are being classed similarly in 2017.

Amortisation of intangibles arising on acquisition – in previous years, Elementis has not adjusted operating profit for the amortisation of intangibles arising on acquisition. Following the acquisition of SummitReheis, the Directors reviewed this policy and concluded that excluding such a charge from the operating profit would provide readers of the accounts with a better understanding of the Group's results on its operating activities and, as such, this charge is now included within adjusting items.

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

Adjusting tax item (US tax reform) – Elementis has 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 has been recognised as an adjusting item.

To support comparability with the financial statements as presented in 2017, the reconciliation to the adjusted consolidated income statement is shown below.

	2017 Profit and loss on continuing operations \$million	2017 Profit and loss on discontinued operations \$million	2017 Profit and loss on total operations \$million	2017 Adjusting items on continuing operations \$million	2017 Adjusting items on discontinued operations \$million	2017 Adjusting items on total operations \$million	2017 Profit and loss after adjusting items on total operations \$million
Revenue	782.7	47.6	830.3	–	–	–	830.3
Cost of sales	(487.6)	(32.8)	(520.4)	–	–	–	(520.4)
Gross profit	295.1	14.8	309.9	–	–	–	309.9
Distribution costs	(98.1)	(6.3)	(104.4)	–	–	–	(104.4)
Administrative expenses	(105.6)	(2.7)	(108.3)	31.3	(0.4)	30.9	(77.4)
Profit on property disposal	–	–	–	–	–	–	–
Operating profit	91.4	5.8	97.2	31.3	(0.4)	30.9	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	5.8	84.3	31.3	(0.4)	30.9	115.2
Tax	34.2	(0.9)	33.3	(56.7)	–	(56.7)	(23.4)
Profit for the year	112.7	4.9	117.6	(25.4)	(0.4)	(25.8)	91.8
Attributable to:							
Equity holders of the parent	112.7	4.9	117.6	(25.4)	(0.4)	(25.8)	91.8
Earnings per share							
Basic (cents)	24.3	1.1	25.4	(5.5)	(0.1)	(5.6)	19.8
Diluted (cents)	24.0	1.0	25.0	(5.4)	(0.1)	(5.5)	19.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

5. ADJUSTING ITEMS AND ALTERNATIVE PERFORMANCE MEASURES CONTINUED

	2016 Profit and loss on continuing operations restated \$million	2016 Profit and loss on discontinued operations restated \$million	2016 Profit and loss on total operations restated \$million	2016 Adjusting items on continuing operations restated \$million	2016 Adjusting items on discontinued operations restated \$million	2016 Adjusting items on total operations restated \$million	2016 Profit and loss after adjusting items on total operations restated \$million
Revenue	616.6	42.9	659.5	–	–	–	659.5
Cost of sales	(384.6)	(35.9)	(420.5)	–	–	–	(420.5)
Gross profit	232.0	7.0	239.0	–	–	–	239.0
Distribution costs	(72.2)	(7.8)	(80.0)	–	–	–	(80.0)
Administrative expenses	(74.7)	0.2	(74.5)	12.2	0.3	12.5	(62.0)
Profit on property disposal	–	–	–	–	–	–	–
Operating profit	85.1	(0.6)	84.5	12.2	0.3	12.5	97.0
Other expenses	(1.4)	–	(1.4)	–	–	–	(1.4)
Finance income	0.1	–	0.1	–	–	–	0.1
Finance costs	(7.7)	–	(7.7)	4.5	–	4.5	(3.2)
Profit before income tax	76.1	(0.6)	75.5	16.7	0.3	17.0	92.5
Tax	(7.2)	(0.2)	(7.4)	(3.7)	–	(3.7)	(11.1)
Profit for the year	68.9	(0.8)	68.1	13.0	0.3	13.3	81.4
Attributable to:							
Equity holders of the parent	68.9	(0.8)	68.1	13.0	0.3	13.3	81.4
Earnings per share							
Basic (cents)	14.9	(0.2)	14.7	2.8	0.1	2.9	17.6
Diluted (cents)	14.8	(0.2)	14.6	2.8	0.1	2.8	17.4

To support comparability with the financial statements as presented in 2016, a reconciliation from reported profit/(loss) before interest to adjusted profit before income tax by segment is shown below for each year.

	2017						
	Specialty Products \$million	Chromium \$million	Segment totals \$million	Central costs \$million	Total of continuing operations \$million	Discontinued operations \$million	Total \$million
Reported operating profit/(loss)	93.5	28.8	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	11.6	0.2	11.8	–	11.8	–	11.8
Adjusted operating profit/(loss)	109.0	30.1	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	109.0	30.1	139.1	(29.3)	109.8	5.4	115.2

	2016						
	Specialty Products restated \$million	Chromium \$million	Segment totals restated \$million	Central costs \$million	Total of continuing operations restated \$million	Discontinued operations \$million	Total restated \$million
Reported operating profit/(loss)	77.5	23.6	101.1	(15.7)	85.4	(0.9)	84.5
Adjusting Items							
Restructuring	1.3	–	1.3	1.4	2.7	0.3	3.0
Business transformation	–	–	–	2.4	2.4	–	2.4
Increase in environmental provisions due to additional remedial work identified	–	3.5	3.5	–	3.5	–	3.5
Acquisition costs	–	–	–	0.8	0.8	–	0.8
Amortisation of intangibles arising on acquisition	2.8	–	2.8	–	2.8	–	2.8
Adjusted operating profit/(loss)	81.6	27.1	108.7	(11.1)	97.6	(0.6)	97.0
Other expenses	–	–	–	(1.4)	(1.4)	–	(1.4)
Finance income	–	–	–	0.1	0.1	–	0.1
Finance costs	–	–	–	(7.7)	(7.7)	–	(7.7)
Adjusting items							
Finance costs	–	–	–	4.5	4.5	–	4.5
Adjusted profit before income tax	81.6	27.1	108.7	(15.6)	93.1	(0.6)	92.5

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 page 24.

	2017 Profit and loss on continuing operations \$million	2017 Profit and loss on discontinued operations \$million	2017 Profit and loss on total operations \$million	2016 Profit and loss on continuing operations restated \$million	2016 Profit and loss on discontinued operations \$million	2016 Profit and loss on total operations restated \$million
Profit for the year	112.7	4.9	117.6	68.9	(0.8)	68.1
Adjustments for						
Finance income	(0.2)	–	(0.2)	(0.1)	–	(0.1)
Finance costs and other expenses after adjusting items	13.1	–	13.1	4.6	–	4.6
Tax charge	(34.2)	0.9	(33.3)	7.2	0.2	7.4
Depreciation and amortisation	38.0	1.7	39.7	26.3	1.7	28.0
Excluding intangibles arising on acquisition	(11.8)	–	(11.8)	(2.8)	–	(2.8)
Adjusting items impacting profit before tax	31.3	(0.4)	30.9	16.7	0.3	17.0
EBITDA	148.9	7.1	156.0	120.8	1.4	122.2

There are also a number of key performance indicators ('KPIs') on pages 14 and 15, 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.

	2017 \$million	2016 \$million
Revenue	830.3	659.5
Variable costs	(437.4)	(348.7)
Non variable costs	(50.2)	(35.9)
Cost of sales	(487.6)	(384.6)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

5. ADJUSTING ITEMS AND ALTERNATIVE PERFORMANCE MEASURES CONTINUED

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

	2017 \$million	2016 restated \$million
Current tax on continuing operations:		
Recognition of UK Advance Corporation Tax credits	–	–
UK corporation tax	6.9	6.6
Overseas corporation tax on continuing operations	16.0	9.7
Adjustments in respect of prior years:		
United Kingdom	–	–
Overseas	–	(1.1)
Total current tax	22.9	15.2
Deferred tax:		
United Kingdom	1.0	0.2
Overseas	(59.3)	(8.4)
Adjustment in respect of prior years:		
United Kingdom	0.3	–
Overseas	0.9	0.2
Total deferred tax	(57.1)	(8.0)
Income tax (credit)/expense for the year	(34.2)	7.2
Comprising:		
Income tax expense for the year	(34.2)	7.2
Adjusting items*		
Overseas taxation on adjusting items	5.7	1.9
UK taxation on adjusting items	–	1.8
Recognition of change in rate of tax (US)	51.0	–
Taxation on adjusting items	56.7	3.7
Income tax expense for the year after adjusting items	22.5	10.9

* 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 2017 of 20.5% (2016: 11.7%). The Group is international. It 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. In 2017, the Group's tax rate was significantly impacted by the reduction in US tax rates as a result of the Tax and Jobs Act which made several major changes to the US tax code including importantly a reduction in the US Federal tax rate to 21% (from 35%). This change gave rise to the \$51.0m tax adjusting item.

