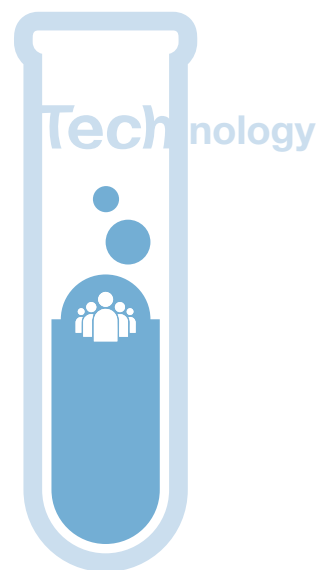
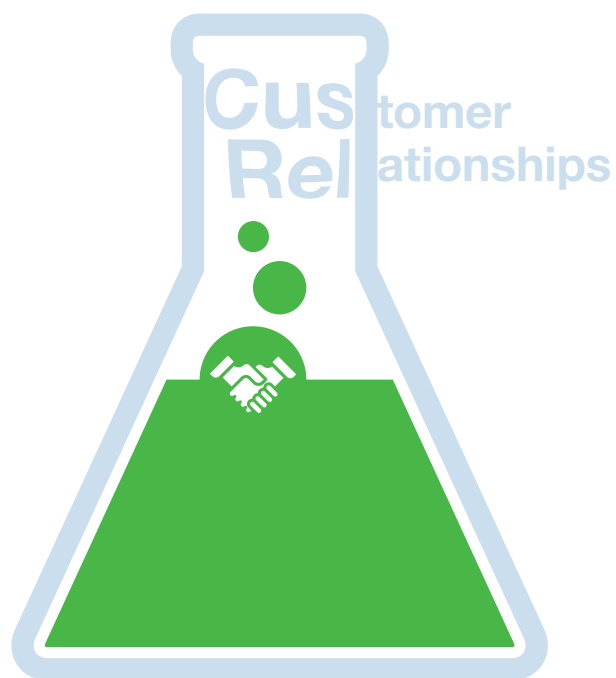


ELEMENTIS

A global specialty chemicals company



2014

Elementis plc
Annual report and accounts

At a glance

Who we are

Elementis plc is a global specialty chemicals company with operations worldwide that serve customers in North and Latin 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.



Why invest in Elementis?

Clear strategy to grow the Specialty Products business and utilise strong balance sheet to reinvest in growth and finance returns to shareholders (special dividend programme in place).

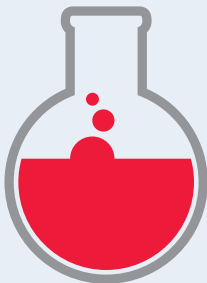
Solid financial track record with well managed businesses that are profitable and cash generative.

Broad differentiated product portfolio that is underpinned by proprietary technology, strong customer relationships and supported by innovation, know how and technical expertise.

Operating in high margin, segmented markets and emerging economies, where products have many applications and diverse end users, and local market presence is supported by strong global infrastructure.

Company has strong governance and risk management controls and maintains a high standard of business conduct, ethics and corporate responsibility.

Specialty Products

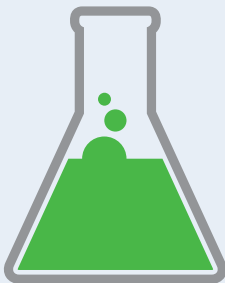


Specialty Products provides high value functional additives to the industrial and decorative coatings, oilfield drilling and personal care markets that improve the flow characteristics and performance of its customers' products or production processes.

► Read more on page 8

\$519.7m
Revenue

Chromium



Chromium is a leading producer of chromium chemicals that make its customers' products more durable.

► Read more on page 10

\$203.8m
Revenue

Surfactants



Surfactants manufactures a wide range of surface active ingredients and products that are used as intermediates in the production of chemical compositions.

► Read more on page 10

\$66.9m
Revenue

Cautionary statement:

The Annual Report and Accounts for the financial year ended 31 December 2014, as contained in this document ("Annual Report"), contain 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.

Specialty Products

1. Centres of excellence



Our innovation model comprises 3 R&D centres of excellence and 5 technical service centres. R&D centres focus on new product development and the technical service centres focus on ensuring these new products deliver value in the customers' formulations. Together they generate a seamless and synergistic process that starts and ends with the customers' needs.

All R&D centres of excellence collaborate on global projects and specialise in specific areas.

Sites

- SciPark, NJ, US
Rheology for all
- Rheological additives
 - Oilfield additives
 - Personal care additives

- Delden, Netherlands
Surface chemistry
- Specialty building blocks
 - Specialty coatings additives
 - Green solutions

- Hsinchu, Taiwan
Industrial additives
- Adhesion promoters
 - Dispersing and wetting agents
 - Slip and levelling agents

2. Reaction chemistry capability



One of our key R&D focuses has been to target the decorative coatings market and in particular the \$467 million* global market for acrylic and associative thickeners.

Our strategic \$25 million investment in our New Martinsville site in the US enables us to be a global supplier by having reaction chemistry capability in all of our three global regions: Americas, Europe and Asia.

Sites

- New Martinsville, WV, US
- Watercryn, Brazil
- Livingston, Scotland, UK
- Delden, Netherlands
- Shanghai, China

* source: Kusumgar, Nerlfi and Growney – Global coatings and ink additives, September 2014.

3. Organoclay leadership



We have a strong network of facilities to support our global organoclay business which services various end use markets: industrial and decorative coatings, oilfield and personal care.

Markets

- Industrial coatings
- Decorative coatings
- Oilfield
- Personal care

Sites

- | | |
|--------------------------|-------------------------------------|
| St. Louis, MO, US | Livingston, Scotland, UK |
| | |
| Charleston, WV, US | Anji, Zhejiang province, China |
| | |
| Newberry Springs, CA, US | Changxing, Zhejiang province, China |
| | |

Chromium

Our strategy of stable earnings and cash flow is centred around a flexible manufacturing model that relies on operational excellence – from strategic sourcing and procurement to health, safety and environment.

Our principal facility in Castle Hayne, North Carolina, is accredited in the STAR programme which is the highest recognition level under the US OSHA's voluntary protection programme and recognises the achievement of exemplary occupational health and safety performance and standards.

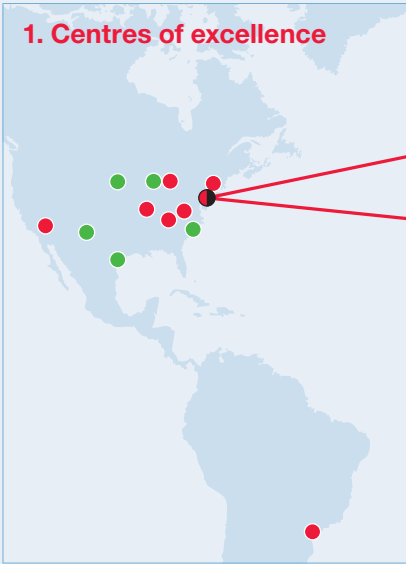
Surfactants

Our shared site in Delden, Netherlands, is well managed and maintained and, together with our expertise in surface chemistry, is able to carry out a broad range of chemical processes including polymerisation and condensation reactions, ethoxylation, propoxylation, phosphation, sulphation, sulphonation and quaternisation.

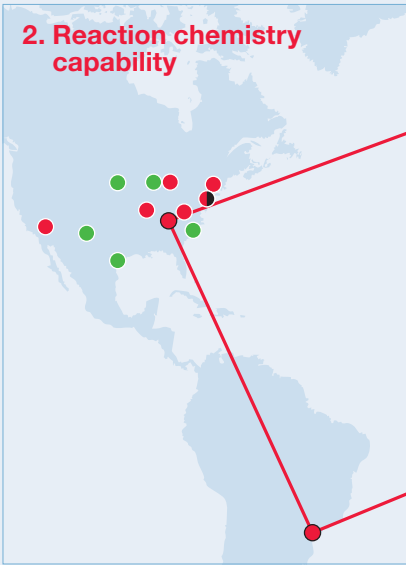
Key

- Executive management headquarters
- Corporate head office
- Specialty Products
- Chromium
- Surfactants

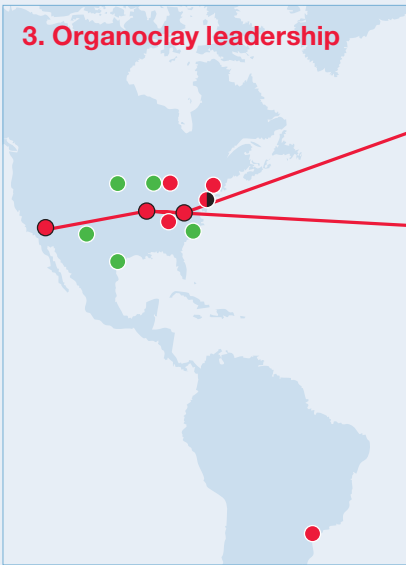
1. Centres of excellence



2. Reaction chemistry capability



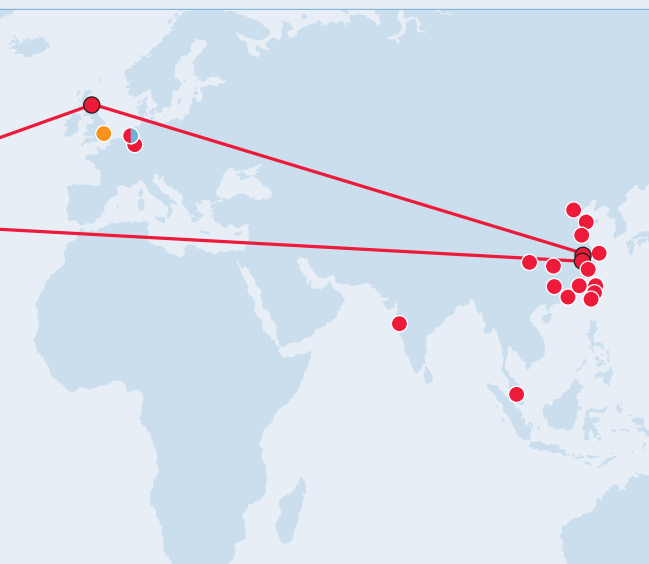
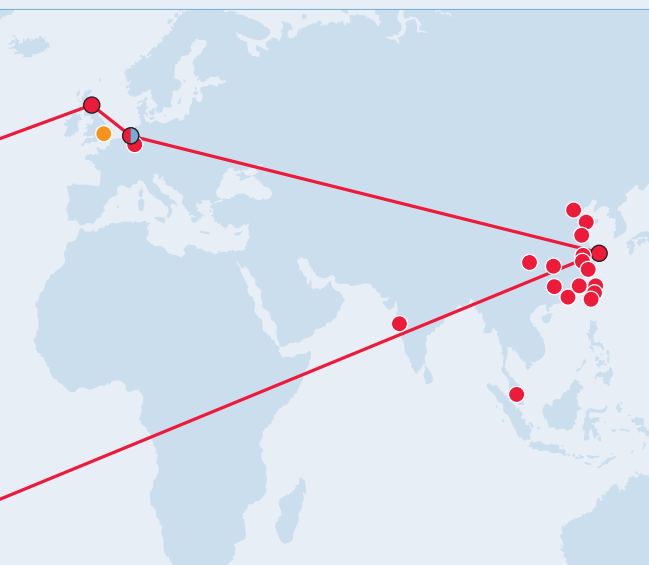
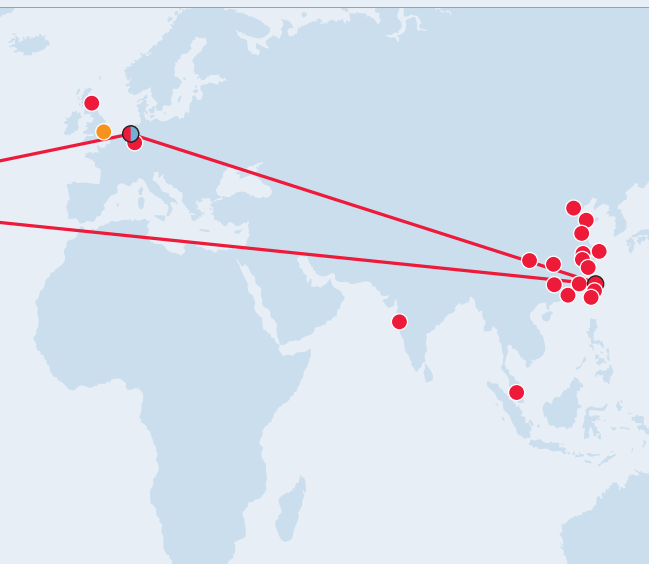
3. Organoclay leadership



9 countries

30+ locations

1300+ employees



Our success factors are at the heart of what we do.



► To see how our key strengths drive our business go to page 6



Innovation

Intellectual property, innovation and new product development.



Relationships

Relationships with customers, suppliers and other stakeholders based on trust and collaboration.



Global infrastructure

Our global infrastructure and ability to access market channels.



Clear strategy

Clear objectives and business strategies.



Finance

Strong financial resources, balance sheet and cash generation.



Leadership

Strong leadership, governance and risk management.

Highlights

- ▶ **Group earnings per share* increased by 8 per cent to 24.8 cents per share.**
- ▶ **Good growth in Specialty Products:**
 - North America coatings up 7 per cent.
 - Asia Pacific coatings up 5 per cent.
 - Personal care up 8 per cent.
- ▶ **Another year of excellent cash generation:**
 - Net cash position increased to \$64.2 million.
- ▶ **Total dividends for the year increased by 11 per cent to 15.40 cents per share:**
 - Special dividend increased by 19 per cent.

Financial summary

	2014	2013	change
Sales	\$790.4m	\$776.8m	+2%
Operating profit*	\$150.1m	\$146.6m	+2%
Profit before tax*	\$141.9m	\$136.0m	+4%
Diluted earnings per share*	24.8c	23.0c	+8%
Operating cash flow	\$144.4m	\$143.9m	–
Net cash	\$64.2m	\$54.1m	+\$10.1m
Profit for the year	\$175.4m	\$106.7m	
Basic earnings per share	38.1c	23.3c	
Dividends to shareholders:			
Interim dividend	2.70c	2.57c	+5%
Final proposed	5.75c	5.50c	+5%
Special dividend	6.95c	5.86c	+19%
Total for the year	15.40c	13.93c	+11%

* before exceptional items

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Chairman's statement

Andrew Duff
Chairman



► To read more on our objectives, strategies and business model go to page 6

After my first year as Chairman, I am pleased to report that 2014 has been another year of sales and earnings growth for Elementis. Since becoming Chairman I have enjoyed getting to know the Group through visits to our various sites around the globe, meeting our people and engaging with the management team and my fellow directors. I have found the Group to be well managed, with a clear strategy and people around the world who are hardworking, talented and enthusiastic about the Group and its prospects.

In 2014, Group sales were \$790.4 million, an improvement of 2 per cent over the previous year, largely driven by the further progress achieved in Specialty Products while Chromium and Surfactants delivered sales and cash generation in line with their respective strategies. Group operating profit* for the year was \$150.1 million compared to \$146.6 million in the previous year, whilst the Group's operating margin* remained stable at 19 per cent. Diluted earnings per share* for the year improved by 8 per cent to 24.8 cents.

The Group is recording a number of pension, tax and legacy items under the heading 'Exceptional items' in this year's income statement. These items are discussed more fully in the Finance report on page 12. After taking account of these items, Group operating profit for the year was \$156.4 million, compared to \$144.9 million in the previous year, and diluted earnings per share was 37.7 cents, compared to 23.0 cents in 2013.

Balance sheet

One of the Group's core strengths is its strong balance sheet, supported by positive cash flow generation. In 2014 this was once again demonstrated with the Group's net cash position increasing from \$54.1 million at the end of 2013 to \$64.2 million at the end of 2014. This was achieved despite financing a robust capital expenditure programme and an additional one time UK pension contribution. Under our current dividend policy, this increase in net cash results in a similar increase in the special dividend. Once again the deficit on Group retirement plans, under IAS 19, improved in 2014, going from \$99.3 million at the end of 2013 to \$65.8 million at the end of 2014. The improvement was largely the result of favourable asset returns and Company contributions.

Dividends

The Board is continuing with the dividend policy introduced in 2012, which is to pay approximately one third of earnings, before exceptional items, each year in a combination of interim and final dividends. In addition, a special dividend is paid each year of up to 50 per cent of the net cash balance at the end of the year, provided there are no immediate investment plans for that cash. Consequently, the Board is recommending a final dividend for 2014 of 5.75 cents per share (2013: 5.50 cents) and a special dividend of 6.95 cents per share or \$32.1 million (2013: 5.86 cents or \$27.1 million). These will be paid on 22 May 2015, in pounds sterling at an exchange rate of £1.00:\$1.5429 (equivalent to a sterling amount of 8.2313 pence per share), to shareholders on the register on 24 April 2015. This brings the total dividends for the year to 15.40 cents per share (2013: 13.93 cents), representing an increase of 11 per cent over the previous year.

“

I have enjoyed getting to know the Group through visits to our various sites around the globe, meeting our people and engaging with the management team and my fellow directors. I have found the Group to be well managed, with a clear strategy and people around the world who are hardworking, talented and enthusiastic about the Group and its prospects.”

* before exceptional items

Health, safety and the environment

Since becoming Chairman, it has been gratifying to learn that the Group is achieving high standards of performance, compared to the industry, in this important area of our business and has developed a culture throughout the organisation that recognises that zero incidents must be the ultimate goal. As such, lessons learned from even the most minor incidents are used to continuously improve our processes and activities, ensuring that the protection of our employees and the environment remains a high priority.

Board changes

As previously announced, Ian Brindle and Kevin Matthews retired as Board members on 15 December and 31 October 2014 respectively. Both Ian and Kevin were key members of the Board since their appointments in 2005. Kevin served as Chairman of the Remuneration Committee from April 2008 to September 2013, while Ian served as Chairman of the Audit Committee, Senior Independent Director and, more recently, Chairman of the Board. On behalf of the Board, I would like to thank both of them for their dedication and support during their tenure as Board members.

To replace Ian and Kevin, I am delighted to welcome Nick Salmon and Steve Good to the Board as from 20 October 2014. Both Nick and Steve have impressive backgrounds as successful executives and directors and I look forward to working closely with them in support of the Group's continuing success.

Governance

The Board considers that it has applied all the principles and provisions of the Corporate Governance Code (2012 version) in 2014, with one exception on audit tenders explained on page 28. Further information about this and other aspects of our governance arrangements are set out in the Corporate governance report on page 28.

People

The Group's continued success is due in no small part to the hard work, dedication and skill of its people and I would therefore like to give them my sincere thanks on behalf of the Board.

Outlook

As the new Chairman, I have inherited a Group with a clear and ambitious strategy that focuses on profitable growth, attractive returns on capital and shareholder value. These are all themes that I wholly support and the Board is fully engaged in helping the Group to deliver on this strategy. The quality of our existing businesses, combined with its strong cash flow generation and balance sheet, ensures that we have both the platform and the flexibility to make progress and to pursue profitable opportunities, both organic and inorganic as they arise.