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

	2017 \$million	2017 per cent	2016 restated \$million	2016 restated per cent
Profit before tax on continuing operations	78.5		76.1	
Tax on ordinary activities at 19.25 per cent (2016: 20.00 per cent)*	15.1	19.2	15.2	20.0
Difference in overseas effective tax rates	(1.2)	(1.5)	(3.0)	(3.9)
Income not taxable and impact of tax efficient financing	(4.3)	(5.5)	(4.6)	(6.0)
Expenses not deductible for tax purposes	6.0	7.6	0.5	0.6
Adjustments in respect of prior years	1.2	1.5	(0.9)	(1.2)
Recognition of adjusting tax items	(51.0)	(64.9)	–	–
Tax charge and effective tax rate for the year	(34.2)	(43.6)	7.2	9.5

* The UK corporation tax rate will reduce to 17% from 1 April 2020; this reduction was substantively enacted on 26 October 2015.

The tax charge related to discontinued operations is \$0.9m (2016: \$0.2m).

7. PROFIT FOR THE YEAR

Profit for the year including discontinued operations has been arrived at after charging/(crediting):

	2017 \$million	2016 \$million
Employee costs (see Note 8)	126.9	106.0
Net foreign exchange losses/(gains)	0.1	5.2
Research and development costs	8.6	7.9
Depreciation of property, plant and equipment	27.2	24.6
Amortisation of intangible assets	12.5	3.4
Total depreciation and amortisation expense	39.7	28.0
Profit/loss on disposal of property, plant and equipment	3.2	0.5
Write off of inventory	3.3	1.5
Cost of inventories recognised as expense	386.9	312.1
Fees available to the Company's auditor and its associates:		
Audit of company	0.3	0.2
Audit of subsidiaries	0.6	0.5
Audit related services – interim review	0.1	0.2
Other audit related services – audit of tax returns	–	0.1
Services related to corporate finance transactions	0.5	0.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

8. EMPLOYEES

	2017 \$million	2016 \$million
Employee costs:		
Wages and salaries	126.9	94.0
Social security costs	9.7	7.1
Pension costs	5.7	4.9
	142.3	106.0

	Number	Number
Average number of FTE employees*:		
Specialty Products	1,147	980
Chromium	253	247
Central	17	15
Total from continuing operations	1,417	1,242
Discontinued operations	204	153
Total including discontinued operations	1,621	1,395

* Full time equivalent including contractors.

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 2017 \$million	Discontinued operations 2017 \$million	Total of all operations 2017 \$million	Continuing operations restated 2016 \$million	Discontinued operations 2016 \$million	Total of all operations restated 2016 \$million
Earnings:						
Earnings for the purpose of basic earnings per share	112.7	4.9	117.6	68.7	(0.6)	68.1
Adjusting items net of tax	(25.4)	(0.4)	(25.8)	13.0	0.3	13.3
Adjusted earnings	87.3	4.5	91.8	81.7	(0.3)	81.4

	2017 million	2016 million
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	463.2	462.8
Effect of dilutive share options	6.3	3.9
Weighted average number of shares for the purposes of diluted earnings per share	469.5	466.7

	Continuing operations 2017 cents	Discontinued operations 2017 cents	Total of all operations 2017 cents	Continuing operations restated 2016 cents	Discontinued operations 2016 cents	Total of all operations restated 2016 cents
Earnings per share:						
Basic	24.3	1.1	25.4	14.9	(0.2)	14.7
Diluted	24.0	1.0	25.0	14.8	(0.2)	14.6
Basic after adjusting items	18.8	1.0	19.8	17.7	(0.1)	17.6
Diluted after adjusting items	18.6	0.9	19.5	17.5	(0.1)	17.4

10. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill \$million	Brand \$million	Other intangible assets \$million	Total \$million
Cost:				
At 1 January 2016	324.7	22.1	35.3	382.1
Exchange differences	(3.5)	0.5	–	(3.0)
Additions	–	–	3.8	3.8
At 31 December 2016	321.2	22.6	39.1	382.9
Exchange differences	5.8	1.1	4.1	11.0
Additions	–	–	2.2	2.2
Intangible assets arising on the acquisition of SummitReheis	203.0	3.2	155.9	362.1
Reclassification as held for sale	(3.1)	–	(3.7)	(6.8)
At 31 December 2017	526.9	26.9	197.6	751.4
Amortisation:				
At 1 January 2016	–	–	19.6	19.6
Charge for the year	–	–	3.4	3.4
At 31 December 2016	–	–	23.0	23.0
Charge for the year	–	0.8	11.7	12.5
Reclassification as held for sale	–	–	(1.3)	(1.3)
At 31 December 2017	–	0.8	33.4	34.2
Carrying amount:				
At 31 December 2017	526.9	26.1	164.2	717.2
At 31 December 2016	321.2	22.6	16.1	359.9
At 1 January 2016	324.7	22.1	15.7	362.5

The amortisation charge includes \$0.4m (2016: \$0.3m) 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 cash generating units ('CGUs') that are expected to benefit from that business combination.

All of the goodwill at 31 December 2017 relates to Elementis Specialty Products (2016: \$318.5m), as the goodwill associated with Elementis Surfactants (2017: \$3.1m, 2016: \$2.7m) is now classed as held for sale. There is no goodwill associated with Elementis Chromium.

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired. 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 during the period. 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. In this exercise a range of discount rates from 10.1% to 15.0% (2016: 11.3% to 12.3%) was used.

The Group prepares cash flow forecasts derived from the most recent 3 year plans approved by management for the next 3 years and extrapolates cash flows for the following 17 years based on estimated growth rates of 2.5%. The rates do not exceed the average long term growth rate for the relevant markets and also take into account potential, future capacity limitations for the Chromium business. 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.

The brand intangibles represent the value ascribed to the trading name and reputation of the Deuchem, Fancor, Watercryn, Hi-Mar acquisitions and SummitReheis. 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 and the brand relating to SummitReheis is being amortised over a period of 3 years. 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 5 to 24 years.

Other intangible assets classed as held for sale at 31 December 2017 relate to capitalised REACh costs of \$2.4m (2016: \$1.6m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings \$million	Plant and machinery \$million	Fixtures fittings and equipment \$million	Under construction \$million	Total \$million
Cost:					
At 1 January 2016	151.5	547.4	47.5	16.5	762.9
Additions	–	1.2	–	32.8	34.0
Exchange differences	(5.9)	(32.9)	(0.3)	(0.3)	(39.4)
Disposals	(0.9)	(3.7)	(0.7)	(0.2)	(5.5)
Reclassifications	(9.8)	(31.2)	2.8	(30.2)	(68.4)
At 31 December 2016	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
Accumulated depreciation:					
At 1 January 2016	98.6	416.1	37.0	–	551.7
Charge for the year	3.4	19.7	1.5	–	24.6
Exchange differences	(5.6)	(31.3)	(0.4)	–	(37.3)
Disposals	(0.1)	(3.6)	(0.6)	–	(4.3)
Reclassifications	(12.0)	(56.5)	0.1	–	(68.4)
At 31 December 2016	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
Net book value:					
At 31 December 2017	54.2	131.0	12.5	21.8	219.5
At 31 December 2016	50.6	136.4	11.7	18.6	217.3
At 1 January 2016	52.9	131.3	10.5	16.5	211.2

Group capital expenditure contracted but not provided for in these financial statements amounted to \$nil (2016: \$nil).