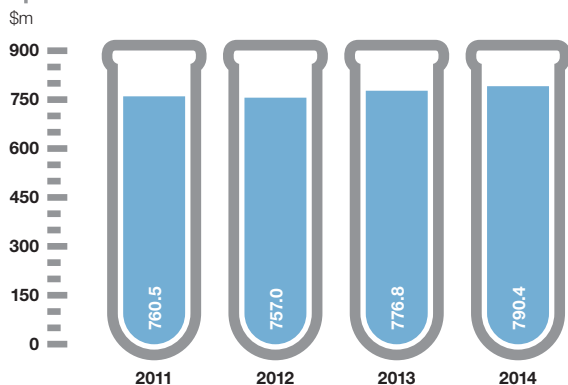
Andrew Duff
Chairman

24 February 2015



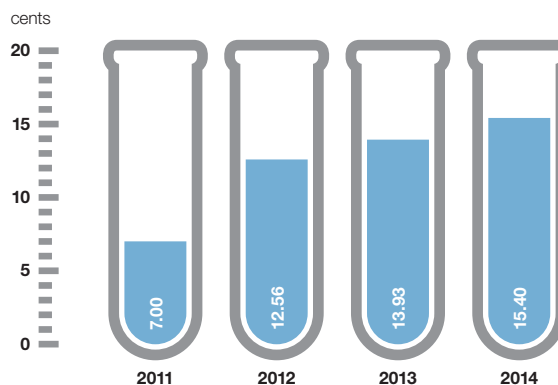
Group revenue

\$790.4m



Total dividends per share

15.40c



Group Chief Executive's overview

David Dutro
Group Chief
Executive



► To read more on our objectives, strategies and business model go to page 6

Dear Shareholders,

Once again, it is my privilege to report that Elementis has delivered another year of solid financial performance. The Group's strategy is centred on creating its own growth opportunities based upon its strong and diverse market positions. This has been pivotal in enabling us to deliver a fifth consecutive year of EPS* growth, a further improvement in our year end net cash balance and a material increase in the total dividend. This progress has been achieved despite uneven regional and market segment growth, which further validates our strategy and underlines the resilience of Elementis.

We remain resolute in our commitment to outperform the market and deliver profitable growth across all stages of the economic cycle and we have continued to invest to achieve that objective. While our global capability enables us to develop and leverage solutions for our customers around the world, our local presence allows us to truly understand our customers and their specific needs.

2014 highlights:

- Another strong financial performance:
 - 5th consecutive year of EPS* growth.
 - Stable operating margin* at 19 per cent.
 - Strong cash flow from operations saw net cash increase by \$10.1 million.
 - Final dividend increased by 5 per cent.
 - Special dividend paid for the 3rd successive year and increased by 19 per cent.

- Specialty Products:
 - North America coatings up 7 per cent, driven in part by sales of innovative products from the newly commissioned decorative coatings facility.
 - Asia Pacific coatings up 5 per cent with sales and profits from Chinese manufactured organoclays reaching their highest levels to date.
 - Good international sales growth from Hi-Mar, our recently acquired US based defoamer business.
- Chromium:
 - Optimising product and sales mix to produce stable earnings and cash flow.
 - Cash generation was 117 per cent of operating profit*.
- Maintaining a strong focus on improving our excellent health and safety performance.

Consistent with our strategic focus on growth, Specialty Products introduced new products, expanded its geographic presence and made further investments to serve our customers' growing demand. As a result of these initiatives we:

- Achieved a record level of new products as a percentage of sales, with new products accounting for 9 per cent of total revenue in the Specialty Products business.
- Opened a new sales office in Houston, Texas, led by a new business director and sales team in order to focus more intensely on oilfield customers.

“

Elementis has delivered another year of solid financial performance. The Group's strategy is centred on creating its own growth opportunities based upon its strong and diverse market positions. This has been pivotal in enabling us to deliver a fifth consecutive year of EPS* growth, a further improvement in our year end net cash balance and a material increase in the total dividend.”

* before exceptional items

- Prepared Watercryn, our recently acquired coatings additives company in Brazil, to begin exporting throughout Latin America, which included the installation of a comprehensive ERP system.
- Expanded the scope of the New Martinsville project to broaden its product range capabilities for US decorative coatings. All 3 phases of construction are now successfully completed and customer approvals are ramping up quickly.
- Our manufacturing facility in Livingston, Scotland, achieved certification for RSPO (Roundtable for Sustainable Palm Oil) and CGMP (consumer good manufacturing practices), further differentiating and protecting our line of proprietary personal care products.

The Specialty Products business provides high value functional additives used in coatings, oilfield and personal care applications that improve the physical properties and performance of our customers' products or production processes. The business provides a strong growth platform with its balanced geographic exposure across both mature and emerging economies, strong technology base and strategic market diversification. Specialty Products has a significant technical service and application support presence in its chosen markets that is built on long term relationships of trust, collaboration and technical expertise. We help our customers improve the performance of their products, lower costs or improve regulatory compliance by introducing additives that represent a low percentage of the formula cost but are critical to product performance.

Our differentiated, innovative product offering is supported by excellent process technology and tightly held manufacturing know how. The majority of our new products are covered by intellectual property and, with over 2,500 products in our portfolio, the business is well positioned to be the industry's "one stop solution provider".

The strategy of our Chromium business is focused on reducing cyclical fluctuations and consistently delivering predictable and therefore higher quality earnings and cash flow. The business operates at consistently high rates of capacity utilisation and serves a diverse number of customers, geographies and applications, allowing it to quickly shift products and resources towards market segments and regions with the greatest opportunities.

As the only locally based manufacturer of chromium chemicals, the business is able to provide its North American customers with a differentiated and highly valued closed loop delivery model which offers them significant advantages and benefits. This model would be extremely difficult for a non-domestic supplier to replicate and therefore provides a long term competitive advantage. The business has a significant proportion of its chromium chemicals sales in North America and 65 per cent of its sales were to customers in the region during the year.

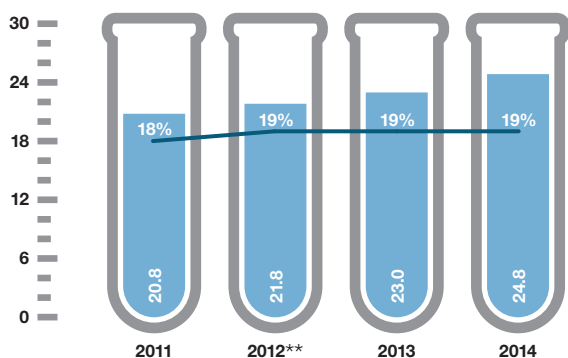
Regardless of the overall global economic conditions, Elementis will continue its focus on driving continuous improvement in the areas we can control, including sustainable operating improvements, market share gains, the introduction of innovative new products and expansion into new geographic markets. We are positive about our future, due in large part to the hard work, ingenuity and unbounded energy of the global Elementis team. Every day, throughout the year, our people deliver the quality and service that builds customer loyalty and market strength. Although economic uncertainties in Europe and evolving dynamics in the oilfield sector remain evident, the current year has started on a solid footing and we are confident that the Group will make further progress in the coming year. We are fully committed and well positioned to maintain our record of delivering profitable growth and industry leadership and would like to thank our shareholders and customers for their continued confidence and support.

David Dutro
Group Chief Executive
24 February 2015

EPS and Group operating margin

24.8c

cents/%



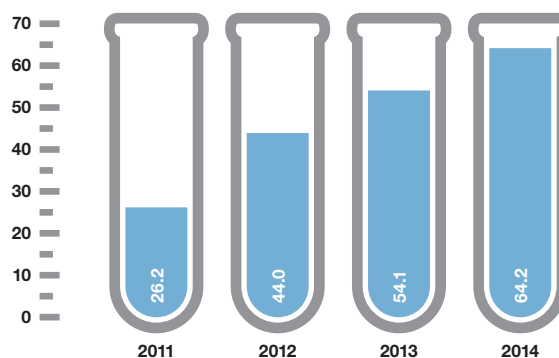
Key

- Diluted earnings per share before exceptional items (cents)
- Group operating margin before exceptional items (%)
- ** restated following the adoption of revised IAS 19 Employee Benefits standard

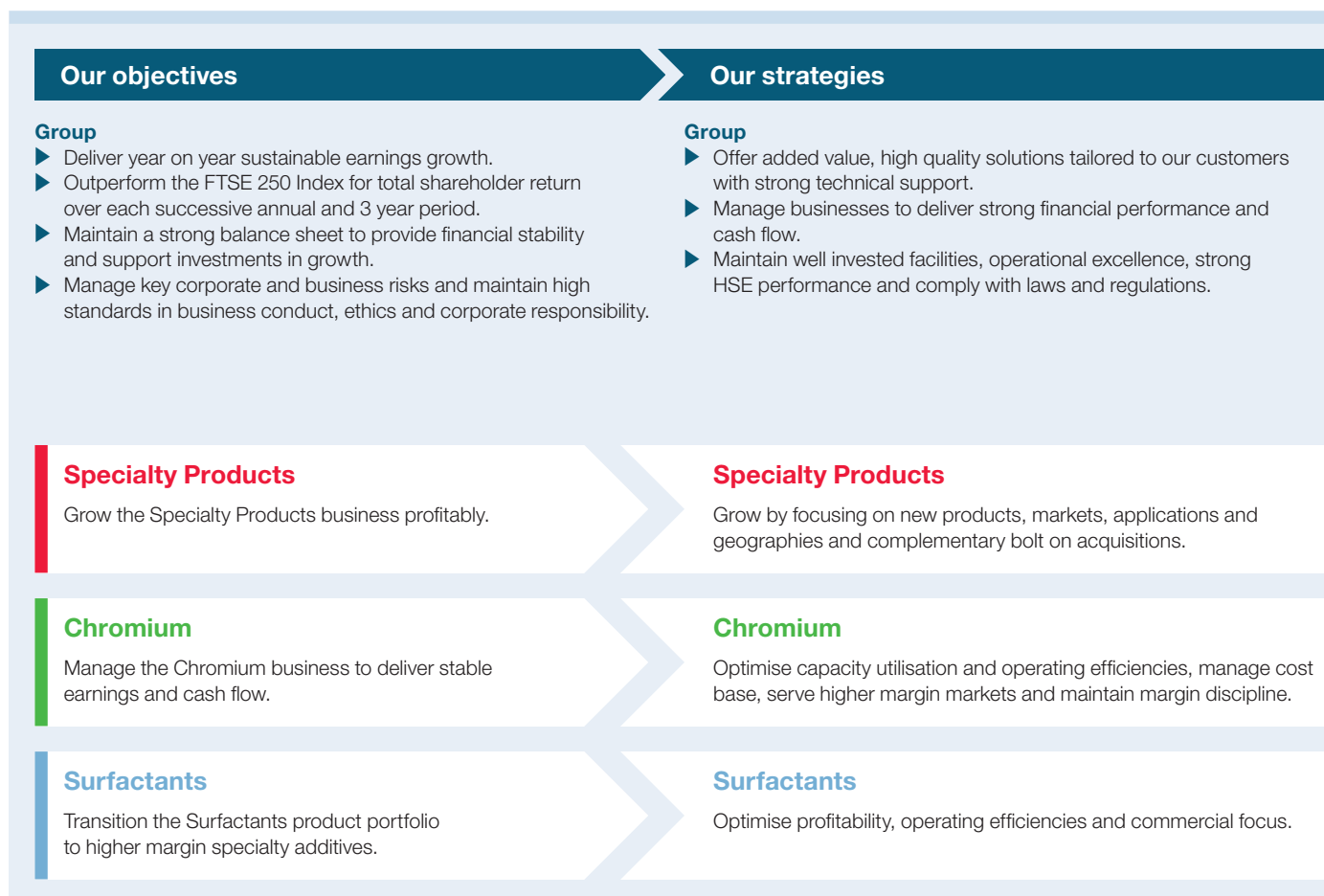
Net cash

\$64.2m

\$m



Our objectives, strategies and business model



Who is Elementis, what does it do...

Elementis is a global specialty chemicals company. Its largest and most profitable business, Elementis Specialty Products, is the core of our growth strategy and has the following key characteristics:

- ▶ Operating in diverse and highly segmented markets.
- ▶ Supplying products that are critical ingredients in its customers' formulations and essential to their performance, whilst representing a small proportion of the overall cost.
- ▶ Having a broad, differentiated and patent protected product portfolio, coupled with innovation and new product development.
- ▶ Long term relationships with customers that are based on mutual trust and collaboration, supported by strong technical service and expertise.
- ▶ High sustainable operating margins and return on operating capital.

In addition, Elementis is the owner of the only high rheology grade hectorite mine in the world, which provides a key raw material and source of competitive advantage.

Elementis Chromium supplies chromium chemicals that make its customers' products more durable and Elementis Surfactants supplies a wide range of surface active ingredients.

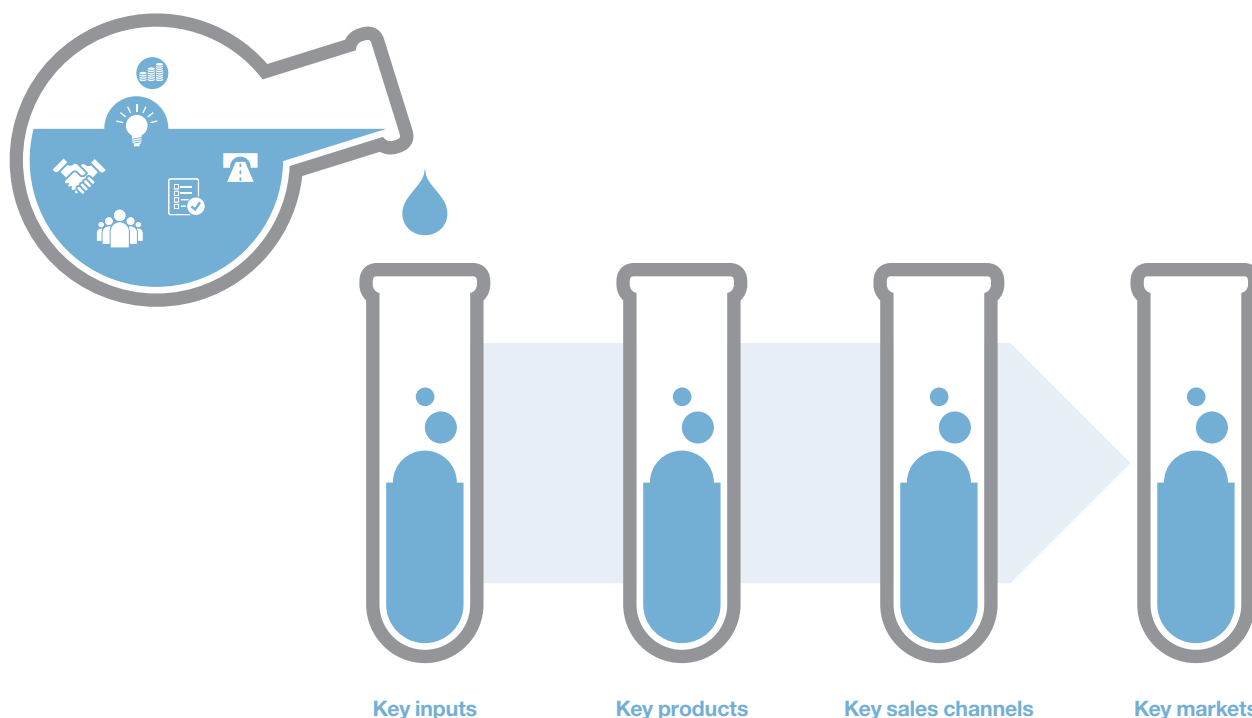
Common to all 3 businesses are the following:

- ▶ Profitable, strong cash generation and high level of return on capital.
- ▶ Well invested manufacturing facilities, operational excellence and a broad product offering to a wide range of customers and markets.
- ▶ Provision of a differentiated service to customers, offering tailored solutions and product innovation.
- ▶ Strong leadership, clear business strategies and high performance multi-functional business teams, underpinned by robust governance and risk management frameworks, as well as a culture of maintaining high standards of business conduct, ethics and corporate responsibility.

...and why?

Ultimately, the strategy of the Company is to operate its portfolio of manufacturing assets and exploit its proprietary technologies and know how to supply products and services to customers, thereby creating value for shareholders. Key to achieving the above is the allocation and management of human and capital resources, as well as accessing and leveraging the appropriate market channels and supply chains. The above describes our overall business activities in terms of the inputs, processes and outputs that make up our business model.

Our business model



Key inputs

- ▶ Clear strategies and business priorities, strong leadership and robust governance and risk management frameworks, policies and procedure.
- ▶ Passionate and committed global workforce and an embedded culture of performance and customer service.
- ▶ Long term customer relationships built on trust, strong focus on technical expertise, product innovation and providing a differentiated service to diverse markets.
- ▶ Excellent commercial, procurement and supply chain teams supported by strong global infrastructure.
- ▶ Financial and operating discipline, well maintained facilities and strong functional support teams.

Key products

- ▶ **Specialty Products**
Rheological modifiers, specialty additives, organoclays, defoamers, adhesion promoters, waxes and resins, flow and levelling additives, colourants and pigments, dispersing/wetting/slip and coalescing agents, and lanolin and other natural oil derivatives.
- ▶ **Chromium**
Chromic acid, chromic oxide, sodium dichromate and chrome sulphate, with customised delivery system.
- ▶ **Surfactants**
Wide range of surface active ingredients and products used as intermediates in the production of chemical compositions.

Key sales channels

- ▶ **Specialty Products**
Long term customer relationships with global MNEs as well as sales to regional and local customers. Global sales platform, solid infrastructure with cross-selling opportunities. Manufacturing facilities, R&D centres and technical service labs in the Americas, Europe and Asia to support all our key markets.
- ▶ **Chromium**
Sales to the North American market while selectively supplying the Latin American, European and Asian markets.
- ▶ **Surfactants**
Long term customer relationships with global MNEs as well as sales to regional and local customers.

Key markets

Major regions supplied:
North and Latin America, Europe and Asia.

Major segments/applications

- ▶ **Specialty Products**
Industrial and decorative coatings, oilfield drilling and personal care.
- ▶ **Chromium**
Metal finishing, metal alloys, timber treatment, leather tanning, pigments, ceramics and refractory.
- ▶ **Surfactants**
Oilfield production chemicals, construction chemicals, textiles and leather, household, plastics, resins and other niche markets.

Our businesses

Group performance

Revenue

	Revenue 2013 \$million	Effect of exchange rates \$million	Increase/ (decrease) 2014 \$million	Revenue 2014 \$million
Specialty Products	502.8	1.4	15.5	519.7
Chromium	214.8	–	1.7	216.5
Surfactants	72.2	0.3	(5.4)	67.1
Inter-segment	(13.0)	–	0.1	(12.9)
	776.8	1.7	11.9	790.4

Operating profit

	Operating profit 2013* \$million	Effect of exchange rates \$million	Increase/ (decrease) 2014 \$million	Operating profit 2014 \$million
Specialty Products	99.1	(0.5)	(0.1)	98.5
Chromium	55.1	–	3.2	58.3
Surfactants	5.6	–	(0.7)	4.9
Central costs	(13.2)	(0.6)	2.2	(11.6)
	146.6	(1.1)	4.6	150.1

* before exceptional items



Specialty Products

Greg McClatchy
President of Elementis
Specialty Products and
Elementis Surfactants



Our performance

	2014	2013
Sales	\$519.7m	\$502.8m
Operating profit*	\$98.5m	\$99.1m
Operating margin*	19%	20%
ROCE**	35%	38%

* before exceptional items

** before tax and excluding goodwill

Split of sales revenue

Segment %



Geographic %



Our success factors are at the heart of our operations

Specialty Products provides high value functional additives to the industrial and decorative coatings, oilfield drilling and personal care markets that improve the flow characteristics and performance of its customers' products or production processes.

- Innovation
- Relationships
- Global infrastructure
- Clear strategy
- Finance
- Leadership



Key facts

- We accounted for 66 per cent of Group sales and 66 per cent of Group operating profit* in 2014.
- We are based in 28 locations around the world, in North and Latin America, Europe and Asia, and our sales are broadly split between North America, Europe and Asia.
- We have over 900 employees globally, 13 manufacturing facilities, 3 research centres of excellence (including a process development facility), 5 technical service centres and 11 dedicated sales offices.
- Our top 10 customers account for less than 22 per cent of total sales.
- In each key segment, the business has many competitors from multinationals to smaller privately owned businesses.