12. INVENTORIES

	2017 \$million	2016 \$million
Raw materials and consumables	50.8	42.2
Work in progress	13.8	8.9
Finished goods and goods purchased for resale	79.0	70.2
	143.6	121.3

Inventories are disclosed net of provisions for obsolescence of \$5.8m (2016: \$4.8m).

13. TRADE AND OTHER RECEIVABLES

	2017 \$million	2016 \$million
Trade receivables	109.9	88.7
Other receivables	4.1	3.3
Prepayments and accrued income	10.6	4.0
	124.6	96.0

14. TRADE AND OTHER PAYABLES

	2017 \$million	2016 \$million
Trade payables	53.6	52.7
Other taxes and social security	–	1.0
Other payables	10.1	10.1
Accruals and deferred income	54.0	35.1
	117.7	98.9

15. PROVISIONS

	Environmental \$million	Self insurance \$million	Restructuring \$million	Other \$million	Total \$million
At 1 January 2017	31.4	2.5	1.3	4.0	39.2
Charged/(credited) to the income statement:					
Increase in provisions due to change in discount rate	–	–	–	–	–
Set up/(release) of provisions	2.3	(0.3)	(0.9)	–	1.1
Unwinding of discount	1.1	–	–	–	1.1
Utilised during the year	(6.1)	(0.4)	(0.5)	(0.6)	(7.6)
Currency translation differences	1.2	–	0.2	–	1.4
Additional provision on acquisition	–	0.5	–	–	0.5
Reclassified as held for sale	(2.1)	(0.1)	–	(0.8)	(3.0)
At 31 December 2017	27.8	2.2	0.1	2.6	32.7
Due within 1 year	8.2	1.0	0.1	1.5	10.8
Due after 1 year	19.6	1.2	–	1.1	21.9

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 20 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 \$2.3m charged to environmental provisions, \$1.1m relates to additional remediation work identified at Eaglescliffe and Castle Hayne. Further details on these charges are included within adjusting items (note 5).

Whilst a range of outcomes is possible, the Directors believe that the reasonably possible range for the environmental provision is from \$21.3m to \$38.0m.

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 5 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

16. DEFERRED TAX AND ACT RECOVERABLE

	Retirement benefit plans \$million	Accelerated tax depreciation \$million	Amortisation of US goodwill \$million	Other intangible assets \$million	Temporary differences \$million	Unrelieved tax losses \$million	Total \$million
At 1 January 2016	9.9	(22.9)	(94.4)	–	8.6	–	(98.8)
(Charge)/credit to the income statement	0.2	(6.5)	(0.1)	–	6.8	7.6	8.0
Credit to other comprehensive income	(0.5)	–	–	–	–	–	(0.5)
Charge to retained earnings	–	–	–	–	(0.4)	–	(0.4)
Currency translation differences	0.6	–	–	–	(1.5)	–	(0.9)
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 31 December 2017	0.9	(19.5)	(59.5)	(36.7)	14.0	7.6	(93.2)
Deferred tax assets	–	–	–	–	0.2	–	0.2
Deferred tax liabilities	0.9	(19.5)	(59.5)	(36.7)	13.8	7.6	(93.4)

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. There are no significant temporary differences arising in connection with interests in subsidiaries and associates.

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:

	2017 \$million	2016 \$million
At 1 January	23.0	34.0
Recognition of UK Advance Corporation Tax credits	–	2.7
Utilisation	(8.6)	(8.3)
Currency translation differences	1.8	(5.4)
At 31 December	16.2	23.0

There are no material losses where deferred tax assets have not been recognised.

17. SHARE CAPITAL

	2017 \$million	2016 \$million
At 1 January	44.4	44.4
Issue of shares	–	–
At 31 December	44.4	44.4

Details of share capital are set out in note 11 to the Parent company financial statements.

18. OTHER RESERVES

	Capital redemption reserve \$million	Translation reserve \$million	Hedging reserve \$million	Share options reserve \$million	Total \$million
Balance at 1 January 2016	158.8	(62.0)	(7.9)	4.1	93.0
Share based payments	–	–	–	2.6	2.6
Exchange differences	–	(17.9)	–	(0.7)	(18.6)
Increase in fair value of derivatives	–	–	0.6	–	0.6
Transfer	–	–	–	(2.4)	(2.4)
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)
Balance at 31 December 2017	158.8	(57.2)	(6.9)	4.3	99.0

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.

19. BORROWINGS

	2017 \$million	2016 \$million
Bank loans	346.1	5.1
The borrowings are repayable as follows:		
Within 1 year	2.7	5.0
In the fifth year	343.4	0.1
	346.1	5.1

The weighted average interest rates paid were as follows:

	2017 per cent	2016 per cent
Bank loans	2.7	1.2

Group borrowings were denominated as follows:

	US Dollar	Taiwan Dollar	Brazilian Real	Euro	Other	Total
Bank loans						
31 December 2016	2.0	2.9	0.1	–	0.1	5.1
31 December 2017	305.0	2.7	–	38.4	–	346.1

Of the US dollar borrowings, \$nil million was unsecured (2016: \$nil million), 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:

	2017 \$million	2016 \$million
Cash and cash equivalents	55.0	82.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

21. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an 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. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar assets.

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.

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 \$158.2m (2016: \$113.4m) of undrawn committed facilities, of which \$131.6m expires after more than 1 year.

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.

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, most with a maturity of less than 1 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 and no derivatives are 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 investment in overseas subsidiaries is hedged by US dollar denominated drawdowns under the syndicated facility, which mitigates the currency risk arising from the translation of a subsidiary's net assets.

Interest rate risk

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. The policy does not require that a specific proportion of the Group's borrowings are at fixed rates of interest.

Other market price risk

Equity price risk arises from available-for-sale 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.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on operating capital employed ('ROCE') both including and excluding goodwill, as defined on page 14. The Group's target is to achieve a ROCE (including goodwill) in excess of our weighted average cost of capital.

The Board encourages employees to hold shares in the Company through the Group's savings related share option schemes. At present, employees, including Executive Directors, hold 0.1% (2016: 0.2%) of ordinary shares, or 1.5% (2016: 1.8%) assuming that all outstanding options vest or are exercised.

The new dividend policy is set out in the Chairman's statement on pages 2 and 3.

	2017 \$million	2016 \$million
Recognised in profit or loss		
Interest income on bank deposits	0.2	0.1
Financial income	0.2	0.1
Interest on bank loan	(9.7)	(0.8)
Net pension interest	(1.1)	(1.0)
Net change in fair value of cash flow hedges transferred from equity	(0.3)	(5.0)
Financial costs	(11.1)	(6.8)
Net financial costs	(10.9)	(6.7)

None of the above relates to financial assets or liabilities held at fair value through profit and loss.

	2017 \$million	2016 \$million
Recognised directly in equity		
Effective portion of changes in fair value of cash flow hedge	0.1	(0.3)
Fair value of cash flow hedges transferred to income statement	0.3	0.9
Effective portion of change in fair value of net investment hedge	22.9	(1.4)
Foreign currency translation differences for foreign operations	(0.2)	(16.5)
Recognised in		
Hedging reserve	0.4	0.6
Translation reserve	22.7	(17.9)

Derivatives used for hedging included within current assets amounted to \$0.9m at 31 December 2017 (2016: \$nil) and \$nil within current liabilities (2016: \$0.4m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

21. FINANCIAL RISK MANAGEMENT CONTINUED

Loans and borrowings

	2017 \$million	2016 \$million
Current liabilities		
Unsecured bank loan	–	–
Secured bank loan	2.7	5.1
Non-current liabilities		
Secured bank loan	343.4	–

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Year of maturity	Face value \$million	2017 Carrying amount \$million	Face value \$million	2016 Carrying amount \$million
Unsecured bank loan	USD	2016	–	–	–	–
Secured bank loan	USD	2022	305.0	305.0	2.0	2.0
Secured bank loan	TWD	2018	2.7	2.7	2.9	2.9
Secured bank loan	BRL	2017	–	–	0.1	0.1
Secured bank loan	EUR/JPY	2022	38.4	38.4	0.1	0.1
Total interest-bearing liabilities			346.1	346.1	5.1	5.1

The loans bear interest at interest rates of between 1.0% and 3.3%. The secured bank loans are secured by guarantees provided by subsidiary companies and against land and buildings in Taiwan with a carrying value of \$1.6m.

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	
	2017 \$million	2016 \$million
Trade receivables	109.9	88.7
Other receivables	4.1	3.3
Cash and cash equivalents	55.0	82.6
	169.0	174.6

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	2017 \$million	2016 \$million
North America	30.2	17.9
Europe	30.8	25.8
Rest of the world	48.9	45.0
	109.9	88.7

Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross 2017 \$million	Impairment 2017 \$million	Gross 2016 \$million	Impairment 2016 \$million
Not past due	97.9	(0.6)	78.8	(0.3)
Past due 0-30 days	8.6	–	8.9	–
Past due 31-120 days	3.3	–	1.2	–
Past due > 121 days	1.0	(0.3)	0.4	(0.3)
Total	110.8	(0.9)	89.3	(0.6)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2017 \$million	2016 \$million
Balance at 1 January	0.6	0.6
Impairment movements	0.3	–
Balance at 31 December	0.9	0.6

The provision for impairment 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. A provision is therefore deemed to be appropriate.

Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

	31 December 2017				
	Carrying amount \$million	Contractual cash flows \$million	6 months or less \$million	6-12 months \$million	1 year or more \$million
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.

	31 December 2016				
	Carrying amount \$million	Carrying cash flows \$million	6 months or less \$million	6-12 months \$million	1 year or more \$million
Non-derivative financial liabilities:					
Unsecured bank loan	–	–	–	–	–
Secured bank loan	5.1	(5.1)	(5.1)	–	–
Trade and other payables*	63.7	(63.7)	(63.7)	–	–
	68.8	(68.8)	(68.8)	–	–

* 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.

Currency risk

Exposure to currency risk

The Group's exposure to currency risk was as follows based on notional amounts:

	2017			2016		
	USD \$million	Euro \$million	Other \$million	USD \$million	Euro \$million	Other \$million
Trade receivables	59.5	29.6	20.8	47.8	22.6	18.3
Trade payables	(28.8)	(12.9)	(11.9)	(27.9)	(11.7)	(13.1)
Gross balance sheet exposure	30.7	16.7	8.9	19.9	10.9	5.2
Forward exchange contracts	–	(28.8)	28.8	–	(23.5)	23.5
Net exposure	30.7	(12.1)	37.7	19.9	(12.6)	28.7

The main exchange rates relevant to the Group are set out in the Finance report on page 25.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

21. FINANCIAL RISK MANAGEMENT CONTINUED

Sensitivity analysis

A 10% strengthening of US dollar against the following currencies at 31 December 2017 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 \$million	Profit or loss \$million
31 December 2017		
GBP	(24.9)	2.5
Euro	(47.1)	(5.1)
RMB	(3.8)	(1.6)
TWD	(3.2)	0.1
31 December 2016		
GBP	(2.5)	2.6
Euro	(5.1)	(3.9)
RMB	(1.6)	(1.4)
TWD	0.1	(0.3)

A 10% strengthening of USD against all currencies will have increased/(decreased) the carrying amount of variable rate instruments as follows:

	Carrying amount	
	2017 \$million	2016 \$million
Variable rate instruments		
Financial liabilities	(4.1)	(0.3)

Cash flow sensitivity analysis for variable rate instruments

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.

	100bp increase \$million	2017 Profit or loss 100bp decrease \$million	100bp increase \$million	2016 Profit or loss 100bp decrease \$million
Variable rate instruments	(1.8)	1.8	–	–

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with carrying amounts shown in the balance sheet, are as follows:

	31 December 2017		31 December 2016	
	Carrying amount \$million	Fair value \$million	Carrying amount \$million	Fair value \$million
Trade and other receivables	114.0	114.0	92.0	92.0
Cash and cash equivalents	55.0	55.0	86.2	86.2
Derivative contracts used for hedging:				
Assets	0.9	0.9	–	–
Liabilities	–	–	(0.4)	(0.4)
Unsecured bank facility	–	–	–	–
Secured bank loan	(343.3)	(343.4)	(5.1)	(5.1)
Trade and other payables*	(129.2)	(129.2)	(97.6)	(97.6)
	(301.7)	(301.7)	75.1	75.1
Unrecognised gain/(loss)	–	–	–	–

* Excludes derivatives.

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.

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.

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:

	2017 per cent	2016 per cent
Borrowings	1.0-3.3	0.9-2.7

At both 31 December 2016 and 31 December 2017 there was no difference between the carrying value and fair value of financial instruments.

22. OPERATING LEASES

	2017 \$million	2016 \$million
Minimum lease payments under operating leases recognised as an expense in the year	4.5	4.1

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2017 \$million	2016 \$million
Within 1 year	4.2	3.9
In the second to fifth years inclusive	9.5	10.0
After 5 years	9.9	12.6
	23.6	26.5

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 2017 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.

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 2017 relate to 2 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. During 2017 with the acquisition of SummitReheis the Group also acquired 2 further unfunded pension schemes and two long term service award schemes all in Germany. These have also been included within this category.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

23. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Net defined benefit liability

The net liability was as follows:

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Other \$million	Total \$million
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)

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Other \$million	Total \$million
2016					
Total market value of assets	702.9	109.8	–	–	812.7
Present value of scheme liabilities	(698.6)	(132.9)	(6.3)	(5.0)	(842.8)
Net asset/(liability) recognised in the balance sheet	4.3	(23.1)	(6.3)	(5.0)	(30.1)

Employer contributions in 2017 were \$7.3m (2016: \$3.3m) to the UK scheme and \$2.6m (2016: \$2.2m) to US schemes. Contributions in 2018 are expected to be in the range \$0-\$15m predominantly dependent on the outcome of the 2017 triennial valuation. Further details on agreed future payments to the UK pension scheme are included in the Finance report.

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 \$million	US pension schemes \$million	US PRMB scheme \$million	Other \$million	Total \$million
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)

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Other \$million	Total \$million
2016					
Balance at 1 January	6.7	(24.4)	(6.3)	(5.0)	(29.0)
Included in profit or loss					
Current service cost	(0.7)	(0.5)	(0.1)	(0.1)	(1.4)
Running costs	(1.1)	(0.3)	–	–	(1.4)
Net interest expense	0.3	(1.0)	(0.2)	(0.1)	(1.0)
	(1.5)	(1.8)	(0.3)	(0.2)	(3.8)
Included in other comprehensive income					
Re-measurements:					
Return on plan assets excluding interest income	107.5	4.3	–	–	111.8
Actuarial gains/(losses) arising from demographic assumptions	–	0.9	–	–	0.9
Actuarial gains arising from financial assumptions	(119.5)	(3.5)	(0.4)	(0.5)	(123.9)
Actuarial gains/(losses) arising from experience adjustment	8.7	0.2	(0.3)	–	8.6
Exchange differences	(0.9)	–	–	0.3	(0.6)
	(4.2)	1.9	(0.7)	(0.2)	(3.2)
Contributions:					
Employers	3.3	1.2	1.0	0.4	5.9
Deficit in schemes at 31 December	4.3	(23.1)	(6.3)	(5.0)	(30.1)

Plan assets

Plan assets comprise:

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Total \$million
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

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Total \$million
2016				
Equities	246.0	68.2	–	314.2
Bonds*	359.5	5.4	–	364.9
Cash/liquidity funds	97.4	36.2	–	133.6
	702.9	109.8	–	812.7

* Including LDI repurchase agreement liabilities.

To reduce volatility risk a liability driven investment (LDI) strategy forms part of the Trustees' management of the UK defined benefit scheme's assets, including government bonds, corporate bonds and derivatives. The bond assets category in the table above includes gross assets of \$557.6m (2016: \$477.3m) and associated repurchase agreement liabilities of \$135.8m (2016: \$117.8m). 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.