What we do

- We provide high value functional additives to the industrial and decorative coatings, oilfield drilling and personal care markets that improve the flow characteristics and performance of our customers' products or production processes.
- We have significant expertise in the science of rheology which, in its simplest form, means our technology imparts thickness and viscosity control. For example, paint without rheological additives would have the consistency of water but paint with our additives is smooth, homogeneous and has a controlled, even spread on a surface.
- The same requirements for rheological additives exist in personal care products, such as creams and lotions, and in oilfield drilling applications, providing viscosity control to thicken and suspend solids in drilling formulations and to stabilise stimulation packages used in the drilling process.

How and where we do it

For a description of what makes us successful, who and where our customers are and a list of our products and markets, refer to the Business model section on page 6.

A map of our global locations is in the At a glance section on the Inside Front Cover.

Key product applications

- Industrial coatings: protective applications in automotive, containers, furniture, flooring, marine, plastics and construction.
- Decorative coatings: homes, offices and similar environments.
- Oilfield: drilling and fracturing fluids utilised in oil and gas extraction activities.
- Personal care: antiperspirants, nail polish, mascara, make-up, eye shadow, lipsticks, creams, lotions and suncare products.
- Construction: concrete, plasters, mortars, renderings, stuccos, flooring systems and building adhesives.

Key sector drivers

- Industrial coatings: increasing demand from customers for high performance coatings that enhance their products and exposure to higher growth emerging markets.
- Decorative coatings: regulatory trend towards low VOC and increasing consumer sophistication in emerging markets.
- Oilfield: exposure to shale oil and gas and extreme drilling.
- Personal care: increasingly sophisticated consumer demand and emerging market development.

2014 Performance

Sales in 2014 were \$519.7 million compared to \$502.8 million in the previous year, which is an increase of 3 per cent. Currency movements had no material impact on sales for the year as a whole, although euro exchange rates had a positive influence for the first 9 months of 2014 but this was offset in the final 3 months when the value of the euro declined against the US dollar. Overall pricing during the year was relatively stable and therefore higher volumes were the main driver of the improved sales.

- In North America, sales of coatings additives improved by 7 per cent compared to the previous year. The business experienced good sales growth throughout the year due, in part, to new innovative products introduced into the decorative coatings market, utilising the recently completed facility in New Martinsville, US, and solid industrial activity from the underlying economy.
- In Europe, coatings additives sales improved by 2 per cent over the previous year as the business made good progress despite a more challenging economic environment. The period saw a marked reduction in demand in the final 3 months of the year as European economic concerns resurfaced. Overall, the business continued to benefit from strong customer relationships, new product sales and additional sales into the Middle East and Eastern Europe.

- Sales of coatings additives in Asia Pacific improved by 5 per cent as the business benefited from its strong position in China and expanding sales in the rest of Asia Pacific, driven by a differentiated product offering, exemplary customer service and high quality technical support.
- In Latin America, coatings additives sales were 3 per cent lower than the previous year as good progress in expanding sales outside Brazil was offset by weak underlying economic activity and adverse currency movements.

Following a slow start to the year that was impacted by poor weather in North America, Oilfield sales returned to robust growth in the second half of the year with sales for the final 6 months 9 per cent higher than the same period last year. This brought the full year result to within 3 per cent of the previous year with robust activity evident in shale, deep offshore and seasonal Canadian drilling.

In Personal care, sales were 8 per cent higher than the previous year with particularly strong growth in Latin America and Asia Pacific, where commercial resources were recently added to further expand the geographic presence of the business. This attractive growth rate was achieved despite a temporary downturn in European demand during the final 3 months of the year, due to renewed concerns about the European economy.

Operating profit* for the year was similar to the previous year at \$98.5 million. There were no material changes in raw material and energy costs during the year, but the start-up effects of the recent investments in the coatings additives plant in New Martinsville had a short term dampening effect on operating margin*, which ended the year at 19.0 per cent compared to 19.7 per cent in the previous year.

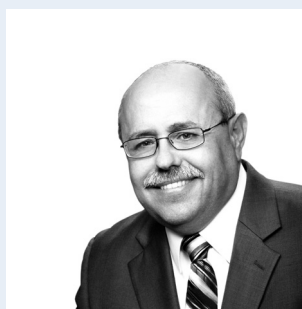
* before exceptional items

Our businesses

continued

Elementis Chromium

Dennis Valentino
President of Elementis Chromium



Our success factors are at the heart of our operations

Chromium is a leading producer of chromium chemicals that make its customers' products more durable.

- Innovation
- Relationships
- Global infrastructure
- Clear strategy
- Finance
- Leadership



Our performance

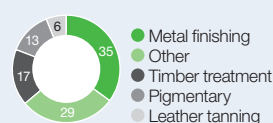
	2014	2013
Sales	\$216.5m	\$214.8m
Operating profit*	\$58.3m	\$55.1m
Operating margin*	27%	26%
ROCE**	58%	52%

* before exceptional items

** before tax and excluding goodwill

Split of sales revenue

Segment %



Geographic %



Elementis Surfactants

Our performance

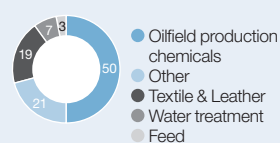
	2014	2013
Sales	\$67.1m	\$72.2m
Operating profit*	\$4.9m	\$5.6m
Operating margin*	7%	8%
ROCE**	21%	25%

* before exceptional items

** before tax and excluding goodwill

Split of sales revenue

Segment %



Geographic %



Our success factors are at the heart of our operations

Surfactants manufactures a wide range of surface active ingredients and products that are used as intermediates in the production of chemical compositions.

- Innovation
- Relationships
- Global infrastructure
- Clear strategy
- Finance
- Leadership



Key facts

- We accounted for 26 per cent of Group sales and 39 per cent of Group operating profit* in 2014.
- We are the only domestic producer of chromium chemicals in the US and operate from 2 major facilities in Castle Hayne, North Carolina, and Corpus Christi, Texas, and 3 smaller processing facilities supplying local tanneries.
- We have over 240 employees, most of whom are located in the US.
- Our top 10 customers account for less than 59 per cent of total sales.
- The business has many competitors from multinationals to smaller privately owned businesses.

What we do

- We provide chromium chemicals to customers that make their products more durable and which are used in a wide range of sectors and applications.
- Our reputation for quality and operational excellence, high levels of customer service and technical support, as well as our customised bulk delivery system, are key differentiating factors that enable us to develop long term, mutually advantageous relationships with our customers.

How and where we do it

For a description of what makes us successful, who and where our customers are and a list of our products and markets, refer to the Business model section on page 6.

A map of our global locations is in the At a glance section on the Inside Front Cover.

Key products and applications

- Chromic oxide: as a pigment in paints, plastics and roofing and ceramic tiles; in the construction of high temperature and abrasion resistant refractory brick for glass and fibreglass; and in the production of metal alloys for use in aeroplane and land based turbines.
- Chromic acid: in plating metal and plastic to produce a strong, tarnish resistant chrome finish for appliances, automobiles and many other applications; and as a wood preservative for marine pilings, telegraph poles, landscape timbers and other industrial wood applications.
- Chrome sulphate: in tanning to produce high quality leathers for a wide range of end uses.
- Sodium dichromate: as an intermediate chemical to produce the above chromium chemicals as well as pigments for industrial coatings and traffic paint.

Key sector drivers

- Chromic oxide: construction, coatings, aircraft engines and gas turbines.
- Chromic acid: automotive, heavy/light machinery, construction and infrastructure.
- Chrome sulphate: beef consumption.
- Sodium dichromate: all of the above.

2014 Performance

Consistent with the strategy of delivering stable earnings and cash flow, sales in Chromium in 2014 were 1 per cent higher than the previous year at \$216.5 million, with similar volumes sold in each year. Currency movements had no material impact on sales or operating profit as the majority of the business is transacted in US dollars.

Following a slow start to the year due to adverse weather conditions, sales in North America finished the year 14 per cent higher than the previous year. Strong demand for refractory grade oxide and chromic acid for timber treatment were the key drivers of the improvement, while chrome sulphate sales into leather tanning were relatively stable, having shown a weaker trend in previous periods. As the strategy also includes the optimisation of Chromium's flexible operating base in North America, utilising a relatively fixed manufacturing output, higher sales in North America naturally resulted in lower sales in both Europe and Asia Pacific, where markets have generally been more challenging. In 2014, 65 per cent of Chromium's sales were in North America, compared to 57 per cent in 2013.

Operating profit* for 2014 was 6 per cent higher than the previous year at \$58.3 million and benefited from an enhanced sales mix, due to the trends already described, while improvements in the overall cost base offset marginally lower average selling prices.

Key facts

- We accounted for 8 per cent of Group sales and 3 per cent of Group operating profit* in 2014.
- We share a manufacturing plant in Delden, the Netherlands, with Elementis Specialty Products.
- We employ over 140 employees at our Delden site.
- Our top 10 customers represent 83 per cent of total sales.
- The business has many competitors from multinationals to smaller privately owned businesses.

What we do

- We are in the process of transitioning to more higher margin specialty additives.
- Our facility is equipped with both continuous and multi-purpose batch reactors for a variety of chemical processes which, together with our expertise, allow us to produce a wide range of complex products, customised to meet our customers' requirements.

How and where we do it

For a description of what makes us successful, who and where our customers are and a list of our products and markets, refer to the Business model section on page 6.

A map of our global locations is in the At a glance section on the Inside Front Cover.

2014 Performance

Sales in Surfactants in 2014 were \$67.1 million compared to \$72.2 million in the previous year, which is a reduction of 7 per cent with volumes lower by 11 per cent. This is consistent with the Group's strategy of utilising more of the Delden facility to produce higher margin additives for the Specialty Products business and hence gradually reduce the volume of surfactants produced and sold.

Operating profit* in 2014 was \$4.9 million compared to \$5.6 million in the previous year, consistent with the lower sales volumes, while average selling prices improved by 3 per cent in response to higher raw material prices. Currency movements had no material impact on sales and operating profit, despite the fact that the majority of the business is transacted in euros, because the average euro/US dollar exchange rate was at a similar level in both years.

* before exceptional items

Brian Taylorson
Finance Director



Revenue

	2014 \$million	2013 \$million
Specialty Products	519.7	502.8
Chromium	216.5	214.8
Surfactants	67.1	72.2
Inter-segment	(12.9)	(13.0)
	790.4	776.8

Operating profit

	Operating profit \$million	Exceptional items \$million	2014 Underlying operating profit \$million	Operating profit \$million	Exceptional items \$million	2013 Underlying operating profit \$million
Specialty Products	100.1	(1.6)	98.5	99.8	(0.7)	99.1
Chromium	56.8	1.5	58.3	44.6	10.5	55.1
Surfactants	8.2	(3.3)	4.9	6.9	(1.3)	5.6
Central costs	(8.7)	(2.9)	(11.6)	(6.4)	(6.8)	(13.2)
	156.4	(6.3)	150.1	144.9	1.7	146.6

Group results

Group sales in 2014 were \$790.4 million compared to \$776.8 million in the previous year, an increase of 2 per cent with no material impact from currency movements. Sales in Specialty Products improved by 3 per cent on higher volumes while, in line with their respective strategies, sales in Chromium were relatively stable and in Surfactants reduced by 7 per cent.

Group operating profit* was \$150.1 million compared to \$146.6 million in the previous year, with no material impact from currency movements, and Group operating margin* was stable at 19 per cent in each year.

Currency hedging

Although a large proportion 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 2014, overall currency movements were such that the net impact of these hedge transactions was a credit to operating profit of \$1.9 million, while in 2013 there was no material impact.

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 the corporate office. In 2014 central costs* were \$11.6 million, which was lower than the previous year by \$1.6 million due to a reduction in the cost of variable compensation plans and other central provisions which offset an increase of \$0.6 million due to currency movements.

Exceptional items

A number of items have been recorded under 'exceptional items' in the 2014 Consolidated income statement 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 credit of \$6.3 million. The before tax items fall into 3 categories, as summarised below.

Credit/(charge)	Post employment benefits	Environmental provisions	Other	Total
Specialty Products	1.6	–	–	1.6
Surfactants	3.3	–	–	3.3
Chromium	–	(1.5)	–	(1.5)
Central costs	–	(0.4)	3.3	2.9
Total	4.9	(1.9)	3.3	6.3

Post employment benefits – net credit of \$4.9 million

In the Netherlands the arrangement with the previous insurers of the defined benefit pension scheme came to an end on 31 December 2014 and the Group has contracted with a new industry wide pension fund for 2015 onwards. As a result, the plan will in future be accounted for as a defined contribution plan. Consequently, a deficit amount of \$4.1 million relating to the original plan has been reversed in 2014 and the resulting credit recorded as an exceptional item. More details on this can be found later in this report. In addition, a legacy provision of \$0.8 million relating to a 2005 claim made by a group of pensioners in the Netherlands has also been reversed and credited to Group profit because the matter has now been settled. The total amount of \$4.9 million has been allocated between Specialty Products and Surfactants in a manner that is consistent with how fixed costs in the Netherlands are allocated between these two businesses.

* before exceptional items

Environmental provisions – charge of \$1.9 million

The Group's environmental provisions are calculated on a discounted basis, reflecting the time period over which spending is estimated to take place. As a result of a decline in the underlying market interest rates that are utilised in the discount rate calculation, it was concluded that the discount rate applied to future spending should be further reduced. This resulted in a charge of \$1.9 million in 2014 which was allocated between Chromium and central costs based on the properties to which the spending relates.

Other adjustments – net credit of \$3.3 million

The liquidations of a number of legacy subsidiaries no longer involved in Group activities resulted in one time credits totalling \$3.3 million being recorded in Group profit.

Taxation – net credit of \$53.5 million

Tax related items that result in a net credit of \$53.5 million have also been recorded as exceptional items. The net credit arises from the recognition of UK advance corporation tax credits amounting to \$42.0 million with an additional credit of \$12.3 million in respect of UK tax assets. The surplus ACT arose in respect of tax paid under the prior imputation system, which allowed for ACT credits to be offset against mainstream UK tax liabilities. The ACT not previously used under that imputation system had been written off at the time when there was no UK corporation tax liability anticipated in the foreseeable future. It is now the Board's view that taxable profits will arise in the UK in the future and, as such, surplus ACT previously written off should now be recognised as a tax asset. Offsetting these credits is the tax cost associated with the pre-tax exceptional items listed above.

Other expenses

Other expenses are administration costs incurred and paid by the Group's pension schemes, whose members are primarily former employees of legacy businesses. Total costs were \$1.9 million in 2014 compared to \$2.0 million in the previous year, reflecting the stable nature of this cost category.

Net finance costs

	2014 \$million	2013 \$million
Finance income	0.3	0.2
Finance cost of borrowings	(1.6)	(2.5)
	(1.3)	(2.3)
Net pension finance costs	(3.1)	(4.5)
Discount unwind on provisions	(1.9)	(1.8)
	(6.3)	(8.6)

Net finance costs declined by \$2.3 million in 2014 to \$6.3 million, mainly due to a decline in the financial cost of pension deficits and a reduction in interest on bank borrowings. Net pension finance costs were lower than the previous year largely because, under IAS 19, the charge is based on the deficit value at the beginning of the year and the opening deficit in 2014 was approximately 28 per cent lower than it was in 2013. Finance cost of borrowings largely relate to amortised arrangement and commitment fees on unutilised borrowing facilities, as the Group is in a net cash position, and came down as a result of the refinancing of the Group's main borrowing facility in the second half of 2013. Average borrowings in the year and borrowing rates were also marginally lower than the previous year. Discount on provisions relates to the annual time value of the Group's environmental provisions, which are calculated on a discounted basis.

Taxation

Tax charge

	\$million	2014 Effective rate per cent	\$million	2013 Effective rate per cent
Before exceptional items	26.3	18.5	29.4	21.6
Exceptional items	(53.5)	(36.9)	(1.8)	(1.0)
Total	(27.2)	(18.4)	27.6	20.6

The tax credit of \$27.2 million (2013: charge \$27.6 million) includes a significant UK exceptional tax credit of \$54.3 million. Before this exceptional tax credit and the tax charge of \$0.8 million in relation to exceptional items, the tax charge was \$26.3 million (2013: \$29.4 million) and represents an effective tax rate of 18.5 per cent (2013: 21.6 per cent). The decrease in tax rate results from certain additional and permanent tax benefits arising from both overseas tax allowances as well as changes in the geographic mix of profits.

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 exceptional.

Diluted earnings per share, before exceptional items, was 24.8 cents compared to 23.0 cents in the previous year, with the improvement due mainly to an increase in operating profit, lower finance costs and a reduction in the tax rate. Basic earnings per share was 38.1 cents compared to 23.3 cents in 2013 and included 13.0 cents (2013: nil) relating to exceptional items as described earlier in this report.

Distributions to shareholders

During 2014 the Group paid a final dividend in respect of the year ended 31 December 2013 of 5.50 cents per share (2013: 5.32 cents) and a special dividend of 5.86 cents per share (2013: 4.79 cents). An interim dividend of 2.70 cents per share (2013: 2.57 cents) was paid on 3 October 2014 and the Board is recommending a final dividend for 2014 of 5.75 cents per share and a special dividend of 6.95 cents per share, both of which will be paid on 22 May 2015.

Cash flow

The cash flow is summarised below.

	2014 \$million	2013 \$million
EBITDA ¹	175.3	170.5
Change in working capital	4.3	6.5
Capital expenditure	(34.9)	(35.0)
Other	(0.3)	1.9
Operating cash flow	144.4	143.9
Pension deficit payments	(49.5)	(26.8)
Interest and tax	(13.3)	(14.6)
Other	(0.8)	(1.5)
Free cash flow	80.8	101.0
Dividends paid	(64.7)	(58.3)
Acquisitions and disposals	(4.1)	(32.8)
Currency fluctuations	(1.9)	0.2
Movement in net cash	10.1	10.1
Net cash at start of year	54.1	44.0
Net cash at end of year	64.2	54.1

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

Finance report

continued

Group cash flow was again positive for the year, increasing the net cash balance at the end of the year by \$10.1 million to \$64.2 million. Contributing to this positive outcome, EBITDA in 2014 was \$4.8 million higher than the previous year at \$175.3 million, in line with the improved operating profit for the year. Cash flow relating to working capital was an inflow of \$4.3 million compared to an inflow of \$6.5 million in the previous year. Inventories at the end of 2014 were \$9.2 million higher than the previous year end, largely due to production and purchasing patterns towards the end of the year. Consequently creditor balances also increased by a similar amount. Trade debtor balances declined by \$4.8 million over the same period, consistent with lower sales in the final three months of 2014 as compared to the same period in 2013. In combination, these changes resulted in the working capital cash inflow of \$4.3 million for the year. Capital expenditure in 2014 was similar to the previous year at \$34.9 million, while total depreciation for the year was \$25.4 million, including \$3.6 million relating to amortisation of intangibles. \$11.2 million was invested in the year in growth projects in Specialty Products (2013: \$12.6 million), of which \$8.0 million related to the third phase of our new decorative additives facility in New Martinsville, US, and \$2.4 million related to plant upgrades in Asia Pacific. Investments in plant maintenance and productivity across the Group totalled \$23.7 million in 2014, compared to \$21.8 million in the previous year.

Pension deficit payments in 2014 were \$22.7 million higher than the previous year at \$49.5 million and the increase included an additional one time payment to the UK Scheme of \$15.2 million and additional payments to the US Scheme of \$4.7 million. Going forward, total contributions in 2015 are expected to be in the range \$25–\$30 million. Interest and tax payments totalled \$13.3 million in 2014 compared to \$14.6 million in the previous year, of which \$12.0 million (2013: \$12.3 million) related to tax payments. This level of tax outflow represents a relatively low rate of cash tax (8.5 per cent) and is a result of the Group being able to access certain overseas tax credits. Utilisation of these credits is close to an end and therefore it is expected that the rate of cash tax will increase going forward. The recognition and expected utilisation of the aforementioned ACT and tax assets is not expected to have a material impact on the Group's cash tax rate. Dividends paid in 2014 were \$6.4 million higher than the previous year at \$64.7 million and represents the payment of the final and special dividends for 2013 and the interim dividend for 2014, all of which were higher than in the previous year. Acquisition spending in 2014 was \$4.1 million and represented the purchase of a minority interest in a majority owned business in China, while spending in 2013 of \$32.8 million related to the acquisition of Hi-Mar in the US.