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 30% 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 50% 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 50% 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

23. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Changes in the fair value of plan assets for the major schemes are as follows:

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Total \$million
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 gains	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

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Total \$million
2016				
Opening fair value of plan assets	732.8	108.1	–	840.9
Expected return	24.6	4.2	–	28.8
Running costs	(1.1)	(0.3)	–	(1.4)
Actuarial gain	107.5	4.3	–	111.8
Contributions by employer	3.3	1.2	–	4.5
Contributions by employees	0.1	–	–	0.1
Benefits paid	(36.6)	(7.7)	–	(44.3)
Exchange differences	(127.7)	–	–	(127.7)
Closing fair value of plan assets	702.9	109.8	–	812.7

Defined benefit obligation

Changes in the present value of the defined benefit obligation for the major schemes are as follows:

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Total \$million
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)

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Total \$million
2016				
Opening defined benefit obligation	(726.1)	(132.5)	(6.3)	(864.9)
Service cost	(0.7)	(0.5)	(0.1)	(1.3)
Interest cost	(24.2)	(5.2)	(0.2)	(29.6)
Contributions by employees	(0.1)	–	–	(0.1)
Actuarial losses	(110.8)	(2.4)	(0.7)	(113.9)
Benefits paid	36.6	7.7	1.0	45.3
Exchange differences	126.7	–	–	126.7
Closing defined benefit obligation	(698.6)	(132.9)	(6.3)	(837.8)

Actuarial assumptions

A full actuarial valuation was carried out on 30 September 2014 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 %
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
2016		
Rate of increase in salaries	4.30	3.00/3.45
Rate of increase in pensions in payment	3.10	N/A
Discount rate	2.60	3.85
Inflation	3.30	2.00

The assumed life expectancies on retirement are:

	UK		US	
	2017 years	2016 years	2017 years	2016 years
Retiring at 31 December 2017				
Males	23	23	21	21
Females	25	25	22	22
Retiring in 20 years				
Males	25	25	21	21
Females	26	26	23	23

The main assumptions for the PRMB scheme are a discount rate of 3.4% (2016: 3.85%) per annum and a health care cost trend of 6.5% (2016: 6.5%) per annum for claims pre age 65 reducing to 4.5% per annum by 2021 (2016: 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 2017, the weighted average duration of the defined benefit obligations for the major schemes was as follows:

UK: 14 years

US: 10 years.

Sensitivity analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increased/decreased by 0.5%	Decreased/increased by 7%
Rate of inflation	Increased/decreased by 0.5%	Increased/decreased by 5%
Rate of salary growth	Increased/decreased by 0.5%	Increased/decreased by 0%
Rate of mortality	Increased by 1 year	Increased by 5%

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

24. SHARE BASED PAYMENTS

The Company has several share incentive schemes for certain Directors and employees of the Group.

A Long Term Incentive Plan was adopted in 2008 (amended in 2010 and 2015) ('LTIP') for selected senior executives including the Executive Directors, business presidents and general counsel. In 2017, LTIP awards were extended to include the members of the Executive Leadership team ('ELT'). A shadow LTIP was introduced for an ELT member based in China. This is structured in almost all respects as the LTIP. Awards of nil cost share options or conditional share awards are normally made annually and the maximum value of any grant to an individual is currently 2 times the CEO's basic salary. Awards vest after 3 years and are subject to EPS and TSR performance conditions over a 3 year period. Vested awards are then exercisable for up to 7 years, subject to the rules of the plan. For US participants prior to 2015 (for tax reasons), the default practice is for options to be exercised at the date of vesting. From 2015, US participants received awards structured as restricted stock units.

As reported in last year's annual report, buyout awards were made to the CEO and CFO in 2016 representing forfeited remuneration when they left their previous employer to join Elementis. Detail on vesting in 2017 can be found in the Directors' remuneration report on pages 71 and 72.

At the 2012 Annual General Meeting ('AGM') shareholders approved an approved and unapproved executive share option scheme ('2012 ESOS'). This scheme replaced the previous approved and unapproved executive share option scheme ('2003 ESOS') which expired in 2013. The last awards made under the 2003 scheme were in 2012. Under the 2003 and 2012 ESOS, options were granted annually to purchase shares in the Company at an exercise price per share based on the Company's average mid-market closing share price on the dealing day preceding the date of grant with no discount applied. The number of options granted were based on a percentage of the participant's basic salary. Options vested after 3 years and were subject to EPS and TSR performance conditions. Vested options were then exercisable for up to 7 years, subject to the rules of the schemes. The Company operates 2 shadow executive share option schemes for a number of executives, who are employed or based in China, that are structured the same in almost all respects as the 2003 and 2012 ESOS. As mentioned above, it is proposed that the renewed 2018 LTIP will replace the 2012 ESOS.

The Company also operates a 2008 UK Savings Related Share Option Scheme, which is a save as you earn ('SAYE') scheme, under which UK employees can enter into contracts to save currently up to a maximum of £500 per month with a bank or building society for a period of 3 or 5 years and use the proceeds from their savings accounts to purchase shares in the Company on the exercise of their options. The option price is the average mid-market closing share price over the 5 working days preceding the invitation date, discounted by 20%. Options may be exercised typically within 6 months following the end of the savings period. A similar scheme exists for US employees. Under the 2008 US Sharesave Scheme ('Sharesave'), US employees can enter into contracts to save up to a maximum of \$2,000 per month with a bank or similarly approved institution, for a period of 2 years, and use the proceeds from their savings accounts to purchase shares in the Company on the exercise of their options. The option price is the average mid-market closing share price on the date of the grant, discounted by 15%. Options may be exercised typically within 3 months following the end of the savings period. Options granted under the 2 savings based schemes are held subject to the rules of the schemes.

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:

	2017	2016
Fair value per option (pence)	145.0	142.6
Expected volatility (per cent)	29.0	28.0
Risk free rate (per cent)	0.2	0.5
Expected dividend yield (per cent)	4.1	1.9

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 (2016: \$2.3m) related to share based payment transactions during the year.

At 31 December 2017 the following options/awards to subscribe for ordinary shares were outstanding:

Year of grant	Exercise price (p)	Exercisable		At	Granted '000	Exercised '000	Expired '000	31 December 2017 '000
		From	To	1 January 2017 '000				
UK savings related share option scheme								
2013	206.14	01/10/16	01/04/17	2	–	(1)	(1)	–
2014	216.58	01/10/17	01/04/18	43	–	(38)	(1)	4
2015	207.32	01/10/18	01/04/19	41	–	–	(1)	40
2016	175.81	01/10/19	01/04/20	175	–	(5)	(9)	161
2017	226.63	01/10/20	01/04/21	–	64	–	–	64
				261	64	(44)	(12)	269
US savings related share option scheme								
2015	201.79	24/08/17	24/11/17	227	–	(186)	(41)	–
2016	185.30	31/08/18	31/11/18	363	–	(1)	(32)	330
2017	237.32	07/09/19	07/12/19	–	259	–	–	259
				590	259	(187)	(73)	589
Executive share option schemes/awards granted under the Long term incentive plan*								
2010+	57.00	06/04/13	06/04/20	257	–	(20)	–	237
2011+	149.90	04/04/14	04/04/21	244	–	(94)	–	150
2012+	194.30	27/06/15	27/06/22	433	–	(98)	(27)	308
2014+	286.50	01/04/17	01/04/24	526	–	–	(526)	–
2014*	Nil	01/04/17	01/04/24	937	–	–	(937)	–
2015+	290.20	01/04/18	01/04/25	554	–	–	(25)	529
2015*	Nil	27/04/18	27/04/25	691	–	–	(252)	439
2016Δ	Nil	07/03/17	07/03/26	226	–	(206)	(20)	–
2016Δ	Nil	07/03/18	07/03/26	226	–	–	–	226
2016+	238.40	04/04/19	04/04/26	895	–	–	(42)	853
2016*	Nil	04/04/19	04/04/26	1,333	–	–	(419)	914
2016Δ	Nil	04/04/19	19/09/26	241	–	–	–	241
2017Δ	Nil	07/03/17	07/03/27	–	84	–	–	84
2017#	Nil	07/03/19	07/03/27	–	50	–	–	50
2017~	Nil	07/03/20	07/03/27	–	16	–	–	16
2017+	289.20	03/04/20	03/04/27	–	860	–	(24)	836
2017*†	Nil	03/04/20	03/04/27	–	1,435	–	–	1435
2017Δ	Nil	01/08/19	01/08/27	–	58	–	–	58
				6,563	2,503	(418)	(2,272)	6,376

+ 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 2010, 2011, 2012, 2014, 2015, 2016 and 2017 options shown above include approximately 68,000, 54,000, 58,000, nil, 67,000, 85,000 and 52,000 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 LTIP shown above include approximately 44,000 shadow LTIPs.

Conditional share award under the Deferred Share Bonus Plan.

~ Awards made as one-off agreements under the Deferred Share Bonus Plan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

24. SHARE BASED PAYMENTS CONTINUED

The weighted average exercise prices of options disclosed in the previous table were as follows:

	2017 Average exercise price (p)	2016 Average exercise price (p)
At 1 January	110.9	121.4
Granted	114.8	91.8
Exercised	125.4	108.8
Expired	83.4	113.4
At 31 December	120.1	110.9

The weighted average share price at the date of exercise of share options exercised during the year was 287 pence (2016: 220 pence).

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.

26. MOVEMENT IN NET CASH/(BORROWINGS)

	2017 \$million	2016 \$million
Change in net cash resulting from cash flows:		
Increase in cash and cash equivalents	(31.7)	6.3
Decrease in borrowings repayable within 1 year	2.8	(0.1)
Decrease in borrowings repayable after 1 year	(338.8)	0.1
	(367.7)	6.3
Currency translation differences	(0.9)	(2.8)
Increase in net cash	(368.6)	3.5
Net cash at beginning of year	77.5	74.0
Net cash at end of year	(291.1)	77.5

27. DIVIDENDS

An interim dividend of 2.70 cents per share (2016: 2.70 cents) was paid on 29 September 2017 and the Group is proposing a final dividend of 6.10 cents per share (2016: 5.75 cents) for the year ended 31 December 2017. In 2016 a special dividend of 8.35 cents per share was declared and paid. The total dividend for the year, is 8.80 cents per share (2016: normal dividend 8.45 cents, 16.80 cents including the special dividend).

The amount payable for the final dividend, based on the anticipated number of qualifying ordinary shares registered on the record date, is \$28.3m.

The payment of this dividend will not have any tax consequences for the Group.

28. KEY MANAGEMENT COMPENSATION

	2017 \$million	2016 \$million
Salaries and short term employee benefits	4.7	3.4
Other long term benefits	0.6	0.4
Share based payments	1.7	1.6
	7.0	5.4

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 55 to 76.

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

There were no significant events after the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

31. ACQUISITION

On 24 March 2017 the Group acquired all the shares SRLH Holdings, Inc. ('SummitReheis'), for an initial cash consideration of \$370.3m, rising to \$370.9m after closing working capital adjustments. SummitReheis is a high quality, high margin specialty chemicals platform that produces a range of critical active ingredients and materials tailored for use in personal care, pharmaceutical and dental products. SummitReheis' antiperspirant actives business (more than 60% of its sales) is the global leader in the manufacture and sale of active ingredients for antiperspirants and has long standing relationships with key consumer product companies across the Americas, Europe and Asia.

The acquisitions had the following effect on the Group's assets and liabilities:

	Note	Book value at acquisition \$million	Fair value adjustments \$million	Fair value of assets acquired \$million
Intangible assets	10	73.8	85.3	159.1
Property, plant and equipment	11	18.9	–	18.9
Inventories		18.7	3.0	21.7
Trade and other receivables		27.1	(1.5)	25.6
Trade and other payables		(10.9)	(0.5)	(11.4)
Cash and cash equivalents		9.1	–	9.1
Provisions	15	–	(0.5)	(0.5)
Employee retirement benefits	23	(4.7)	–	(4.7)
Corporation tax		2.6	–	2.6
Deferred tax	16	(22.9)	(29.6)	(52.5)
Total identifiable net assets acquired		111.7	56.2	167.9
Goodwill				203.0
Consideration paid, satisfied in cash				370.9
Cash acquired				(9.1)
Net cash outflow				361.8

The fair value adjustment to inventories of \$3.0m is the net of an uplift due to fair value of \$4.0m 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 depreciated replacement cost was the primary method used to value the plant and equipment assets in the USA. Assets in Germany were subject to a fair value exercise in 2015 and given the proximity of the previous revised valuation to the Valuation Date, the assets in Germany will continue to be held at NBV.
Intangible assets	For reporting purposes intangible assets were categorised into 3 groups: customer related, technology related and marketing related. These have been valued through a combination of the income approach (excess earnings), which is based on the forecasted future revenues and margins over the estimated remaining useful life, the Relief from Royalty method ('RfR'), and the replacement cost approach.
Inventories	The market approach has been used to determine the 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.

There were a number of one-off costs associated with the acquisition of SummitReheis – 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 SummitReheis 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 operating profit and operating cash.

Acquisitions made during 2017 contributed \$102.0m to the Group's revenue, \$16.6m to the operating profit. The estimated contribution of SummitReheis to the results of the Group, had the acquisition been made on 1 January 2017, and assuming that the fair value adjustments that arose on acquisition would have been the same at the earlier date, are as follows:

	2017 \$million
Revenue	131.0
Operating profit	20.8

32. DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE

On 11 December 2017, the Group entered into a sale agreement to dispose of Elementis Specialties Netherlands BV, which carried out all of the Group's Surfactants operations. The disposal is expected to close in the first quarter of 2018 and will generate 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, were as follows:

	Year ended 31 December 2017 \$million	Year ended 31 December 2016 \$million
Revenue	47.8	43.1
Expenses	(42.0)	(43.7)
Profit before tax	5.8	(0.6)
Attributable tax expense	(0.9)	(0.2)
Net profit attributable to discontinued operations (attributable to owners of the Company)	4.9	(0.8)

Revenue includes \$0.2m related to inter-segment sales in 2017 (2016: \$0.2m).

During the year, Elementis Specialties Netherlands BV contributed \$7.2m (2016: \$2.4m absorption) to the Group's net operating cash flows and paid \$2.6m (2016: \$3.0m) in respect of investing activities.

As the operations are expected to be sold within 12 months, they have been classified as a disposal group held for sale and presented separately in the balance sheet. The proceeds of disposal are expected to substantially exceed the book value of the related net assets and accordingly no impairment losses have been recognised on the classification of these operations as held for sale.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	Year ended 2017 \$million
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

33. PRIOR YEAR RESTATEMENT

In previous years Elementis has not adjusted operating profit for the amortisation of intangibles arising on acquisition. Following the acquisition of SummitReheis, the Directors reviewed this policy and concluded that excluding such a charge from the operating profit will provide readers of the accounts with a better understanding of the Group's results on its operating activities and, as such, this charge is now included within adjusting items.

Due to this change in accounting policy, the prior year comparatives have therefore been restated to provide comparable information. The financial statement line items impacted have been set out below.

	2016 reported \$million	Restatement	2016 restated \$million
Operating profit after adjusting items	94.2	2.8	97.0
Adjusting Items			
Amortisation of intangibles arising on acquisition	–	(2.8)	(2.8)

PARENT COMPANY STATUTORY ACCOUNTS

ELEMENTIS PLC

BALANCE SHEET

at 31 December 2017

	Note	2017 £million	2016 £million
Fixed assets			
Investments	8	769.7	767.8
Current assets			
Debtors	9	12.7	12.7
Creditors: amounts falling due within one year			
Creditors	10	(0.6)	(0.6)
Net current assets		12.1	12.1
Total assets less current liabilities		781.8	779.9
Creditors: amounts falling due after more than one year			
Amounts due to subsidiary undertakings		(333.7)	(270.4)
Net assets		448.1	509.5
Capital and reserves			
Called up share capital	11	23.1	23.1
Share premium account		12.8	12.0
Capital redemption reserve		83.3	83.3
Other reserves		250.5	250.5
Share option reserve		2.9	2.8
Profit and loss account		75.5	137.8
Equity shareholders' funds		448.1	509.5

The Company recognised a loss for the financial year ended 31 December 2017 of £3.6m (2016: £2m loss).