Balance sheet

	2014 \$million	2013 \$million
Intangible fixed assets	373.0	382.1
Tangible fixed assets	211.7	202.6
Working capital	137.4	143.7
Net tax liabilities	(41.4)	(99.3)
Provisions and retirement benefit obligations	(100.8)	(137.7)
Net cash	64.2	54.1
Total equity	644.1	545.5

Group equity increased by \$98.6 million in 2014 (2013: \$64.7 million) consistent with the profit for the year, dividends paid and changes in pension liabilities. Intangible fixed assets declined by \$9.1 million due mostly to a currency translation cost of \$6.6 million and amortisation charges of \$3.6 million. Tangible fixed assets increased by \$9.1 million in the year, largely as a result of capital spending for the year exceeding the depreciation charge by \$13.6 million, while currency translation reduced the year on year balance by \$5.5 million. Working capital decreased by \$6.3 million, with an increase in Specialty Products' inventories of \$10.5 million to assist stock availability being offset by an overall increase in trade and other payables of \$10.9 million and reduced trade and other

debtors of \$4.8 million. Net tax liabilities decreased by \$57.9 million, driven by the recognition of UK advance corporation tax credits and deferred tax assets. Movements in provisions and retirement benefit obligations are discussed elsewhere in this report. Net cash increased by \$10.1 million as described in the previous section.

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

	Year end	2014 Average	Year end	2013 Average
Pounds sterling	0.64	0.60	0.60	0.64
Euro	0.83	0.75	0.73	0.75

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 2014 the Group held provisions of \$35.0 million (2013: \$38.1 million), consisting of environmental provisions of \$31.7 million (2013: \$34.9 million) and self insurance provisions of \$3.3 million (2013: \$3.2 million). In 2014 environmental provisions reduced by \$3.2 million as a result of spending of \$5.1 million (2013: \$5.2 million) and favourable currency movements of \$1.3 million (2013: unfavourable \$0.3 million). These were partly offset by increases in the provision due to a time value of money charge of \$1.9 million (2013: \$1.8 million) and a structural charge of \$1.9 million to reflect a change in the underlying discount rate. This latter charge is treated as an exceptional item in the Group results as described earlier in this report. The self insurance provision represents the Group's estimate of its liability arising from retained liabilities under the Group's insurance programme.

Pensions and other post retirement benefits

	2014 \$million	2013 \$million
Net liabilities:		
UK	28.4	66.1
US	31.1	23.1
Other	6.3	10.1
	65.8	99.3

UK plan

The largest of the Group's retirement plans is the UK defined benefit pension scheme ("UK Scheme") which had a deficit under IAS 19 of \$28.4 million at the end of 2014, compared to \$66.1 million at the end of 2013. The UK Scheme is relatively mature, with approximately two thirds of its gross liabilities represented by pensions in payment, and is closed to new members. The deficit under IAS 19 declined in 2014 due mainly to a positive return on assets of 13 per cent (2013: 7 per cent) and deficit contributions from the Company of \$41.9 million (2013: \$21.4 million). These more than offset the financial cost of the liabilities of \$35.6 million (2013: \$30.6 million) and other liability adjustments of \$70.7 million (2013: \$26.9 million). Deficit contributions in 2014 were made as part of the current funding agreement, which was concluded with the trustees of the scheme following the triennial valuation exercise as of 30 September 2011, and included an additional one time payment of \$15.2 million. Other liability adjustments included the impact of a fall in real corporate bond yields during the year by 60 basis points (2013: decline of 20 basis points). The next triennial valuation exercise will be completed during 2015, based on a valuation as of 30 September 2014. Early indications are that the deficit value at that date is in line with that anticipated by the current funding agreement. Under that agreement the Company has agreed to make the following contributions in pounds sterling in order to bring the funding deficit to zero:

Year payable	Amount £million
2015	14.9
2016	11.0
2017	9.8
2018	9.8

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 2014 of \$23.7 million (2013: \$15.6 million); and a post retirement medical plan with a liability value of \$7.4 million (2013: \$7.5 million). The US pension plan is smaller than the UK plan and is closed to future accruals. In 2014 the overall deficit value increased by \$8.0 million (2013: decreased by \$28.2 million) due to the anticipated financial cost of the liabilities of \$5.6 million (2013: \$5.1 million) and actuarial increases of \$16.9 million (2013: decrease of \$11.5 million). Other liability increases consisted mostly of a revision to mortality assumptions costing approximately \$5.8 million and a decline in real corporate bond yields of 55 basis points (2013: increase of 80 basis points). These increases in the liability were offset by positive asset returns of 7 per cent (2013: 22 per cent) and employer contributions of \$7.8 million (2013: \$2.9 million).

Other plans

In the Netherlands, the Group operated an insured defined benefits pension plan as is customary in that country. On 1 January 2015 the Group contracted with an industry wide pension fund in the Netherlands to provide pension benefits for its employees as they relate to future accruals. This fund has a number of other participant companies and risks are shared across all of the participants. As such the fund is unable to provide the information required in the future to allow the Group to account for the plan benefits as a defined benefit scheme under IAS 19. Consequently, going forward the Group will account for these benefits as though the plan was a defined contribution scheme, in accordance with IAS 19, recording future contributions by the Group as an operating expense. Under this method of accounting the Group will no longer record any asset or liability relative to this plan and hence has recorded an income statement credit in 2014 of \$4.1 million in order to reverse the liability that would have been shown at 31 December 2014 had this change in accounting not been made. This credit has been recorded as an exceptional item in 2014 and is referred to in the earlier section of this report that covers this topic. A liability of \$3.7 million was recorded in the Group balance sheet as of 31 December 2013 in relation to these pension benefits.

Other liabilities at 31 December 2014 amounted to \$6.3 million (2013: \$6.4 million) and relate to pension arrangements for a relatively small number of employees in Germany and certain legacy benefits in the UK.

Key performance indicators

The Group maintains a standard set of key performance indicators ("KPIs") against which each business reports on a monthly basis. The principal financial KPIs are listed below. The Group's main non-financial KPIs relate to our health, safety and environmental performance. These KPIs are recordable incidents, lost time accidents and environmental incidents which are described more fully in the Corporate responsibility report.

Our short term incentives include targets against the annual operating plan for profit before tax, 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.

1. Operating profit/operating margin

Operating profit is the profit derived from the normal operations of the business. Operating margin is the ratio of operating profit, before exceptional items, to sales. The Group achieved an operating profit* of \$150.1 million for the year ended 31 December 2014 (2013: \$146.6 million before exceptional items). The Group's operating margin* was 19 per cent compared to 19 per cent in 2013.

2. 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 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. The Group's 12 month average trade working capital to sales ratio at 31 December 2014 was 21 per cent (2013: 20 per cent).

3. Return on operating capital employed

The return on operating capital employed ("ROCE") is defined as operating profit before exceptional 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. The Group's ROCE was 42 per cent for the year ended 31 December 2014 (2013: 43 per cent).

ROCE for the Group including goodwill was 22 per cent in 2014 (2013: 22 per cent).

4. Contribution margin

The Group's contribution margin, which is defined as sales less all variable costs, divided by sales and expressed as a percentage, in 2014 was 38 per cent (2013: 37 per cent).

5. Operating cash flow

The 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 exceptional items. In 2014 the operating cash flow was \$144.4 million (2013: \$143.9 million).

* before exceptional items

Risk management report

The risk management framework at Elementis is well defined internally with an established programme of activities to monitor and manage the Group's principal risks.

Structure	Board	Audit Committee	Management team	Manufacturing council
	<p>The Board is responsible for overseeing the creation of value for shareholders, while ensuring that the Group's processes are in compliance with applicable laws and regulations, and of a high standard as regards business conduct, ethics and its health, safety and environmental performance.</p> <p>The Board defines strategic direction in conjunction with the management team and monitors the performance of the businesses in all material aspects of their operation.</p> <p>The Board sets the risk culture and levels of appetite and tolerance for risk.</p>	<p>The Audit Committee supports the work of the Board and is responsible for ensuring the integrity of financial information and processes, as well as the protection of Group assets.</p> <p>Its focus is on financial, operational and compliance risks and controls (see also Audit Committee report on pages 32 to 34).</p>	<p>Management is responsible for all business activities and delivery of the Group's strategic objectives and annual operating plans and ultimately shareholder value. This requires identifying both opportunity and risk and leveraging these to the Group's advantage.</p> <p>The management of risk is integrated into the general management function which means all layers of management have a responsibility for identifying, assessing and communicating risk upwards in the chain of management.</p> <p>To support this approach, the Group has risk management policies, procedures and controls in place. In addition, a programme of compliance audits and property surveys exists, as well as the Internal Audit programme.</p>	<p>Our business takes HSE very seriously and our Manufacturing Council, chaired by our Global Director of HSE & Process Safety, holds monthly meetings to review this key aspect of our business.</p> <p>This network of HSE professionals is responsible for sharing knowledge and best practice, reviewing policies and procedures, and advising on all process, personal and behavioural safety matters, including process hazard reviews and behavioural safety training.</p>

Below is a summary of risk management activities carried out throughout the year.

Implementation	<ul style="list-style-type: none"> ▶ Regular review of principal risks at Board meetings through CEO, Finance Director and business reports and presentations. ▶ Receipt and review of incident notification reports as soon as these are published following notifiable group wide HSE incidents/near misses. ▶ Review and approval of annual Group insurance programme. ▶ Formal risk review process at least annually. ▶ Review and approval of annual and 3 year business plans, as well as review of updated forecasts during the year. 	<ul style="list-style-type: none"> ▶ Review accuracy, consistency and integrity of financial reports. ▶ Oversee work of the internal auditors and receive reports from the external auditors. ▶ Monitor risk management and internal control systems. ▶ Consider quality of management and financial information including related tax, legal and compliance matters. 	<ul style="list-style-type: none"> ▶ Regular review of business performance and material risks and the Group's ability to deliver its operating plans. ▶ More in-depth review of risk at least twice a year: <ul style="list-style-type: none"> – Review of the Group's business continuity plans with simulation/scenario testing and training at corporate and site level. – Review and comprehensive risk assessment of the Group's risk register. ▶ Review and assessment of new business and investment opportunities. 	<ul style="list-style-type: none"> ▶ Recommend and implement changes/updates to corporate policy and standards as necessary. ▶ Advise on setting HSE objectives and targets, initiate training programmes and assist with the communication of risk and safety awareness. ▶ Manage and monitor process and hazard management programmes, property survey programme, as well as corporate compliance programme.

The risk management framework at Elementis and examples of our approach to risk management are set out opposite. Our risk management process follows an Enterprise Risk Management model comprising the following steps:

1. Risk identification and communication.
2. Risk evaluation and prioritisation.
3. Risk management analysis and discussion (consideration of all options for prevention/mitigation/ treatment/transfer).
4. Risk strategy resourcing and implementation.
5. Monitoring, review and updating of the risk management process.

The management of risk is a responsibility that is incorporated into the general management function and shared between the different levels of management, at the site, business and corporate level. Certain risks or risk areas are managed by more specialised teams or functions. Legal and compliance risks, for example, are managed at a corporate level by the General Counsel. Finance and treasury risks tend also to be managed at corporate level. Supply chain and commercial risks are usually managed at business team level unless escalation is necessary. Operational and HSE risk management is a shared responsibility at both site and corporate level. Risk communication, for example, in connection with our products is managed by our Global Product Stewardship and Quality teams. Our flat management structure and risk culture mean that risk issues are communicated to the business leadership and management teams promptly, with defined procedures for ensuring that the Board is appropriately notified of important risk issues and developments.

As well as the day to day responsibilities for risk management, there are formal risk review programmes operated throughout the year. The Specialties and Chromium business leadership teams meet separately at least twice a year and during one of their meetings a formal risk review exercise is carried out. This assessment looks at the major risks facing the business (strategic, financial, operational, hazard and compliance), their likelihood of occurrence, severity of impact and mitigation controls (to reduce likelihood as well as financial impact). The output from these reviews is consolidated into a Group risk register comprising business risks (which include supply chain and operations/HSE risk assessments) and risks from corporate functions (legal, finance, IT, HR and governance). The management team then carries out an annual risk review in one of its two formal risk review meetings each year, focused on the Group risk register and risk maps. Benchmarking and other best practice materials are used to support its review process. The output of management's annual review is submitted to the Board which carries out its risk oversight review in December and the output is the table of principal risks disclosed on pages 18 and 19.

Strategic risks are usually discussed at management and Board level and programmes of meetings and agenda scheduling mean any developments concerning principal risks can be flagged and discussed as and when the need arises, without having to wait for the next formal review meeting. In addition to risk discussions at regular Board meetings and its formal risk review in December, the Board schedules discussion of specific topics at intervals throughout the year so that more focus can be given to certain aspects of the business.

Financial and treasury risks are well managed throughout the Group, with clear delegated authorities supported by policies and procedures. The internal audit function plays an important role in ensuring the effectiveness of financial, operational and compliance controls. However, in recent years, our internal audit service provider has also broadened the scope of its assurance services. Last year, for example, it carried out a cyber-phishing exercise to test the effectiveness and resilience of IT security controls. More information about the role of internal audit is given in the Audit Committee report on page 34.

One of the key areas of focus of our risk management activities is our HSE performance. At Elementis, safety and environmental compliance is a high priority and, as a chemicals manufacturer, our facilities are subject to many

regulations and are managed to a high standard. Of our 18 operating facilities, 8 have achieved ISO 9001 certification, 5 have achieved ISO 14001 certification, 3 have achieved OHSAS 18001 certification and our other sites are managed to similarly high standards. We also strive to go beyond regulatory requirements. For example, our main chromium facility in Castle Hayne, North Carolina, has achieved the comprehensive performance based criteria to be accredited in the STAR programme. This accomplishment is the highest recognition level under OSHA's voluntary protection programme which recognises employees and employers who have achieved exemplary occupational safety and health.

The paragraphs below provide additional commentary on the table of principal risks. The risks disclosed have remained largely unchanged from previous years, with the general risk profile remaining fairly stable and no new material risks identified. This is despite a thorough risk review process, with reference to industry benchmarking. The risks inherent in our business and the environment in which we operate are well known to management and risk reviews carried out in recent years looked at our major risks going as far back as 10 years ago.

The principal risks comprise a broad top 25 risk grouping, analysing the risk profile for each (whether it is increasing, decreasing or stable, by reference to probability and severity of impact pre and post mitigation controls). The composition of this broad grouping is fairly stable. However, below this top 25, new risks have been identified last year and there have also been some changes in risk evaluations and profile, reflecting new or improvements to mitigation controls implemented.

Of the risks shown in the table of principal risks below, the risk profile for 3 risks increased in 2014 over the previous year: regulation, IT incident and tax scrutiny. The requirements of EU REACH regulations and the proliferation of the UN Globally Harmonised System hazard communications standard are described in the Corporate responsibility report on page 25. The increasing prominence of cyber risks around the globe led to the higher risk score. This is discussed below. The inclusion of tax risk and the increasing risk trend indicated reflect the current political climate both in the UK and internationally as regulators look to increase the scrutiny of corporate tax affairs. It is the policy of Elementis to comply fully with all applicable tax laws. This is discussed below.

The risk having the highest potential impact on the Group financially is the global economic environment and a key factor against this is our broad geographic presence, mitigating the impact of economic changes in any one country. Customer service, innovation and delivering tailored, differentiated solutions remain the cornerstone of our strategy and this helps us to stay competitive. Another market risk worth commenting on briefly is the volatility of activity in the oil and gas industry. This risk needs to be put into a proper context. Our oilfield business, which supplies drilling additives to the global oil service companies participating in conventional offshore and onshore drilling including shale oil and gas drilling, accounted for about 9 per cent of the Group's sales in 2014. One of our strategic goals over the medium to longer term is to increase the size of this business but we recognise that, notwithstanding the excellent long term trends in the global energy sector, the performance of our oilfield business is exposed, to some extent, to volatility from wider macro factors, such as geo-political risk or general industry destocking cycles. However, like other parts of the Specialty Products business, the oilfield business enjoys diversification as we supply products to multiple segments that operate under different economic drivers: cold climate, deep water, high temperature/high pressure drilling and shale oil and gas drilling.

Supply chain risk continues to receive appropriate attention as our ability to supply customers can be affected by disruptions due to economic uncertainties or caused by severe weather patterns. Our businesses have worked hard over recent years to improve the resilience of our supply chains in relation to the availability of key raw materials, including working on business resilience and continuity with our supply chain partners and taking action to broaden our supplier base.

Risk management report (continued)





We are aware of the significance of cyber or IT risks and, at Elementis, our IT strategy is focused on protecting our people, assets and enterprise. Our security controls include:









- Policies and procedures.
- Staff awareness and training.
- Risk management and compliance.
- System management and protection.
- Information management and protection.
- Process management.
- Continuous assessments and monitoring.

As well as IT penetration tests, we have carried out cyber-phishing exercises both to improve our monitoring techniques and to raise awareness among our employees.


Our approach to taxation is to ensure that profits earned in the countries in which economic activities are undertaken are properly subject to tax in accordance with the tax legislation that applies in each jurisdiction. We aim to fully comply with the requirements of each of the relevant tax authorities and to ensure that we deal with these authorities in an open and transparent manner.

Principal risks and uncertainties

Risk	Impact	Mitigation
1. Global economic conditions and competitive pressure in the marketplace. 	<ul style="list-style-type: none"> ▶ 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. 	<ul style="list-style-type: none"> ▶ Specialty Products is resilient to 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 explained and investigated. ▶ 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.
2. Growth opportunities (including acquisitions) and product innovation may not materialise. 	<ul style="list-style-type: none"> ▶ Lack of growth opportunities can lead to sub-optimal financial performance and loss of shareholder value. 	<ul style="list-style-type: none"> ▶ Organic and acquisitive growth is a priority for the Board and a key area of focus for the management team. ▶ Experienced Board and management team, robust due diligence processes and support from professional advisers. ▶ Capacity expansion programmes are being implemented to ensure the business can supply to high growth markets. ▶ Regular Board reports on new product pipeline and progress on R&D projects.
3. Raw materials/ supply chain. 	<ul style="list-style-type: none"> ▶ Disruption to supply chain, key raw materials, infrastructure (e.g. IT networks or transportation) and energy price stability can impact capacity utilisation and/or operating efficiencies and add to operating costs. 	<ul style="list-style-type: none"> ▶ 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. ▶ Energy costs are hedged where possible.
4. Major regulatory enforcement action, litigation and/or other claims arising from products and/or historical and ongoing operations. 	<ul style="list-style-type: none"> ▶ Can lead to higher operating costs and reputational damage. 	<ul style="list-style-type: none"> ▶ 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 role of the Audit Committee, as well as the internal audit programme, help ensure these key risks are managed effectively.

Risk	Impact	Mitigation
5. UK pension fund. 	<ul style="list-style-type: none"> ▶ Volatile financial markets, poor investment returns and increased life expectancy can all result in higher funding costs. 	<ul style="list-style-type: none"> ▶ Pension investment strategy includes significant element of liability matching, including the use of interest rate and inflation hedging instruments. ▶ Options for pension de-risking periodically reviewed. ▶ Deficit funding plan agreed with UK pension scheme trustees through to 2018.
6. Regulation/technological advances.  Increased regulation  Technology obsolescence	<ul style="list-style-type: none"> ▶ New technology, methods of production or processes can give competitors a market advantage. ▶ New regulations impacting product manufacturing and application can lead to loss of sales and/or add to operating costs. 	<ul style="list-style-type: none"> ▶ 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. ▶ Active product stewardship including 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.
7. Major event or catastrophe (e.g. IT failure or operations incident).  IT incident  HSE incident  Transport incident	<ul style="list-style-type: none"> ▶ Such incidents can impact capacity utilisation, add to operating costs and damage reputation. 	<ul style="list-style-type: none"> ▶ Good housekeeping, preventative maintenance and other safety procedures help to mitigate the effects of a major incident. ▶ Insurance programme and business continuity plans that are tested regularly help to mitigate the effects of a major incident. ▶ HSE management programme with environmental compliance audits in place.
8. Major disruption to global or regional banking systems. 	<ul style="list-style-type: none"> ▶ Volatile financial markets and/or major disruptions to global or regional banking systems can affect liquidity, the ability to access cash, make payments and fund operations, and lead to higher operating costs. 	<ul style="list-style-type: none"> ▶ Company was in a net cash position at the year end with extensive borrowing facilities in place, so any impact is unlikely to materially impact on the ability to trade and fund operations. ▶ Company cash is deposited with a syndicate of banks with acceptable credit approval ratings. ▶ Company has a strong unleveraged balance sheet so could raise alternative sources of funding in emergencies. ▶ Treasury policies implemented and compliance monitored, strong focus on cash management with weekly cash reports so that cash requirements are known in advance.
9. Increasing scrutiny of corporate tax affairs due to the current political and financial environment. 	<ul style="list-style-type: none"> ▶ Non-compliance with local tax regulations, poor forecasting of applicable tax rate or miscalculation of the appropriate amount of tax can negatively impact financial performance, incur additional costs and damage reputation. 	<ul style="list-style-type: none"> ▶ Experienced Finance Director supported by finance and tax team, as well as professional advisers, with Board oversight ensures tax planning and compliance is given appropriate attention. ▶ Group tax rate is monitored closely with at least 4 updated forecasts each year. ▶ Tax reports and forecasts reviewed by the Board at least twice a year. ▶ Role of internal audit and use of professional advisers with transfer pricing arrangements and tax compliance.

Key: Risk trends

 Risk stable
  Risk increased
  Risk decreased

These principal risks and uncertainties should be read in conjunction with the note on contingent liabilities on page 92.

Brian Taylorson
Finance Director
 24 February 2015

Corporate responsibility report

Introduction

Elementis recognises that corporate responsibility (“CR”) is a fundamental part of the Company’s business activities, which is why the Chief Executive is responsible at Board level for all CR matters.



Since September 2009 the Company has been a member of the FTSE4Good index, a leading global responsible investment index, which demonstrates the Company’s commitment to CR and that its activities and aspirations are aligned with the principles of the UN Global Compact on human rights, labour, environment and anti-corruption. Above is an illustration of the Company’s CR framework.

During 2014, Elementis achieved a silver rating from EcoVadis which is a leading global sustainability accreditation programme for supply chain partners. The rating puts Elementis in the upper quartile of 150 participants in the benchmark. Assessments in the programme ranged from HSE to employment and human rights, as well as anti-bribery and corruption policies and wider business, supply chain and procurement practices.

In addition, Elementis received 1 of only 4 inaugural UK awards made by the Carbon Disclosure Project (“CDP”). The CDP works with some of the largest corporations in the world to help them ensure that an effective carbon emissions/reductions strategy is made integral to their businesses. The benchmarking last year was split into 10 sectors and Elementis was categorised in the materials sector with 23 other companies including mining and chemicals companies. Our responses, which were analysed by First Carbon Solutions as part of the CDP verification process, resulted in a disclosure score of 89 with a performance band of B, placing us overall in 7th position out of 24 companies.

Elementis continues to participate in the Repasack programme which takes back and recycles used paper bags from trade and industry. Our participation in 2013 was certified last year to have saved approximately 13,000 kg of resources. In addition, over 1,000 kg of greenhouse gas emissions were avoided.

Business conduct and ethics

People

It is our people who remain our most valuable asset and are a key differentiator between Elementis and its competitors. The long term success of the Group depends on the passion, attitude, commitment and work ethic of all our employees around the world.

Elementis sets high expectations for all its global employees and these are set out in the Group’s Code of Business Conduct and Ethics (the “Code of Conduct”). The Code of Conduct is supplemented by policies, processes and guidelines covering a wide range of compliance matters, such as anti-bribery and corruption, conflicts of interest, fair business practices and compliance with local laws and regulations. Comprehensive whistleblowing procedures are supported by an anti-retaliation policy. All employees are required to undertake training on the Code of Conduct and certify that they understand and agree to be bound by its provisions. The Board and management team consider the Code of Conduct to be critical to the Group’s continuing success and in how it meets its corporate responsibilities.

Our training programme on the Code of Conduct is translated into six languages and supported with interactive online training to help employees stay up to date with their responsibilities under the Code of Conduct.

Policies are updated as necessary and new ones implemented to take account of the changing business environment with associated training provided. In 2014, a number of policies were updated including the Global anti-corruption policy and a new Group computer usage standard incorporating a new social media policy and revised information security policy. Online training on the information security policy was delivered to over 1,300 members of staff.

Diversity

Elementis continues to be fully committed to equality of opportunity. Our policy of non-discrimination applies throughout the Group and to all aspects of our employment practices, except as it relates to a person's ability or potential in relation to the needs of a job. A summary of our employment policies appears on page 55 of the Directors' report. Our total workforce (including contractors and temporary workers) numbers in excess of 1,300 in three regions (41 per cent in the Americas, 25 per cent in Europe and 34 per cent in Asia). In terms of gender diversity, out of our total workforce (excluding contractors and temporary workers) as at the year end, 993 were male (76 per cent) and 314 were female (24 per cent). Of these female employees, 45 (14 per cent) held managerial positions and 39 (12 per cent) held an executive management position (within the four tiers below Board level). At Board level 6 directors were male and 1 was female and at senior manager level (as defined under the prescribed regulations) 19 were male. The Group does not consider targets or quotas to be appropriate for increasing the percentage of women in management positions, although it recognises the benefit of having women represented in all layers of management. Staff turnover across the Group for 2014 was 7.0 per cent (2013: 6.4 per cent – restated).

Human rights

Elementis supports the principles of the UN Global Compact which includes those on fundamental human rights. These are applied in our employment policies as well as to our business practices in relation to customers and suppliers, such as the right to privacy, safety and to be treated fairly, with dignity and respect. Our employment and business practices are supported by Group policies, including our anti-harassment policy and grievance procedures, and our Code of Conduct. Elementis prohibits the use of child and forced labour and is committed to the principles of freedom of association, equality of treatment and non-discrimination. Over 40 per cent of our employees are union members and over a fifth are subject to collective bargaining agreements.

Customers, suppliers, supply chain, biodiversity and quality

Each of our businesses is customer centric – solving immediate problems today and working collaboratively to anticipate future needs. This intense customer focus keeps our technical service organisation best in class and feeds our innovative product development process with valuable and differentiated programmes. We track our performance with metrics, for example, the percentage of sales from new products which improved by 32 per cent from 2013 to 2014. We continue to develop and nurture close customer relationships through our key account business process and participation in trade shows and industry forums, as well as conducting numerous group workshops, training seminars and hosting collaborative laboratory sessions to work with customers on a one on one basis.

We have continued to address questions from our customers on social responsibility and environmental awareness programmes and have successfully completed a number of surveys and informal audits. As well as our participation in the EcoVadis programme, we became a member of the Roundtable for Sustainable Palm Oil (RSPO) and our facility in Livingston, Scotland, achieved the rigorous standards required to be certified to handle palm oil derivatives via an audited mass balance system, whereby a specific volume of sustainable palm oil derivatives enters the supply chain and is traced throughout.

Our membership of RSPO means Elementis is committed to protecting and conserving the rich biodiversity found in tropical palm forests by using palm oil sourced from sustainable palm plantations that are responsible and responsive to the issues of soil degradation, biodiversity, local peoples and land rights.

The Livingston facility, which is the primary manufacturing site for our Personal care business also achieved Good Manufacturing Practice (2012) certification last year from the European Federation for Cosmetic Ingredients (EFFCI). In achieving the EFFCI certification Elementis is affirming our commitment to quality, safety and innovation for the personal care industry.

Training worldwide for all procurement members continues to ensure compliance and adherence to our Purchasing Code of Practice and anti-corruption policy. Suppliers are likewise expected to affirm their conformity to international labour laws, social and environmental responsible legislation and best practices. Conflict minerals continue to be absent from our supply chain.

Use of natural products within our supply chain increased from \$17.1 million in 2013 to \$17.7 million last year representing a rise of 4 per cent on top of the 8 per cent increase achieved in 2013.

Corporate responsibility report

continued

Health, safety and environment

The health and safety of our employees, contractors and visitors, as well as the preservation of the environment, remains a key area of focus for the Board and management. Biodiversity is protected wherever possible by reducing the potential for significant damage to sensitive species, habitats and ecosystems. The Group also recognises a shared responsibility globally for conserving natural resources and reducing greenhouse gas emissions.

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

Health and safety performance

The Group's priority is to strive to eliminate accidents and injuries within the workplace. We seek to achieve this by maintaining our strong focus on and commitment to safety design, a safe environment, setting and communicating safety standards, training, coaching safe behaviours and developing a safety culture.

The Group's priority is to strive to eliminate accidents and injuries within the workplace. We seek to achieve this by maintaining our strong focus on and commitment to safety design, a safe environment, setting and communicating safety standards, training, coaching safe behaviours and developing a safety culture.

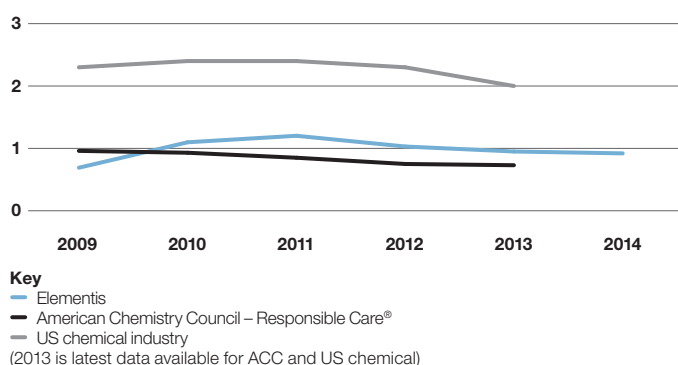
One of our additive reactors was impacted by an operating incident which resulted in some isolated equipment damage. The engineering and safety systems operated according to plan and there were no injuries. A number of enhanced safety initiatives were implemented following the incident and the HSE leadership team has used the experience as a learning opportunity to further improve our process safety management controls.

The Group uses recordable incidents as its principal measure of safety performance. Recordable incidents (as defined by the US Occupational Safety & Health Administration) are basically work related injuries and illnesses that require medical treatment beyond first aid, work restrictions to normal duties or time away from work. To monitor performance and trends among more serious injuries and illnesses, the Group also records lost time accidents ("LTAs") that require greater than 3 days away from work not including the day of incident. The number of recordable incidents across the Group in 2014 was 12 (2013: 12). Of the 12 recordable incidents only 2 required days away from work greater than 3 days (2012: 3). Of particular note is our hectorite mine in Southern California which now has an outstanding record of 23 years without a LTA and 10 years without a recordable incident. Our facility in Corpus Christi, Texas, has also achieved the distinction of reaching 11 years without a recordable incident.

As well as the total number of recordable and LTAs, the Group uses the overall recordable incident rate as a performance indicator. The total recordable incident rate in 2014 was 0.92 per 200,000 hours worked (2013: 0.95). Within the chemical industry, this sustained performance of Elementis is comparable to companies that are generally viewed as having 'industry best' safety performance (based on data for the American Chemistry Council — Responsible Care® members, who achieved 0.73 in 2013), and is significantly better than the general chemical industry in the US (2.00 in 2013 based on the latest data available from the US Bureau of Labor Statistics).

Recordable incident rate

Recordable incidents per 200,000 hours worked



Elementis applies the same high safety standards to on-site contractors who are required to comply with the same safety practices and procedures expected of our employees. In 2014, contractors suffered only 1 recordable injury (2013: 5) across all manufacturing locations which equated to an incident rate of 0.49 per 200,000 hours worked (2013: 2.35).

Health and safety initiatives

During 2014, our health and safety leadership team has continued to focus on reducing the risks associated with handling and manufacturing hazardous chemicals by promoting the use of industry recognised process safety programmes. These include process hazard analysis ("PHA") and mechanical integrity inspections and are conducted as a predictive and preventative exercise to reduce the likelihood of incidents. A formal procedure for incident reporting and investigation (including near miss reporting) exists and is a key management tool used for recognising unsafe conditions and behaviours, and for communicating globally any investigative findings and corrective actions. In addition, site leadership communicates current safety concerns and reinforces commitment to safety by a variety of means. A good example is through safety stand-downs – meetings where employees and management take time during the workday to address pertinent safety issues. In these stand-downs, anyone can raise a safety concern. The issues are discussed and site management and employees then work collaboratively to develop appropriate action plans.

Environmental performance

Minimising the impact of our operations on the environment, complying with all applicable laws and contributing to a more sustainable future remain the focus of our efforts.

Elementis records and categorises environmental incidents into tiers based on the severity or actions taken by regulatory authorities. Tier 3 incidents are those that have an impact on the environment and require reporting to an external authority and where enforcement action is likely. Tier 2 incidents have a minor impact and require notification but are likely to result in minimal or no action by the authorities. Tier 1 incidents require no external reporting and are recorded internally and investigated so that continual improvements can be made to reduce the likelihood of future Tier 2 and Tier 3 incidents.

In 2014, Elementis had 1 Tier 3 and 0 Tier 2 incidents (2013: 0 Tier 3 and Tier 2). The reason for classifying the 2014 incident as Tier 3 was due to the omission of the waste water treatment tanks from the environmental operating permit at our site in Charleston, West Virginia. The site was issued a consent order by the West Virginia Department of Environmental Protection requiring the addition of the tanks to the permit.

Environmental impact

Elementis monitors key environmental statistics for each manufacturing facility. Water and energy consumption, air emissions, effluent discharges and solid waste disposal will all vary according to production output – which is a function of demand, as well as changes in fuel and production processes. However, they are also affected by changes in product mix and plant efficiencies related to operational requirements, and special events (planned and unplanned).

As is standard practice in the chemical industry, emission values may be calculated from energy use or based on representative sampling, as well as continuous monitoring.

Energy consumption

Depending on the location and requirements of the manufacturing sites, principal offices and laboratories, Elementis consumes energy from several sources (electricity, steam, natural gas, LPG, coal and oil). For comparison purposes, energy consumption is converted into consistent energy units, Gigajoules ("GJ"). Elementis seeks wherever practicable to improve its energy efficiency in the plant and equipment used as illustrated in the examples of energy saving initiatives described below. Energy consumption is shown below.

Energy consumption

	2014		2013		2012	
	Absolute (000s)	Per tonne of production	Absolute (000s)	Per tonne of production	Absolute (000s)	Per tonne of production
Energy consumed (GJ)	5,046	12.1	5,102	13.0	4,910	12.9

Examples of 2014 energy initiatives that have improved energy efficiency

Newberry Springs, California – Replacement of a boiler with a high efficiency unit saving 35 per cent of gas used for heating water.

East Windsor, New Jersey – Implementation of a building optimisation system in the technical centre and management headquarters. Energy usage is monitored throughout the building and linked to an energy management system, which will reduce energy costs through a rapid response to demand programme.

Livingston, Scotland – Upgrade of existing insulation within the manufacturing process reducing thermal losses, as well as replacing two air compressors with new units that are approximately 10 per cent more energy efficient.

Hsinchu, Taiwan – Replacement of a boiler with a higher efficiency unit.

Songjiang, China – Installation of internal cooling coils in two reactors to improve process efficiency by reducing cooling time.

Delden, Netherlands – Continuation of a 4 year energy efficiency initiative. Current improvements made include to process ventilation and through an operational excellence initiative. In 2015, the nitrogen compressor unit will be replaced and a planned investment in the boiler plant room in the next 2 years will bring substantial energy savings.

Other global initiatives include replacing old lights with lower energy, longer life LED (light emitting diode) lights, installing variable speed drives on large electric motors, and improved operating practices to minimise the time equipment is idle.

Corporate responsibility report

continued

Greenhouse gas emissions

Elementis reports greenhouse gas ("GHG") emissions for its global operations as Scope 1 and Scope 2 according to the requirements of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

The principal GHG due to operations at Elementis locations is carbon dioxide. GHG emissions have been converted into carbon dioxide equivalent ("CO₂e") using official data provided by the Department for Environment, Food and Rural Affairs ("DEFRA"). GHG emissions are reported for all 18 manufacturing sites, the principal offices and laboratories, as well as a site undergoing closure procedures in Eaglescliffe, UK. A number of much smaller sales offices have been excluded because the level of CO₂e emissions was deemed not to make a material contribution to the total.

Elementis is providing 2 intensity ratios: 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 a reliable indication of energy efficiency improvements including cleaner fuels consumed. The energy reduction programmes at the manufacturing sites (see above) should lead to a reduction in GHG emissions.

These ratios are subject to variations due to changes in the mix of products manufactured, volumes and energy efficiency improvements. GHG emissions are shown below.

Greenhouse gas emissions

	Current reporting period (2014)		Prior year and base year (2013)	
Scope 1:				
Combustion of fuel and operation of facilities	221,420	Tonnes CO ₂ e	221,076	Tonnes CO ₂ e
Scope 2:				
Electricity, heat, steam and cooling purchased for own use	82,265	Tonnes CO ₂ e	89,500	Tonnes CO ₂ e
TOTAL				
Scopes 1 & 2	303,685	Tonnes CO₂e	310,576	Tonnes CO₂e
Intensity ratio:				
tonnes CO ₂ e/tonne production ("t/t")	0.73	t/t	0.77	t/t
Supplementary intensity ratio:				
kg CO ₂ e/kWh energy consumed	0.27	kg/kWh	0.27	kg/kWh

In this second year of reporting, the total Scope 1 and Scope 2 CO₂e emissions decreased by 6,891 tonnes CO₂e. The total for Scope 1 emissions in 2014 was effectively unchanged, however, the year on year production output increased, giving a Scope 1 intensity ratio of 0.53 tonnes CO₂e per tonne of production (2013: 0.55 t/t). The total Scope 2 emissions reduced by 8 per cent largely as a result of our Livingston facility changing its purchasing of electricity such that 100 per cent was from renewable sources (mostly hydro and wind energy). Elementis has incorporated this saving of over 4,000 tonnes CO₂e in the Scope 2 emissions shown above.

The Group continues to use cleaner energy sources such as natural gas which represented almost 95 per cent of energy required for combustion (with coal being just under 5 per cent). A significant change planned for 2015 is in China where our organoclay sites at Changxing and Anji will switch from using coal to biomass comprising renewable organic materials, such as bamboo and wood powder, and combustible waste as an energy source.

Other emissions to air

Emissions of the oxides of sulphur and nitrogen and volatile organic compounds ("VOCs") arising from the Group's operations are controlled to comply with regulatory permits. As the volumes are not considered to be significant, they are not reported separately here. Any emission to air above regulatory permitted levels would be reported as an environmental incident.

Discharges to water

The Group's production activity generates process effluent that is routinely tested to ensure that the quality meets strict permit limits prior to discharge. Typical analysis includes chemical and biological oxygen demand and total suspended solids. The volumes of these discharges are not considered to be significant and are not reported here. However, any discharge to water above regulatory permitted levels would be reported as an environmental incident.

Water consumption

Water is a valuable resource and the Company recognises the global need to conserve it. Water consumption is minimised where possible by treatment and recycling.

Water consumption is related to production output, product mix, plant utilisation and cleaning activities. The net result in 2014 was a 5 per cent reduction (see below).