The financial statements of Elementis plc, registered number 3299608, on pages 130 to 136 were approved by the Board on 27 February 2018 and signed on its behalf by:

PAUL WATERMAN
CEO

RALPH HEWINS
CFO

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Share capital £million	Share premium £million	Capital redemption reserve £million	Other reserves £million	Share options reserve £million	Retained earnings £million	Total £million
Balance at 1 January 2016	23.1	11.5	83.3	250.5	2.9	191.2	562.5
Comprehensive income							
Profit for the year	–	–	–	–	–	(2.0)	(2.0)
Transfer	–	–	–	–	–	–	–
Total other comprehensive income	–	–	–	–	–	(2.0)	(2.0)
Total comprehensive income	–	–	–	–	–	(2.0)	(2.0)
Transactions with owners							
Issue of shares by the Company	–	0.5	–	–	–	–	0.5
Share based payments	–	–	–	–	–	1.7	1.7
Transfer	–	–	–	–	(0.1)	0.1	–
Dividends paid	–	–	–	–	–	(53.2)	(53.2)
Total transactions with owners	–	0.5	–	–	–	(51.4)	(51.0)
Balance at 31 December 2016	23.1	12.0	83.3	250.5	2.8	137.8	509.5
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	–	–	–	–	–	(3.6)	(3.6)
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

The above analysis is provided to demonstrate a greater level of transparency in relation to the Company's distributable reserves, which amount to £75.5m (2016: £137.8m) at the end of the period.

NOTES TO THE COMPANY FINANCIAL STATEMENTS OF ELEMENTIS PLC

FOR THE YEAR ENDED 31 DECEMBER 2017

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 an investment and holding company.

2. BASIS OF PREPARATION

The Company's financial statements have been prepared 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. The last financial statements under the UK GAAP were for the year ended 31 December 2015.

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. TRANSITION TO FRS 101

The date of transition to FRS 101 was 31 December 2013. Having considered the Company's ability to recover any deferred tax assets that might be associated with the share option reserve, it was determined that it would not be appropriate to recognise such an asset. As such, there are no reconciling items between the previously disclosed accounts for 2014 and the restated accounts prepared under FRS 101. The transition to FRS 101 has not affected the reported financial position and financial performance. As such no equity reconciliations between UK GAAP and FRS 101 at the transition and comparative dates have been presented.

As a qualifying entity whose results are consolidated in the Elementis plc Consolidated financial statements on pages 90 to 129, the Company has taken advantage of the disclosure exemption requirements of FRS 101 regarding the requirement to prepare a statement of cashflows and certain financial instrument, share based pay and key management personnel compensation disclosures.

4. 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 2017.

Share based payments

The fair value of share options granted to employees is recognised as an expense with a corresponding increase in equity. Where the Company grants options over its own shares to the employees of its subsidiaries it recognises in its individual financial statements an increase in the cost of investment in its subsidiaries equivalent to the equity settled share based payment charge recognised in its subsidiaries' financial statements, with the corresponding credit being recognised directly in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- They include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company.
- Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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.

5. 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 £3.6m (2016: £2.0m loss).

6. EMPLOYEES

The average number of employees for the Company for 2017 was 2 (2016: 2). See note 28 for details of the expense related to these employees.

7. 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 55 to 76.

8. INVESTMENTS

	Unlisted shares at cost £million	Unlisted loans £million	Capital contributions £million	Total £million
Cost at 1 January 2017	0.1	759.0	8.7	767.8
Additions	—	—	1.9	1.9
Net book value 31 December 2017	0.1	759.0	10.6	769.7
Net book value 31 December 2016	0.1	759.0	8.7	767.8

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 2017 CONTINUED

8. INVESTMENTS CONTINUED

The trading subsidiaries 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
Adentac 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 ⁹
Elementis LTP Inc	Chromium chemicals	United States of America ⁷
Elementis Specialties (Anji) Ltd	Organoclays	People's Republic of China ¹⁰
Elementis Specialties (Changxing) Ltd	Organoclays	People's Republic of China ¹¹
Elementis Specialties do Brasil Quimica Ltda	Coatings additives	Brazil ¹²
Elementis Specialties Inc	Rheological additives, colourants, waxes, other specialty additives	United States of America ⁷
Elementis Specialties Netherlands BV	Surfactants and coatings additives	The Netherlands ¹³
Elementis SRL Inc	Personal Care products	United States of America ¹⁴
Elementis UK Limited trading as: Elementis Specialties	Rheological additives, colourants, waxes, other specialty additives	United Kingdom ⁸
SRL Dental GmbH	Personal Care products	Germany ¹⁵
SRL Performance Ltd	R&D for Personal Care	United Kingdom ⁸
SRL Pharma GmbH	Personal Care products	Germany ¹⁵

1 Registered office Konrad-Adenauer-Straße 13, 50996 Köln Germany.

2 Registered office Unit 6 Wimbourne Buildings, Atlantic Way, Barry Docks, Barry, South Glamorgan CF63 3RA UK.

3 Registered office 92, Kuang-Fu Road North Road, Hsinchu Industrial Park, Hukou, Hsinchu County Taiwan 303.

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 Wörth a.Main Germany.

7 Registered office 1209 Orange Street, Wilmington, Delaware, 19801 US.

8 Registered office Caroline House, 55-57 High Holborn, London WC1V 6DX UK.

9 Registered office Room 223, No. 2 Lane 1000, Changta Road, Shihudang Town, Songjiang District, Shanghai China.

10 Registered office Huibutai, Majiadu Village, Dipu Town, Anji County, Huzhou City, Zhejiang Province China.

11 Registered office Sian Town, Changxing County, Zhejiang Province China.

12 Registered office Rodovia Nelson Leopoldino, SP 375, Km 13,8, s/n, Bairro Rural, Palmital, São Paulo Brazil.

13 Registered office Langestraat 167, Delden, 7491 AE The Netherlands.

14 Registered office 251 Little Falls Drive, Wilmington, New Castle, Delaware, 19808 US.

15 Registered office Giulinistr.2, 67065 Ludwigshafen Germany.

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
Deuchem International Inc	Dormant	Samoa
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 ³
Elementis BV	Dormant	Netherlands ⁴
Elementis Catalysts Inc	Dormant	United States of America ²
Elementis Chemicals Inc	Dormant	United States of America ²
Elementis Chromium America Inc	Dormant	United States of America ²
Elementis Finance (Australia) Ltd	Dormant	United Kingdom ¹
Elementis Finance (Germany) Ltd	Non-trading	United Kingdom ¹
Elementis Finance (Ireland) Ltd	Non-trading	Ireland ⁵
Elementis Finance (US) Ltd	Non-trading	United Kingdom ¹

Subsidiary undertakings		Country of incorporation and operation
Elementis Germany GmbH	Non-trading	Germany ⁶
Elementis Germany Ltd	Dormant	United Kingdom ¹
Elementis Global LLC	Non-trading	United States of America ²
Elementis GmbH	Non-trading	Germany ⁶
Elementis Group (Finance) Ltd	Non-trading	United Kingdom ¹
Elementis Group BV	Non-trading	Netherlands ⁴
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 ⁴
Elementis New Zealand Ltd	Dormant	United Kingdom ¹
Elementis NZ Ltd	Non-trading	New Zealand ⁷
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 ⁸
Elementis Securities Ltd	Non-trading	United Kingdom ¹
Elementis Service Centre NV	Non-trading	Belgium ⁹
Elementis Services GmbH	Non-trading	Germany ⁶
Elementis Specialties (India) Private Ltd	Non-trading	India ¹⁰
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 ¹¹
Iron Oxides s.a.de. CV	Dormant	Mexico
NB Chrome Ltd	Dormant	United Kingdom ¹
Reheis, Inc.	Non-trading	United States of America ²
SRL Coöperatief U.A.	Non-trading	Netherlands ¹²
SRLH Holdings Inc	Non-trading	United States of America ²
SRL International Holdings, LLC	Non-trading	United States of America ²
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 Regus Brussels Airport, Pegasuslaan 5, 1831 Diegem Belgium.