Water consumption

	2014		2013		2012	
	Absolute (000s)	Per tonne of production	Absolute (000s)	Per tonne of production	Absolute (000s)	Per tonne of production
Water consumed (m ³)	1,811	7.08	1,908	7.48	1,928	7.97

Solid and liquid waste

As part of our commitment to sustainable development, Elementis seeks to reduce the quantity of all types of waste. The first concern is to reduce the amount of waste that is classed as hazardous. Beyond that non-hazardous waste is minimised and recycled. Non-hazardous waste is predominantly the inert residue from the chromate kiln operations, which is deposited in permitted impoundments and licenced landfill sites adjacent to the manufacturing facilities.

Hazardous waste was reduced in 2014 (see table opposite). A particular reason for the lower figure in 2014 was that improved maintenance processes in Chromium resulted in a reduction in kiln refractory replacements in the year.

Waste disposal

	2014		2013		2012	
	Absolute (000s)	Per 1,000 tonnes of production	Absolute (000s)	Per 1,000 tonnes of production	Absolute (000s)	Per 1,000 tonnes of production
Hazardous waste disposed (tonnes)	0.79	3.09	0.93	3.64	1.70	7.01
Non-hazardous waste disposed (tonnes)	104	405	105	410	104	430

The gangue clay from the hectorite mine (the unwanted material that is associated with the hectorite clay) provides a good example of recycling and reducing the impact on land. Residual clay is recovered from the discharge water and blended back into the process with the hectorite ore feedstock. Tailings with minor clay content are sold for use as liner for recreation ponds, fish rearing lakes and some agricultural applications. Selling overburden and optimising stockpile height has the additional benefit of reducing the overall area impacted at the mine. The Livingston site has taken some of this waste hectorite clay and supplied it for agricultural use (to adjust soil pH) and waste bentonite clay as a landfill liner. The 2 organoclay sites in China are planning to recycle clay from residue.

R&D and sustainability

Our R&D efforts continue to support and contribute to a more sustainable future with the global R&D team driving its research towards:

- Reduction in the use of materials that contribute to greenhouse gases.
- Development of new biodegradable products for use in aqueous environments.
- Expanded use of bio-based materials in our products.
- Facilitating the migration of all coatings to aqueous solutions from solvent based systems.

The development and introduction of new polymers for rheological additives used in decorative coatings have allowed for use of these additives at much lower levels than current market standards. These high efficiency products effectively contribute to the reduced dependence in the coatings industry on petroleum derivatives.

Further reduction in dependence on petroleum derivatives was achieved through the implementation of organic solvent recycling in new processes. New products that incorporate high levels of bio-based ingredients were also introduced in our Personal care and Surfactants product lines.

Product stewardship

Ensuring our products are safe for intended use, transport and to people and the environment throughout the product's entire life cycle remains a priority for Elementis, as well as contributing to a more sustainable future.

The Group's activities in 2014 continued to be centred on complying with the global REACH regulatory requirements for our products during 2014, as well as the United Nations GHS (Globally Harmonised System) hazard communications standard which continues to be implemented around the world. The Group continued to invest resources in its regulatory compliance software system, the Werchs, which helps to automate compliance and prepare the business for further implementation of GHS as it and other new REACH regulations proliferate across the globe.

EU REACH regulations will require a major registration effort up to 2018 with significantly more substances being registered than were seen in the combined 2010 and 2013 REACH registration cycles. In 2014, the Group began its programme to comply with the 2018 EU REACH cycle of registration in order to optimise resources and control costs while ensuring full compliance by the June 2018 deadline.

During 2014, the Group began to provide GHS compliant safety data sheets and labels for US products and will continue this programme into 2015 to meet the 1 June 2015 OSHA deadline. In addition, a more robust internal product stewardship audit programme, begun in 2013, was fully integrated across our European businesses in 2014. This audit programme will be further extended to our Asia operations in 2015.

The Group has also expanded its enhanced export control management system to its European business last year, to ensure compliance with the extensive and strict export regulations of both the US and EU. This programme is being extended to our Asia operations in 2015. Key components of this system include strong internal written policies, proactive external auditing of the Group's freight forwarders and export brokers, monitoring of US and EU trade sanctions and careful review of all new customers against both US and EU 'denied parties' lists.

A growing component of our product stewardship programme has been to focus on and support other areas of our business in relation to sustainability initiatives. As mentioned above, we have been working in partnership with organisations such as EcoVadis and RSPO to assess the sustainability of our supply chain.

Community

Our community programme remains centred on encouraging and supporting employees to be active in their communities through volunteer work or fundraising. The Group understands the need to work with local communities and be a responsible neighbour.

Approval of Strategic report

The Strategic report comprises the following sections: Chairman's statement, Group Chief Executive's overview, Our objectives, strategies and business model, Our businesses, Finance report (incorporating Key performance indicators and the Risk management report) and Corporate responsibility report (which incorporates information relating to greenhouse gas emissions required to be included in the Directors' report). The Strategic report was approved by the Board and has been signed on its behalf by:

Brian Taylorson
Finance Director
 24 February 2015

Board of directors



Key:

- A:** Audit Committee
- N:** Nomination Committee
- R:** Remuneration Committee
- (c):** Chairman of Committee



1. Andrew Duff Chairman Age 55

Committee membership: N(c)

Andrew Duff 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, following the conclusion of the AGM. He has been non-executive chairman of Severn Trent plc, the FTSE 100 water and waste treatment services company, since July 2010 and was 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. From 2003 until 2009, he was chief executive officer of npower, the successor entity to Innogy plc which in 2000 was demerged from National Power and then sold to RWE, the German electricity and gas company, where he was also a member of the group executive committee. Before that he spent 16 years at BP in downstream international markets. He holds a BSc. (Honours) degree in mechanical engineering and is a member of the CBI President's Committee, trustee of Macmillan Cancer Support and of Earth Trust and a Fellow of the Energy Institute.

2. David Dutro Group Chief Executive Age 59

David Dutro was appointed Group Chief Executive in January 2007. He joined Elementis in November 1998 as President of Elementis Pigments then became President and Chief Operating Officer of Elementis Worldwide in October 2005. He was vice president and general manager of Universal Foods' Dairy and Food Ingredient businesses (now Sensient Technologies Corp), and also spent time with ICI in their colours, polymer additives and surfactants businesses. David Dutro was born and educated in the US and holds a BSc. degree in marketing.

3. Brian Taylorson Finance Director Age 59

Brian Taylorson was appointed Finance Director in April 2002. He is also a trustee of the Elementis Group Pension Scheme. Before joining Elementis he was head of the European chemicals M&A group at KPMG Corporate Finance. He joined KPMG in 2000 from the Dow Chemical Company where he held a number of positions in finance over a period of 17 years, living and working in several countries including the UK, South Africa, Switzerland, Canada and the US. He holds an MA degree in engineering from Cambridge University, is a member of the Institute of Chartered Accountants in England and Wales and a member of the Association of Corporate Treasurers. He was a non-executive director of Fiberweb plc between September 2006 and August 2012.

4. Andrew Christie Non-executive director Age 58

Committee membership: A, N, R(c)

Andrew Christie was appointed a non-executive director in August 2008 and Chairman of the Remuneration Committee on 1 October 2013. He has over 25 years of investment banking and international corporate finance experience. He is a partner of Smith Square Partners LLP, a corporate finance advisory firm, and before that was, until March 2008,

a UK managing director in the European Investment Banking Group at Credit Suisse. In his prior role at Credit Suisse, he was head of Investment Banking, Asia Pacific, based in Hong Kong and, before that, held the same position with Barclays de Zoete Wedd. He is a non-executive director of Helios Underwriting plc and holds an MBA and a BSc. degree in engineering.

5. Steve Good Non-executive director Age 53

Committee membership: A, N, R

Steve Good was appointed a non-executive director on 20 October 2014. Since 1 October 2014 he has been a non-executive director of Zotefoams plc. He 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 speciality chemicals businesses. He is a chartered accountant.

6. Anne Hyland Non-executive director Age 54

Committee membership: A(c), N, R

Anne Hyland was appointed a non-executive director in June 2013 and Chairman of the Audit Committee on 1 August 2013. She is CFO of Kymab Ltd a biopharmaceutical company funded by the Wellcome Trust and the Bill & Melinda Gates Foundation. Most recently, she was CFO and company secretary of BBI Diagnostics Group Ltd and FTSE-listed Vectura Group plc. Prior to her role at Vectura, she held a number of senior finance positions (including director of corporate finance) at then FTSE 100 Celltech Group plc, Medeva plc and KPMG. She is a chartered accountant (FCA), a corporate tax adviser (CTA – AIT) and holds a degree in business studies from Trinity College, Dublin. She is also a trustee of the charity Sustrans (sustainable transport) which campaigns for national cycling networks.

7. Nick Salmon Senior Independent Director Age 62

Committee membership: A, N, R

Nick Salmon was appointed a non-executive director on 20 October 2014 and Senior Independent Director on 16 December 2014. Since August 2014 he has been a non-executive director of Interserve plc. He was a non-executive director of United Utilities Group plc between April 2005 and July 2014, where he was also the senior independent director between 2007 and 2014. He was chief executive of Cookson Group plc from July 2004 to December 2012 when Cookson demerged to create two new listed companies, Vesuvius plc and the specialty chemicals company, Alent plc. He was formerly executive vice-president of Alstom S.A. and chief executive of Babcock International Group plc. He held other senior management positions including at GEC and GEC Alsthom in the UK and France and the China Light and Power Company, Hong Kong. He holds a BSc. degree in mechanical engineering and is a Fellow of the Royal Academy of Engineering.

Senior executives



8. Greg McClatchy President of Elementis Specialties (comprising Elementis Specialty Products and Elementis Surfactants)

Greg McClatchy was appointed President of Elementis Specialties in January 2007. He joined Elementis Pigments in 1999, served as managing director of its Durham UK operations, and was appointed President of Specialty Rubber in 2002 and President of Elementis Chromium in 2005. He was previously with Universal Foods (now Sensient Technologies Corp) and ICI's polymer additives business. He completed his undergraduate studies in chemistry and economics at the University of Delaware.

9. Dennis Valentino President of Elementis Chromium

Dennis Valentino joined Elementis as President of Elementis Chromium in April 2009. His previous positions at Elementis included managing director of Asia Pacific and President of Elementis Pigments until it was sold in August 2007. Prior to Elementis, he joined Pfizer Pigments in 1975 and held various positions there including vice president of manufacturing and vice president of its North America Coatings business. He completed his undergraduate studies in chemical engineering at the University of Missouri – Rolla, and obtained his MBA from St. Louis University.

10. Walker Allen General Counsel and Chief Compliance Officer

Walker Allen joined Elementis as General Counsel in 1999 and was also appointed Chief Compliance Officer in 2006. Prior to joining Elementis, he 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 2 leading New York City law firms, where he specialised in corporate law, securities and mergers and acquisitions. He is a member of the New York Bar and is admitted as in-house counsel in New Jersey.

11. Daniel Hughes Chief Information Officer

Daniel Hughes was appointed Chief Information Officer in September 2013. He has held various senior leadership roles in Elementis Specialties since February 2007. Primarily he has served as Vice President, Global Procurement and Supply Chain and been deeply engaged in our worldwide end to end business transactions. He also served as integration manager for the Deuchem, Yuhong, Fancor, Watercryn and Hi-Mar acquisitions. He holds a BA (Honours) degree from the University of East London and, prior to joining Elementis, held various senior procurement and supply chain positions at Engelhard Corporation and Ford Motor Company.

12. Wai Wong Company Secretary

Wai Wong joined Elementis and was appointed Company Secretary in May 2007. He is also a trustee of the Elementis Group Pension Scheme and manages insurance, risk and corporate responsibility matters at Group level. He is a Fellow of the Institute of Chartered Secretaries and Administrators ("ICSA") and a member of the Chartered Institute of Public Relations. Prior to joining Elementis, he held a number of senior company secretarial positions including at John Menzies plc, ICSA and PricewaterhouseCoopers. He has a BCom. (Honours) degree in commerce and law from the University of Edinburgh and an LL.M degree in corporate and commercial law from Queen Mary College, University of London.

Corporate governance report

Chairman's letter

The governance arrangements at Elementis play a critical role in how our businesses are managed and our ability to deliver value to all our stakeholders. Your Board is committed to strong governance and controls that help our businesses to grow sustainably and operate in a responsible manner. At the centre of our governance structure are the Board, Board committees and the management team.

Despite the changes to the Board over the past year, its role has remained much the same. The Board is responsible for defining strategy and the priorities of the Company on the one hand, while on the other management, led by our Chief Executive, is responsible for executing strategy and the attainment of set objectives and priorities, with the Board and Board committees providing support, guidance and exercising oversight. Oversight means: (i) monitoring and reviewing management and financial performance, (ii) ensuring resources are made available to the businesses and that appropriate governance and risk management systems and controls are implemented throughout the Group, (iii) setting high standards for how we conduct our business activities globally, and (iv) reporting to our shareholders on how the Board has preserved and generated value both in the year being reported on and over the longer term.

Effective governance starts with people – setting the right expectations, leading by example, doing the right thing and cultivating a culture of trust and responsibility. The Board operates within a framework of applicable laws and regulations that includes the UK Corporate Governance Code (the "Code"). The role and responsibilities of Board committees are set out in defined terms of reference and the management team obtains its authority from service and employment contracts, role and responsibility specifications, delegated authorities from the Board (through the Board's schedule of matters reserved for its decision as well as specific direction from the Board). The expectations and values set by the Board and management team are supported by our Group Code of Business Conduct and Ethics which sets out in writing our values and the standards we expect of our employees and third party contractors. This document, together with other Group policies, govern how we conduct our business and the standards and responsibilities expected of all our employees. Further details on this can be found on our website at: www.elementisplc.com.

I am confident that our governance arrangements at Elementis will continue to evolve, due both to the Board's recent refreshment programme and the revised Code which applies from this year, and consequently your Board and the management team will be in a good position to create and deliver further value, as we build on our strong foundation for sustainable growth and the long term success of the Company.

Statement of compliance

The Board is of the view that it has applied fully throughout 2014 all of the provisions of the Code (2012 version) with the exception of Code Provision C3.7 and otherwise intends to comply with the provisions of the new Code (2014 version) during 2015. Code Provision C3.7 requires FTSE 350 companies to put the external audit contract out to tender at least every 10 years. As our external auditors, KPMG, were first appointed in June 2004 a tender process should have been initiated last year. However, owing to the Board and therefore the Audit Committee refreshment programme and in line with the Financial Reporting Council's guidelines for transitional arrangements for audit tenders to coincide with the audit engagement partner's 5 year rotation, the directors decided to defer a tender but agreed to keep this position under review. This is discussed further in the Audit Committee report on page 33.

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

Andrew Duff

Chairman

24 February 2015

Compliance with the Code

Board composition

As identified on page 26, the Board comprises 2 executive directors (Chief Executive and Finance Director) and 5 non-executive directors (including the Chairman and Senior Independent Director). The Chairman is responsible for leadership of the Board, while the Chief Executive is responsible for running the Group's businesses. The roles of Chairman and Chief Executive are separate, clearly defined and well understood by the Board, such that no individual has unfettered powers of decision. 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.

The Chairman's role is to lead and manage the Board and to set the style and the tone in which the Board operates. This includes ensuring that there is a forum for constructive discussion and challenge, for an open, frank and informed exchange of views, as well as creating a framework and the conditions to enable the Board as a whole, and its individual directors, to contribute effectively in the performance of their role. Such a framework and conditions include access to information, support and development opportunities, understanding the views of shareholders, and maintaining constructive relationships between executive and non-executive members of the Board.

Information about the executive directors' service contracts and the non-executive directors' letters of appointment with the Company (including remuneration and fee levels) is set out in the Directors' remuneration report. All 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.

Board diversity

It is the Board's policy that appointments should be made on the basis of qualification and merit. However, the Board considers that diversity, including gender diversity, is an important factor in Board effectiveness and supports the Code's principles and provisions on gender diversity. It is the Board's policy that in any recruitment process the retained adviser is committed to ensuring that female candidates are included in any long list presented for consideration and this was the case in respect of all 3 Board appointments made last year. In relation to the recommendations of the Davies Review into 'Women on Boards', the Board has not set a minimum target for the percentage of the Board to be female.

The Board has completed its refreshment programme and considers that its composition contains the appropriate balance of qualifications, skills, experience and personal attributes necessary to take the Company through its next stage of development. Gender diversity below Board level is discussed in the Corporate responsibility report.

Information about the Board's recruitment processes is described in the Nomination Committee report on page 31.

Director attendance in 2014

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Andrew Duff	6/6	–	5/5 ¹	–
David Dutro	8/8	–	–	–
Brian Taylorson	7/8	–	–	–
Andrew Christie	7/8	3/4	5/6	7/8*
Steve Good	2/2	1/1	1/1	2/2
Anne Hyland	8/8	4/4*	6/6	8/8
Nick Salmon	2/2	1/1	1/1	2/2
<i>Former directors</i>				
Ian Brindle	8/8	3/3	5/5	–
Kevin Matthews	7/7	3/3	5/5	7/7

¹ Andrew Duff became Chairman of the Nomination Committee on 24 April 2014, a role previously held by Ian Brindle until then.

* Chairman of Committee

Board independence

The Board considers all the non-executive directors to be independent in character and judgement throughout 2014 and is satisfied that each director exercises independent judgement. 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 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. 8 formal meetings were held in 2014 and the attendance records of the directors are shown in the table above. The Board is supported in its activities by Board committees that have been delegated specific responsibilities as set out in their terms of reference and a formal schedule of matters reserved for the Board allows certain decisions to be delegated to the executive directors. The schedule of matters reserved to the Board includes: approval of strategic and annual operating plans; approval of financial statements, acquisitions and disposals; risk compliance and management programmes, as well as insurance arrangements; major non-recurring projects and major capital expenditures; and major legal settlements and litigation. The Board reviews the business, financial and operational ("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. More information about the Board's oversight role in risk management and concerning internal controls can be found in the Risk management and Audit Committee reports, respectively, on pages 16 and 32.

At least one of its meetings each year is held in the technical centre and management headquarters near Princeton, New Jersey, US, where both business leadership teams as well as the management team are based, which allows non-executive Board members to meet managerial staff at levels below the Board. In addition, a programme of site visits is planned to enable the Board to see different operating locations around the globe.

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 unresolved matters concerning Board decisions, of which there were none in 2014, these would be recorded in the minutes of meetings.

Corporate governance report

continued

A programme exists to ensure new directors receive appropriate induction tailored to their needs. For the 3 new directors, the induction programme included: meeting the management team, other senior executives and business leaders; meeting the internal and external auditors; meeting the Company's joint corporate brokers; meeting major shareholders (where appropriate); and undertaking a programme of site visits.

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. 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 are effective.

Board evaluation

The Board carried out a questionnaire based evaluation of the performance of the Board, its committees and individual directors (including any training needs) in its meeting in September. The questionnaire was designed in-house and feedback from the evaluation was discussed which concerned mainly Board composition and operation following the refreshment programme, the Group's strategy and growth plans, management development and succession plans, risk management and the review of incentive remuneration. Following this evaluation, the Board considers that each director continues to perform effectively and demonstrates appropriate commitment to his/her role. Shareholders are therefore asked to support the election/re-election of all directors at the AGM.

The Board did consider involving an external third party to assist in its evaluation process but decided this would be more appropriate in 2015 following the reconstitution of the Board. The last external evaluation took place in 2012.

Communications with shareholders

The Company maintains a programme of activities throughout the year to ensure there is effective communication with shareholders, analysts and the financial press that include stock exchange announcements, investor meetings, the Annual Report and updates on the corporate website. The AGM gives institutional and private shareholders the opportunity to speak with the directors and the Chairmen of the Audit and Remuneration Committees are available to answer questions.

It is our practice to ensure 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 on a timely basis, 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, in connection with remuneration proposals, 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 Chairman met with a number of major shareholders in June shortly following his appointment and will be undertaking another programme of shareholder visits in March, with the Senior Independent Director, to give major shareholders a further opportunity to express their views to the Board leadership.

In addition, major shareholders were consulted by the Chairman of the Remuneration Committee towards the end of last year on proposed changes to remuneration policy. These changes are explained in the Directors' remuneration report on page 35 which also describes the Board's policy and approach to executive remuneration.

Directors' and officers' liability insurance

The Company maintains liability insurance for the directors and officers of the Company and its subsidiaries. Since 2008, the directors of the Company have been in receipt of an indemnity from the Company in respect of any liability or loss that may arise out of, or in connection with, the execution of their powers, duties and responsibilities as directors of the Company, or of any subsidiary, to the extent permitted under the Companies Act 2006. Copies of these indemnities, which continue to remain in place, are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the AGM.

By order of the Board

Wai Wong
Company Secretary
24 February 2015

Nomination Committee report

The Chairman and members of the Nomination Committee (the "Committee") are shown on page 26, together with their biographical information. 6 meetings were held during 2014 and the attendance records of Committee members are shown on page 29. It is the Committee's policy that the Chief Executive is invited to attend all of its meetings, except when the discussion concerns the Chief Executive or when it is a meeting of non-executives only, and other executives are invited to attend where appropriate.

A copy of the Committee's terms of reference is 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.
- Keeping succession planning for the Board and senior executive team under review.

The following is a description of the work of the Committee to show how it has discharged its responsibilities in 2014:

- Met in February to discuss how the induction programme for Andrew Duff, Chairman-Designate, was progressing.
- Met in April to: appoint Andrew Duff as the Chairman of the Committee following his appointment as Chairman of the Board; confirm that Korn/Ferry Whitehead Mann ("Korn/Ferry") would be retained to assist the Committee in the recruitment of a replacement for Kevin Matthews; approve a candidate role specification; discuss the new Chairman's governance roadshow planned for June; and recommend to the Board the re-appointment of Ian Brindle as the Senior Independent Director for another year.
- Met in June to: discuss progress on recruitment, review a shortlist of candidates (the long list having been reviewed and discussed by email) and extend the process to include the Senior Independent Director (SID) role; approve a SID role specification; and consider general management succession planning matters.
- Met in July to: discuss progress on both recruitment processes (the SID long list having been reviewed and discussed by email), and recommend to the Board the re-appointment of Andrew Christie for another 3 year term (subject to annual re-election by shareholders and effectiveness reviews).

- Met in September to: discuss the preferred candidates in both recruitment processes; consider the balance of skills, experience, independence, knowledge and diversity of the Board against the different combination of final candidates, as well as the refreshment of membership of Board committees; recommend to the Board the appointments of Steve Good and Nick Salmon to the non-executive director and SID roles; and review and approve draft letters of appointment and indemnity letters, as well as an induction programme. The annual Board evaluation process which is usually carried out by the Committee on behalf of the Board was undertaken by the Board last year and a description of this is given in the Corporate governance report on the opposite page.
- Met in December to: consider and approve revisions to the Committee's terms of reference; and review the Chairman's performance (last item was chaired by the SID with the Chairman absent from the discussions and both executive directors in attendance).

Shareholders may find the biographical information provided on page 26 useful to help them understand how a director's background or experience influences the contribution he or she makes 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 election/re-election of all directors at the 2015 AGM.

In connection with the retention of Korn/Ferry during 2014, the Board confirms it has no other relationship with the Company other than as recruitment adviser.

Andrew Duff
Chairman
 24 February 2015

Audit Committee report

The members of the Audit Committee (the "Committee") are shown on page 26, together with their biographical information. As well as being Chairman, I am the Committee member with recent and relevant financial experience required under governance rules. All Committee members were considered to be independent throughout 2014. There were 4 meetings held and the attendance records of Committee members are shown on page 29. It is the Committee's policy that both executive directors and the external auditor (KPMG) are invited to attend all of its meetings, except when the discussion concerns KPMG or when it is a meeting without management present, and other finance staff are invited to attend where appropriate. The internal audit service providers (PwC) report formally twice a year to the Committee and therefore attended 2 meetings last year.

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

- Monitor the integrity of Group financial statements, financial reporting and related statements, as well as the clarity and completeness of disclosures (including narrative reports and governance statements accompanying financial and related statements).
- Ensure the appropriateness of accounting policies, any changes to them and any significant estimates and judgements made.
- Review the effectiveness of internal control, compliance and risk management systems (including whistleblowing arrangements).
- Oversee all aspects of the relationship with the internal and external auditors, such as their terms of appointment, the scope, manner and programme of work, resourcing, performance and effectiveness, independence and objectivity and making recommendations for their dismissal or changes.

The following is a description of the work of the Committee to show how it has discharged its responsibilities in 2014:

February	Reviewed in combination with KPMG's audit report the 2013 Annual Report (and associated press release accompanying the preliminary results statement), management representation letter to the auditors, internal control and going concern statements, litigation and compliance reports (including whistleblowing) and the effectiveness, independence and objectivity of the auditors; considered the year end tax report; approved the description of the work of Committee in the Annual Report and recommended to the Board the approval of the Annual Report as well as the reappointment of KPMG; met KPMG without management present; and considered a proposal from management on non-audit services without KPMG being present.
June	Reviewed the half year report from PwC including reporting arrangements and a benchmarking study on the internal audit function; discussed and confirmed that PwC had access to the Chairmen of the Committee and Board, and meets the former without management present at least twice a year; considered the Committee's activities, the resources available to it and also training needs of and undertaken by Committee members; considered the FRC's consultation on going concern and risk management statements; and received and discussed KPMG's audit strategy and plan for 2014.
July	Reviewed in combination with KPMG's H1 review report the 2014 interim results announcement (incorporating a management report and condensed financial statements and notes), management representation letter to the auditors and the half year litigation, compliance and tax reports, as well as the half year going concern statement; reviewed KPMG's amended letter of engagement and proposed fees and delegated their approval to the Finance Director; discussed an update on the Company's anti-bribery and corruption programme; confirmed that KPMG did not require a meeting without management present; and considered and approved a policy for the recruitment of audit staff.
December	Reviewed update report from KPMG on their audit plan; discussed EU rules on audit rotation and restrictions on non-audit services, as well as UK audit tender rules; considered and approved amendments to the Committee's terms of reference; periodic review of the Group's treasury policies and delegated authority limits; carried out an annual review of the internal audit programme; received PwC's H2 report; approved the re-appointment of PwC as internal auditors and agreed fees and a programme of work for 2015; and held a meeting without management being present.

Significant accounting issues

The primary areas of accounting judgement considered by the Committee in relation to the 2014 financial statements are listed below:

- **Provisions**

The Committee reviewed the latest estimates for future spending relating to the Group's environmental provisions recorded in the Consolidated balance sheet. These included some adjustments when compared to estimates used at the previous year end, based on a report from a third party adviser. The Committee also reviewed the discount rate used in calculating the provision balances and concluded that the rate should be reduced from the previous year's rate due to a decline in US borrowing rates.

- **Assumptions used to value pension scheme liabilities**

The Committee reviewed the assumptions used to value the liabilities of the UK, US and Dutch defined benefit pension schemes, as well as the US post retirement medical plan, which the Group's actuarial advisers for each plan considered to be appropriate given the characteristics of each plan. They noted that, as a result of a change in pension provider in the Netherlands, the Dutch plan would be accounted for under IAS 19 as a defined contribution plan going forward.

- **Exceptional items**

The Committee reviewed a number of items recorded in the Consolidated income statement which it considered should be separately disclosed because of their size, nature and incidence, thereby providing the reader with a better understanding of the financial information presented. It concluded that these items should be shown separately in the Consolidated income statement under a column headed 'Exceptional items'. Further details of these items are included in Note 5 to the Consolidated financial statements.

- **Taxation**

The Committee reviewed the underlying assumptions to the Group's 2014 tax rate and, in particular, noted the exceptional tax credit relating to legacy UK advance corporation tax and the related deferred tax assets. The Committee noted that the basis for recognising these credits arose from an increase in the level of UK profitability and a consequent improvement in the likelihood that these legacy credits would be utilised in the foreseeable future.

Audit effectiveness

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

To help the Committee carry out a formal review of KPMG's performance, a questionnaire based evaluation is undertaken towards the end of each year end audit cycle by members of our finance team globally. The questionnaire used is the template produced by KPMG's Audit Committee Institute which considers comprehensively different aspects of the audit process. Another way in which audit effectiveness can be monitored by the Committee is 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 rotation/tender, reappointment, objectivity and independence

Financial Reporting Council guidelines a year ago suggested that the Committee would not need to undertake an audit tender process before 2018 (being within 5 years of the last partner rotation). However, that position has been revised by the Competition and Markets Authority Order which, under transitional rules, requires the Committee to complete a tender before 17 June 2016. The EU also introduced new laws last year on mandatory audit rotation which suggests that our auditor must be rotated by 17 June 2016, although national governments may be able to modify the rotation requirement to one of a compulsory tender. The Committee discussed these issues in December and decided that it would be carrying out a tender process before June 2016.

Following the review of KPMG's effectiveness, the Committee is recommending to the Board that KPMG be re-appointed as the Company's auditors at the AGM.

The Committee considers the auditor's objectivity and independence at least twice a year. It receives reports from KPMG on its internal quality control and independence rules, and keeps under review the level of non-audit services KPMG provides.

The Committee is of the view that the auditors are objective and independent notwithstanding the level of non-audit services provided. The Company's policy on non-audit services is more fully set out below.

Non-audit services

In 2014, non-audit services of \$0.6 million from KPMG were approved by the Committee (2013: \$0.6 million). These services consisted mainly of tax advisory services in relation to the US, UK, Netherlands, Germany, China, Taiwan and Brazil. KPMG's knowledge of the business meant it could provide these services cost effectively and the safeguards explained previously mean the Committee does 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 specified 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 website: www.elementisplc.com.

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

Audit Committee report

continued

Internal control and risk management system

The Committee's formal remit includes reviewing the effectiveness of the internal control, compliance and risk management systems. During 2014, this formal review was undertaken by the Board who retain ultimate responsibility for risk management – see Risk management report for further details. The focus of the Committee's work when it reviews internal audit reports is mainly on financial, operational and compliance risks. PwC, who provides an outsourced internal audit function, plays a significant role in the Group's internal control process.

The Committee's priorities are to monitor and keep under review our internal control and risk management system 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 so none is disclosed here.

Set out below is a summary of the key features of the Group's internal control 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 control are certified by each operating division.

Risk identification and review

A formal risk review process exists for the identification, evaluation and monitoring of risks. See separate Risk management report.

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 3 times 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.

Internal audit programme

An internal audit programme is proposed by PwC in consultation with the Finance Director and approved by the Audit 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.

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, management and business leadership teams (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 in which all employees are given training on 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 2014, taken as a whole, to be fair, balanced and understandable, with appropriate signposting and emphasis being made, throughout the various sections, to assist shareholders understand the information and disclosures contained within them.

Anne Hyland

Chairman, Audit Committee

24 February 2015

Directors' remuneration report

Chairman's annual statement on remuneration

Introduction

I am pleased to introduce the Directors' remuneration report for 2014 which has been prepared by the Remuneration Committee (the "Committee") and approved by the Board.

As reported last year, the Committee decided to review executive remuneration in two stages because of the Board refreshment programme that was underway and the importance of ensuring remuneration is linked to strategy and the risk profile of the Company. The refreshment process, which is now complete, resulted in 3 new directors being appointed last year, including the Chairman of the Board, as well as 2 non-executive directors who also became members of the Committee. Two of the early priorities of the refreshed Board and Committee have been to carry out a strategy review and conclude the review of incentive pay, both of which have been done.

This means that changes to variable pay are being proposed to complete the proposals on fixed pay that were approved by shareholders at last year's AGM. Subject to a successful shareholder vote at this year's AGM, it is not intended that shareholders will be asked to approve another remuneration policy before 2018. It is worth pointing out that the last review, prior to the current 2 stage review, was carried out more than 5 years ago and remuneration practices have developed considerably since then, such as the introduction of bonus deferral, post-vesting holding periods for long term incentives and recovery and withholding provisions. Presenting a revised remuneration policy for approval at the 2015 AGM allows the Committee to incorporate these new best practice features, as well as make the changes proposed.

The revised remuneration policy, if approved, will be effective from the date of approval and apply to the 2015 bonus scheme and LTIP awards.

Background to the proposed changes

Under the leadership of our management team, Elementis has established itself as one of the leading global specialty chemicals companies, delivering a total shareholder return of more than 450 per cent over the last 5 years and generating strong profits and free cash flow.

Elementis has benefited from extending its geographic footprint and broadening its end markets, thereby creating a more complex and resilient business despite ongoing variable economic conditions. The Group has been successful in recent years in leveraging its key strengths to deliver shareholder value, making a number of important strategic decisions along the way that have enhanced its profitable growth, the sustainability of its operations and margins, as well as the strength of its balance sheet. The Board is confident that the Group will continue to make progress.

For the next phase of our development as a successful specialty chemicals company, it is essential that the executive reward policy takes account of the Company's complexity and global presence, that it appropriately rewards our current high calibre senior management team and remains fit for purpose within the context of risk management and succession planning. In this regard it is essential that the policy contains adequate flexibility, with appropriate safeguards for shareholders, and one that is capable of attracting future talent where necessary (including in the US market where more than half of our operating facilities are located).

Following a review with a recently refreshed Board, our objective is to ensure that executive compensation is designed to incentivise behaviour and performance that will deliver sustainable growth and value over the longer term, with a closer and more transparent link between performance targets and strategy, and structural changes to bring policy in line with best practice.

The Committee has determined that the policy should achieve closer alignment with the interests of shareholders by making performance related pay a greater proportion of overall total pay, having a longer term focus, and with a more significant share based element. The Committee will continue to set stretching targets as it historically has done.

Key findings of review

The Committee was assisted in its review by New Bridge Street, its retained adviser, and concluded that the overall structure of our remuneration policy has worked well, but recognised that several areas needed to be addressed:

- The current annual bonus opportunity is behind UK FTSE 250 market levels and significantly below comparable US peers and the LTIP provision is also below US peers. This is particularly relevant for Elementis given that: (i) the current Chief Executive and both Business Presidents are nationals of and based in the US, and (ii) the Committee desires to have the potential flexibility to structure appropriate packages for new senior executives (where recruited from the US), with a higher proportion of variable pay if necessary. Addressing this matter is a priority for the Committee.
- Supporting investors' desire for greater alignment through share ownership, more incentive pay should be delivered in shares, with more deferral, a stronger share ownership requirement and a post-vesting holding period for LTIP awards.
- Legacy defined benefits pension arrangements need to be fully transitioned to defined contribution arrangements.
- Other aspects of our remuneration arrangements require updating to comply with best practice such as a review of the operation of our recovery and withholding (clawback) provision.

Key changes to remuneration policy

The remuneration policy that follows in the next part of this remuneration report reproduces the current policy (in its entirety) which was approved last year and incorporates the changes that are being proposed. A summary of the changes are set out below.

Basic salary:

No change in policy.

Benefits:

No change in policy.

Directors' remuneration report

continued

Chairman's annual statement on remuneration (continued)

Annual bonus scheme:

- Maximum limits: Increased from current 100 per cent of basic salary to 150 per cent and 125 per cent for the CEO and Finance Director, respectively, for the duration of the 3 year policy in the case of current directors. A higher limit of up to 200 per cent of basic salary may apply for new recruits to provide flexibility to attract high calibre talent, if required.
- Bonus metrics and accrual: For profit related performance measures, targets will be set at threshold, plan and stretch level and the rate at which any bonus will accrue shall be determined by the Committee each year when reviewing annual business plans and approving bonus scheme targets which may include quantifiable non-financial metrics/targets.
- Bonus deferral: 50 per cent of any bonus paid must be awarded in shares and deferred for 2 years. Deferred shares will be met from recycled shares held by the Elementis Employee Share Ownership Trust ("ESOT").
- Recovery and withholding (clawback): Triggers include errors, mis-statement and gross misconduct (dismissal for cause). The new provisions would apply from 2015 awards, for 3 years following when bonus is earned (cash bonus paid) and be incorporated into the rules of the bonus scheme. Recovery/withholding will be drafted as flexibly as possible to ensure its effective operation and may be made through withholding deferred annual bonus awards or future vesting of incentive payments (including a reduction of unpaid bonuses or unvested share awards including deferred share awards) or to seek recovery of sums already paid or transferred to the employee from their personal funds.
- Deferred shares would accrue dividends (in cash or further shares) during the 2 year deferral period and be paid in the normal manner to the registered holder (if it is held in the ESOT) for further remittance to a beneficial owner as appropriate. For conditional awards and options, dividends would be paid when shares are delivered.
- Deferred shares are only forfeitable in the event of dismissal for cause.

Long term incentive plan ("LTIP")

- Grant levels will be increased to 175 per cent of basic salary for both the CEO and the Finance Director. The new policy limit of 175 per cent will apply to current directors for the duration of the 3 year policy. A new higher limit of up to 250 per cent of basic salary is introduced for new recruits to provide flexibility to attract high calibre talent and this will be the shareholder approved limit under the amended LTIP rules.
- Post-vesting holding period of 2 years: Shares may not be sold when awards vest other than sufficient to meet tax and social security liabilities. The balance of shares would be held under the ESOT.
- Recovery and withholding (clawback): Features and operation to apply on a similar basis as described for the bonus scheme.
- Dividends: As for deferred shares under the bonus scheme. In the case of nil cost options, dividends will only accrue on vested shares to the extent they are paid during the 3 year vesting period.
- A separate resolution to approve changes to the LTIP rules will be proposed at the AGM. These will include the change to the individual limit and in respect of the new withholding and recovery, dividend and post-vesting holding period provisions.

Pension:

The only change concerns the value of annual benefit (cash salary supplement) payable to the Finance Director from 1 December 2015 which is a reduction from 74 per cent to 30 per cent of his basic salary, to bring this legacy arrangement more in line with market practice.

Shareholding guidelines:

Increased from 100 per cent to 200 per cent of basic salary. From 2015 no vested share awards may be sold, other than to meet tax liabilities, until the required level has been reached.

The Committee consulted with its major shareholders, the IMA and ISS on the proposed changes to remuneration, took on board their views and made changes accordingly.

2014 overview

As a result of another resilient financial performance in challenging global market conditions, the executive directors will receive bonus payments equal to 50.00 per cent (2013: 55.91 per cent) of their basic salaries.

Under the LTIP, the performance period for the 2012 awards ended in 2014 and the percentage that will vest (in June 2015) under the EPS and TSR conditions is 68 per cent and 62 per cent respectively, delivering a total reward outcome of 65 per cent (2013: 100 per cent). Elementis delivered shareholder return over the 3 year period of 105 per cent, compared to 39 per cent from the companies in the FTSE All Share Index (excluding investment trusts). EPS growth (on a like for like basis) over the same period was more than 30 per cent.

The Committee believes that this reward outcome is 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.

2015 policy implementation

The following summarises the application of our remuneration policy in the current year (some of which may be subject to shareholder approval at the AGM):

- In line with the existing policy, the Committee awarded David Dutro and Brian Taylorson each a salary increase of 3 per cent with effect from January 2015, which is in line with the increase for the US, UK and European workforces.
- The annual bonus scheme will generally operate on the same basis as in 2014 (up to the proposed limits for the current directors and incorporating the new provisions described above), except for a few adjustments.
 - (i) The existing 75:25 weighting in respect of the EPS and average working capital (AWC) metrics will be adjusted to 80:20 and the EPS metric will be replaced with PBT (defined as Group profit before tax before any exceptional items). The Committee discussed the appropriateness of maintaining EPS as the profit based measure for short term performance and has decided that PBT would be a better measure of trading performance. This thinking follows a review of market practice on the most common metrics used and the trend by FTSE 350 industrial companies to utilise a profit based measure rather than EPS for the short term incentive, while retaining EPS under the long term incentive.
 - (ii) In line with previous practice, targets for the new PBT metric will be set at threshold, plan and stretch levels, with threshold normally being the prior year result and plan and stretch targets set at levels considered to be appropriately challenging. Due to commercial sensitivity, it is the Committee's normal practice to only disclose these bonus targets retrospectively which it will continue to do. Bonus accrual remains unchanged and would be 0 per cent and 100 per cent at threshold and stretch, respectively, with straight line vesting in between.