4 Registered office Langestraat 167, Delden, 7491 AE The Netherlands.

5 Registered office 8th Floor, Block E, Iveagh Court, Harcourt Road, Dublin 2 Ireland.

6 Registered office Stolberger Str.370, 50933, Köln Germany.

7 Registered office KPMG, P O Box 1584, 18 Viaduct Harbour Avenue, Maritime Square, Auckland New Zealand.

8 Registered office 10th Floor, Menara Hap Seng, No. 1 & 3 Jalan P. Ramlee, 50250 Kuala Lumpur Malaysia.

9 Registered office Pegasuslaan 5, 1831 Machelen (Brab.) Belgium.

10 Registered office 703, 7th Floor, Olympus, 5/C, Altamount Road, Mumbai 400026 India.

11 Registered office C/o Stewart McKelvey Stirling Scales, 44 Chipman Hill, Suite 1000 ON E2L 4S6 Canada.

12 Registered office Strawinskylaan 411, 1077XX Amsterdam Netherlands.

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS OF ELEMENTIS PLC

FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

9. DEBTORS

	2017 £million	2016 £million
Group relief receivable	12.7	12.7

10. CREDITORS: AMOUNT FALLING DUE WITHIN ONE YEAR

	2017 £million	2016 £million
Accruals and deferred income	0.6	0.6

11. CALLED UP SHARE CAPITAL

	2017 Number '000	2017 £million	2016 Number '000	2016 £million
Called-up allotted and fully paid:				
Ordinary shares of 5 pence each				
At 1 January	463,496	23.1	462,976	23.1
Issue of shares	442	–	520	–
At 31 December	463,938	23.1	463,496	23.1

During the year a total of 442,792 ordinary shares with an aggregate nominal value of £22,140 were allotted and issued for cash to various employees at subscription prices between 57 pence and 217 pence on the exercise of options under the Group's share option schemes. The total subscription monies received by the Company for these shares was £0.8m. The holders of ordinary shares are entitled to receive dividends and entitled to 1 vote per share at meetings of the Company.

12. 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.

13. 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 2017. 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	100.0	–	02228826
Elementis Finance (Germany) Limited	100.0	–	05531634
Elementis Finance (US) Limited	100.0	–	09303101
Elementis Group (Finance) Limited	100.0	–	09303017
Elementis Overseas Investments Limited	100.0	–	08008981
Elementis Securities Limited	100.0	–	00597303
Elementis US Limited	100.0	–	08005226
Elementis UK Limited	100.0	–	00656457
SRL Performance Limited	100.0	–	09622186

GLOSSARY

ACC	American Chemistry Council
ACT	Advance Corporation Tax
AGM	Annual General Meeting
AWC	Average working capital
Board	Board of Directors of Elementis plc
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CO₂	Carbon dioxide
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
NIC	National Insurance Contributions
OSHA	Occupational Safety and Health Administration
PRMB	Post retirement medical benefit
REACH	Registration, Evaluation, Authorisation and restriction of Chemicals
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

FIVE YEAR RECORD

	2017 \$million	2016 restated ² \$million	2015 restated ² \$million	2014 \$million	2013 \$million
Turnover					
Specialty Products	611.0	460.4	453.1	519.7	502.8
Chromium	171.7	156.2	170.3	203.8	201.8
Continuing operations	782.7	616.6	623.4	723.5	704.6
Discontinued operations	47.6	42.9	53.8	66.9	72.2
Group turnover	830.3	659.5	677.2	790.4	776.8
Operating profit after adjusting items					
Specialty Products	109.0	81.6	82.7	98.5	99.1
Chromium	30.1	27.1	48.0	58.3	55.1
Central costs	(16.4)	(11.1)	(10.9)	(11.6)	(13.2)
Continuing operations	122.7	97.6	119.8	145.2	141.0
Discontinued operations	5.4	(0.6)	4.5	4.9	5.6
	128.1	97.0	124.3	150.1	146.6
Adjusting items	(30.9)	(12.5)	2.8	6.3	(1.7)
Profit before interest	97.2	84.5	127.1	156.4	144.9
Other expenses	(1.2)	(1.4)	(2.1)	(1.9)	(2.0)
Net interest payable	(11.7)	(7.6)	(4.2)	(6.3)	(8.6)
Profit before tax	84.3	75.5	120.8	148.2	134.3
Tax	33.3	(7.4)	(26.2)	27.2	(27.6)
Profit attributable to equity holders of the parent	117.6	68.1	94.6	175.4	106.7
	2017 \$million	2016 restated ² \$million	2015 restated ² \$million	2014 \$million	2013 \$million
Basic					
Earnings per ordinary share (cents)	25.4	14.7	20.5	38.1	23.3
Earnings per ordinary share after adjusting items (cents)	19.8	17.6	21.4	25.1	23.3
Diluted					
Earnings per ordinary share (cents)	25.0	14.6	20.3	37.7	23.0
Earnings per ordinary share after adjusting items (cents)	19.5	17.4	21.2	24.8	23.0
Dividend per ordinary share (cents)	8.80	16.80	16.45	15.40	13.93
Interest cover (times)¹	13.3	134.6	121.5	115.5	63.7
Equity attributable to equity holders of the parent	702.3	627.1	653.8	644.1	543.9
Net cash	(291.1)	77.5	74.0	64.2	54.1
Weighted average number of ordinary shares in issue during the year (million)	462.9	462.8	462.2	460.7	456.9

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.

ELEMENTIS CORPORATE WEBSITE

The Group operates a website which can be found at www.elementisplc.com. This site is frequently updated to provide shareholders with information about the Group. In particular, the Group's press releases and announcements can be found on the site together with copies of the Group's accounts.

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

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

It is in the best interests of shareholders and the Company for dividends to be paid directly into bank or building society accounts. Any shareholder who wishes to receive dividends in this way should contact the Company's registrars to obtain a dividend mandate form.

REGISTRARS' TEXT PHONE

For shareholders with hearing difficulties:
Callers inside the UK telephone: 0371 384 2255
Callers outside the UK telephone: +44 (0)121 415 7028

REGISTRAR'S WEB BASED ENQUIRY SERVICE

Equiniti provides a range of shareholders' services online. The portfolio service provides access to information on share balances, balance movements, indicative share prices and information on recent dividends and also enables address and dividend mandate details to be amended online. For further information and practical help on transferring shares or updating your details, please visit www.shareview.co.uk.

Equiniti also 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

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AUDITORS

Deloitte LLP

JOINT CORPORATE BROKERS

UBS Investment Bank
N+1 Singer

PUBLIC RELATIONS

Tulchan Communications

FINANCIAL CALENDAR

27 February 2018	Preliminary announcement of final results for the year ended 31 December 2017
26 April 2018	Annual General Meeting
26 April 2018*	Trading update
3 May 2018	Ex-dividend for final dividend for 2017 payable on ordinary shares
4 May 2018	Record date for final dividend for 2017 payable on ordinary shares
1 June 2018	Payment of final dividend for 2017 on ordinary shares
31 July 2018*	Interim results announcement for the half year ending 30 June 2018
6 September 2018*	Ex-dividend date for interim dividend for 2018 payable on ordinary shares
7 September 2018*	Record date for interim dividend for 2018 payable on ordinary shares
28 September 2018*	Payment of interim dividend for 2018 on ordinary shares

* Provisional date.

ANNUAL GENERAL MEETING

The Annual General Meeting of Elementis plc will be held on 26 April 2018 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.

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Enhanced Performance
Through Applied Innovation

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