- (iii) Under the AWC condition, it is proposed that the single target structure introduced last year will be retained for 2015. The reason for doing so is because the Committee considers that current AWC performance levels are already strong relative to industry benchmarks and the focus should be on growing revenue and operating profit while ensuring that existing AWC performance levels are maintained. As with last year, the single target means achievement of the target would result in that component of bonus opportunity subject to the AWC condition vesting in full, subject to a PBT over-ride, such that AWC is not triggered unless PBT at plan is met. The actual AWC target will also be disclosed retrospectively.
- LTIP awards (up to the proposed 175 per cent limit for current directors) to be made (after the 2015 AGM) will be subject to the same mix of challenging EPS and TSR based performance conditions (split 50:50) as the awards made in 2014. The Committee reviewed both metrics and considers them to be appropriate. In the case of the EPS targets, these remain appropriately challenging based on internal growth plans, but the Committee will continue to be keep the EPS range under annual review to ensure it continues to remain appropriate.
 - The revised pension benefit limit will be applied to Brian Taylorson from 1 December 2015 when his current arrangements expire.

Link between strategy and remuneration

Ultimately, our principal strategic objective is to deliver a superior shareholder return on a sustainable basis. The policy changes being proposed should achieve closer alignment with the interests of shareholders by making performance related pay longer term, and with a more significant share based element.

The Company's main financial KPIs are: operating profit, operating and contribution margin, AWC to sales ratio, ROCE and operating cash flow. The selection of PBT and AWC metrics in the annual bonus scheme ensures that the focus is on trading performance and the drivers of longer term value: profitability and cash generation. With regards to long term performance targets, EPS growth or ROCE targets may be used under our current policy and these are aligned with the long term shareholder value creation and efficient growth of the Company. The Committee has considered whether a ROCE measure should be utilised but concluded that rather than adopt both EPS and ROCE, or replace EPS with ROCE, it would retain the existing EPS and TSR metrics to keep matters simple and to provide better consistency and transparency in performance measurement over time. The Committee considers that the main drivers of ROCE over a 3 year period are EPS, capital investment, working capital and cash flow, and 3 of these elements are already captured in the annual bonus and LTIP plans, while capital investments are reviewed on a case by case basis. The relative TSR condition ensures that there is clear alignment between shareholders and executives.

Summary

The changes bring our policy in line with market best practice and achieve greater alignment between management and shareholder interests. The Committee will continue to set meaningful performance targets that are appropriately challenging for both short and long term incentives.

The Committee has considered the above changes carefully and is satisfied that changes to incentive opportunity for current directors will ensure that packages remain fair and market competitive. The flexibility afforded by higher incentive plan limits for recruitment purposes is in the best interests of the Company and therefore shareholders. We have strengthened alignment with shareholders through the introduction of a robust recovery and withholding provision both in the annual bonus and the long term plan, a higher share ownership requirement, deferred share bonus element and a holding period for vested LTIP awards.

We are committed to structuring our remuneration policy in line with UK market practice even if, quantum wise, there may be a need to compete for senior executive talent in other markets, such as in the US.

Your directors were very pleased to receive a significant level of support for our Remuneration report from shareholders at last year's AGM (for both our remuneration policy and the rest of the remuneration report). On behalf of the directors, I thank you for your continuing support.

Signed on behalf of the Board by:

Andrew Christie
Chairman, Remuneration Committee
 24 February 2015

Directors' remuneration report

continued

Remuneration policy report

Effective date and duration of remuneration policy

This part of the Directors' remuneration report (the "Remuneration policy report") sets out the remuneration policy for the directors of the Company that is being put to a binding shareholder vote at the 2015 AGM. Subject to receiving majority shareholder support, this Remuneration policy report will be effective from the date of approval at the AGM on 22 April 2015.

Link between policy, strategy and structure

Our remuneration policy is principally designed to attract, motivate and retain the executive directors and business presidents to execute effectively our corporate and business strategies in order to deliver our annual operating plans and sustainable year on year profitable growth, as well as to generate and preserve value for our shareholders over the longer term, without encouraging excessive levels of risk taking. The principles and values that underpin our remuneration strategy are applied on a consistent basis for all our Group employees. It is our policy to reward all employees fairly, responsibly and by reference to local market practices, by providing an appropriate balance between fixed and variable remuneration.

The Committee's policy is to adequately reward the directors if they meet or exceed the targets set under the variable components of their remuneration packages.

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).

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.

Changes to the policy from last year are highlighted in **bold and underlined** for ease of cross referencing.

Basic salary	
Purpose and link to Company's strategy	Targeted at a level to attract and retain the world class executives who are essential to drive the business forward and deliver the Company's strategic goals.
How it operates in practice	<p>Formal salary review normally every 3 years, with benchmarking analysis utilised for reference purposes against relevant market comparators, as appropriate, taking into account the size of the Company (revenue and market capitalisation), complexity of the roles (including changes to both size and roles) and individual performance.</p> <p>Annual salary increases that are broadly in line with the local workforce (in percentage of salary terms), subject to Committee approval.</p> <p>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.</p> <p>Where new joiners or recent promotions have been placed on a below market rate of pay initially, a series of increases above those granted to the local workforce (in percentage of salary terms) may be given over the following few years subject to individual performance and development in the role.</p> <p>Salaries are normally reviewed in December and any changes are effective from 1 January in the following year.</p>
Maximum potential value	<p>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.</p> <p><u>Salaries for 2015:</u> <u>Chief Executive</u> <u>\$875,500</u> <u>Finance Director</u> <u>£338,215</u></p>

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, in both cases having a value that is consistent and commensurate with the executive's status and seniority.

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 plans 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.

To enable incentive pay to help build and maintain meaningful executive shareholdings thereby providing greater long term focus.

How it operates in practice

An annual bonus is earned 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 per cent of any cash bonus payable must be awarded in shares and deferred for 2 years. Dividends to accrue to deferred share award holders (or holders of conditional share awards). Deferred shares or conditional awards 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 from awards made in 2015 and 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

Chief Executive 150 per cent of basic salary.

Finance Director 125 per cent of basic salary.

A higher annual bonus limit of 200 per cent of basic salary may apply for new recruits.

Directors' remuneration report

continued

Remuneration policy report (continued)

Annual bonus scheme (continued)

Framework used to assess performance

The performance measure(s) will be based mainly on financial performance although the Committee reserves the right to select other qualitative or non-financial targets (including the basis of their measurement) as it considers to be appropriate and which are aligned to the Company's strategic objectives for the year ahead.

The financial element of the bonus may include (but are 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.**

Targets for financial metrics are set relative to the annual operating plan, taking into account general GDP factors, external market data, current and past performance of the business, together with any organic or acquisitive growth plans.

For any profit related metric, targets will be set at threshold, plan and stretch levels and the amount payable for threshold performance shall be determined by the Committee each year when reviewing annual bonus plans and approving bonus scheme targets.

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 per cent of the overall bonus opportunity.

Long term incentives

Purpose and link to Company's strategy

The LTIP is the sole long term incentive mechanism and is intended to align the interests of the executives with the Group's long term performance, business strategy and broader interests of shareholders.

When granting awards under the LTIP the Committee generally takes into consideration the need to motivate and retain the executive directors and other participants.

The number of options/conditional shares awarded, up to the maximum limit, is based on the average mid-market closing price of a share on the date preceding the date of award.

How it operates in practice

Nil cost options or conditional shares are awarded annually. Options are exercisable 3 years from, and within 10 years of, the date of award. Share awards vest on the 3rd anniversary of the date of award.

A post-vesting holding period of 2 years will apply to annual awards granted from 2015.

For US participants (e.g. the CEO) the award of conditional shares may be structured in the form of restricted stock units in order to comply with US tax rules on deferred compensation particularly in view of the holding period being introduced.

Recovery and withholding provisions similar to those described in respect of annual bonus payments but relating to the vesting of LTIP awards will apply from 2015 awards.

Dividend rights: dividends will accrue during the 3 year performance period in respect of LTIP awards to the extent that they vest. In the case of awards structured as nil cost options, dividends payable would only be paid when the options are exercised and when the employee becomes the beneficial owner of the shares.

Tax rules mean US participants will generally exercise and sell at least part of any options/shares that vest on the date of vesting, in order to meet tax liabilities. This will continue to be our practice for options/shares not subject to the holding period.

Awards are subject to the achievement of challenging performance conditions and normally subject to continued service over the vesting period.

Long term incentives (continued)

Maximum potential value **For the current Chief Executive and Finance Director, the maximum award is limited to 175 per cent of their basic salaries at the time of the award.**

A higher limit of 250 per cent of basic salary may apply to annual awards made to new recruits.

Framework used to assess performance

Awards are subject to achievement of financial (EPS, ROCE or any other relevant company financial KPI) and/or relative TSR performance conditions measured over 3 financial years beginning with the financial year in which the award is made. TSR will be measured against the constituents of a broad equity index, or a bespoke group of appropriate comparator companies.

In determining the target range for any financial measures that may apply, the Committee ensures they are challenging by taking into account current and anticipated trading conditions, the long term business plan and external market data. For any financial performance condition, threshold vesting will start from 0 per cent and for any relative TSR performance condition, threshold vesting will start at 3.85 per cent. In both cases this will increase on a straight line basis with 100 per cent vesting for achieving the stretch targets, which for the TSR performance condition will require at least upper quartile performance.

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 new recruits is a contribution to a non-company pension scheme and/or cash in lieu.

The policy for the current Chief Executive and Finance Director is set out below.

Group Chief Executive

David Dutro receives an annual salary supplement of 20 per cent of his basic salary as part of his contractual entitlement and as a US employee he also participates in 2 defined contribution schemes being: (i) a US 401(k) Plan, which is similar to a money purchase scheme, and (ii) a Non-Qualified Deferred Compensation Plan (the 'Defined Contribution plans'). The latter plan mirrors the 401(k) Plan except it allows for contributions in respect of pensionable remuneration over an annual compensation limit set by the US Internal Revenue Service (2013: \$255,000). The employer match under these two plans includes a regular match of up to 4 per cent of total pensionable remuneration and a supplemental match of up to 4 per cent, based on age and length of service.

Finance Director

Up until 30 November 2015 when his current arrangement expires, Brian Taylorson will receive a single annual salary supplement which broadly matches the value of his previous pension provision. After that date the annual salary supplement will be reduced to 30 per cent of basic salary, in line with the level for new recruits.

Maximum potential value

The policy for new executives is for a company contribution of up to 30 per cent of salary.

Under the policy the maximum for the CEO is 20 per cent of his salary and up to 8 per cent of pensionable remuneration depending on the amount of personal contributions made into the Defined Contribution plans.

The maximum for the Finance Director, until 30 November 2015 as per the previous approved policy, is a salary supplement of 74 per cent of his salary. Thereafter, the annual salary supplement will be 30 per cent of his basic salary.

Legacy arrangements exist for existing employees.

Directors' remuneration report

continued

Remuneration policy report (continued)

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.
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How it operates in practice	<p><u>Executive directors are expected to build up a shareholding in the Company that is equal in value to 200 per cent of their basic annual salaries.</u></p> <p><u>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.</u></p>
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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.
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How it operates in practice	<p>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.</p> <p>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.</p>
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Fees will be reviewed annually with changes taking effect from 1 January in the following year.

Fees are payable in cash and 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.

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 page 15.

PBT (defined as reported Group profit before tax, before any exceptional items) is a clear measure of the Company's trading performance and AWC encourages the most efficient use of working capital and ensures earnings are turned into cash. These metrics are aligned with the Company's objectives and strategy.

With regards to long term performance targets, EPS growth or ROCE targets may be used and these are aligned with the long term levels of shareholder value creation and growth of the Company. A relative TSR condition ensures that there is clear alignment between shareholders and executives.

Where appropriate, targets are set based on sliding scales that take account of internal planning and external data. Only modest rewards are available for delivering performance at threshold levels or above with maximum rewards requiring out performance of our challenging plans approved at the start of each year.

The intended targets for awards to be granted under the long term incentive plan in 2015 are consistent with the policy set out in the policy table and are set out in the Annual report on remuneration on page 47. The Committee considers the EPS targets to be appropriately challenging based on internal growth plans, but will continue to keep this EPS range under annual review to ensure it continues to remain appropriate.

The Committee does not incorporate corporate or business performance in environmental, social and governance matters when setting targets in the variable parts of remuneration. The safety and environmental performance of Group businesses is accorded high importance and the Committee considers that management should aspire to achieving high standards in both safety and environmental performance without the need for incentives. Governance standards are set by the Board as a whole.

Differences in executive remuneration policy compared to other employees

The Committee is made aware 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 and business presidents apply to other senior managers and employees throughout the rest of the Group, with modifications to reflect local market practice and the level of seniority and ability to influence Group performance. Overall, the remuneration policy for executive directors is more heavily weighted towards variable pay than for other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the executive directors given it is the executive directors who are considered to have the greatest potential to influence shareholder value creation.

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

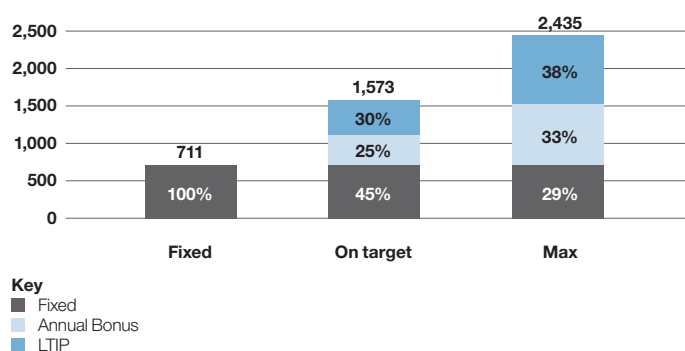
How the views of employees are taken into account

The Group does not actively consult with employees on executive remuneration. The Group has a diverse workforce operating in 9 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.

Reward scenario analysis

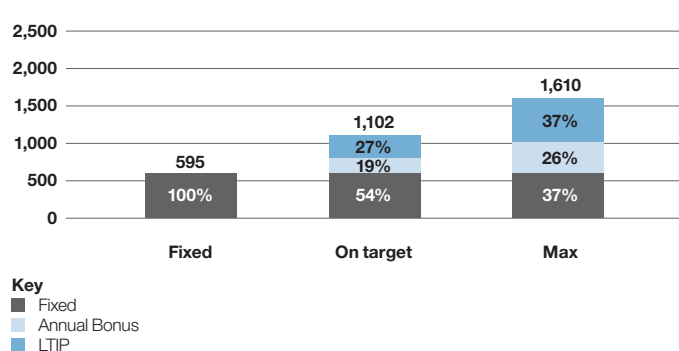
Chief Executive Officer

£'000



Finance Director

£'000



The table above illustrates the potential pay opportunities for executive directors under 3 different scenarios for 2015. The CEO's remuneration has been converted into pounds sterling using the average exchange rate for 2014 (\$1.65:£1.00).

1. Fixed: Comprises fixed pay being the value of salary, benefits and pension (benefits and for the CEO employer's matching contribution to Defined Contribution plans are included at their 2014 level).
2. On target: The amount receivable assumes performance in which 50 per cent of annual bonus is payable and 50 per cent of long term incentive awards vest.
3. Maximum: the maximum amount receivable should all stretch targets be met and vesting under both the annual bonus scheme and LTIP is 100 per cent.

When valuing the LTIP options under the 'On target' and 'Maximum' scenarios, no account of any share price appreciation is taken into account.

Directors' remuneration report

continued

Remuneration policy report (continued)

Recruitment policy

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

Element	Policy
Basic salary	<p>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.</p>
Benefits	<p>New directors may be entitled to benefits such as life assurance, private medical health insurance, cover for dental costs, accidental death and disablement, long term disability and provision of either a company car (for business and personal purposes) or a car allowance, or any other appropriate benefit.</p> <p>Where necessary the Committee may approve the payment of reasonable relocation expenses to facilitate recruitment for a maximum period of 12 months.</p>
Pension	<p>A company contribution into a pension plan and/or cash supplement of up to 30 per cent of salary.</p> <p>Legacy pension arrangements for promotees which may include defined benefit or US style arrangements may continue to operate on their existing terms.</p>
Annual bonus	<p>The annual bonus would operate as outlined for current executive directors but to aid recruitment where necessary the maximum bonus opportunity is 200 per cent of basic salary. 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.</p>
Long term incentives	<p>Awards under the LTIP will be granted in line with the policy outlined for the current executive directors on an annual basis but to aid recruitment where necessary the maximum award is 250 per cent of basic salary.</p> <p>An award may be made shortly after an appointment (subject to the Company not being in a prohibited period). For an internal hire, existing awards would continue over their original vesting period and remain subject to their terms as at the date of grant. In addition, if the grant of awards for that individual precedes his or her appointment as a Board director for that financial year, the Committee's policy would include flexibility to top up awards for that year (subject to the overall individual salary limit) based on the executive's new salary.</p>
Buy out awards	<p>In the case of an external hire, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer), this would be provided for taking into account the form (cash or shares) and timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited.</p> <p>Replacement share awards may be granted using the Company's LTIP (up to the individual limit) or outside of the LTIP if necessary and as permitted under the Listing Rules.</p>

Outside board appointments

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

Service contracts

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

Name	Date of contract	Notice period
David Dutro, CEO	16 January 2007	12 months
Brian Taylorson, Finance Director	5 June 2005	12 months

Policy on payment for loss of office

For the existing executive directors, the terms covering termination were agreed at the date their contracts were made. The Finance Director is required, however, to mitigate his loss in the event of loss of office by making efforts to secure a new position. Payments in lieu of notice to both the Chief Executive and Finance Director may be reduced or ceased if each secures a new position. In the case of the Chief Executive, the payments will only be ceased if his salary in his new position is equal to or more than his salary on termination; if not his monthly payments will be reduced by the gross salary earned by the Chief Executive in his new position each month.

For any new appointments, it is the Company's policy to follow current market practice and preclude the inclusion of any payment (benefits, bonus or pension) other than basic salary in the calculation of termination payments (being 1 year's salary) and a notice period of 12 months. Payments will be phased on a monthly basis over the remaining notice period and the Committee's position is to ensure a director mitigates the loss to the Company.

Termination payments

Group Chief Executive

The maximum amount payable under David Dutro's contract is basic salary during his notice period (12 months) and any bonus he may be eligible to receive for the period he was employed, subject to performance.

Alternatively the Company may pay compensation in lieu of the notice period of a lump sum of 50 per cent of his basic salary, with up to a further 50 per cent payable in 6 monthly instalments after 6 months (in both cases pro-rated for the actual notice period). This would apply if the Company terminates his contract for any reason other than for cause or if he invokes a 'good leaver' reason for terminating his contract (i.e. upon a change of control in which the successor company is not bound to honour his service contract).

Finance Director

The maximum amount that would be payable to Brian Taylorson for payment in lieu of notice by the Company for any reason other than for cause is an initial lump sum of 50 per cent of his basic salary and other benefits described below and up to a further 50 per cent payable in a lump sum after 6 months, subject to the Committee being satisfied that reasonable efforts to secure a new position have been made during the 6 months following termination. Other benefits comprise: (i) the sums that would normally be payable to him in respect of his pension benefits pro-rated according to notice period being given/served, (ii) the cost of providing private medical insurance for him, his spouse and any children under 21 for the 12 months following termination and (iii) his monthly car allowance for a 12 month period.

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.

Committee discretion with regard to incentive plans

For any outstanding LTIP awards these are governed by rules of the plan and only in limited circumstances is discretion permitted. In such circumstances, the Committee retains the use of discretion in its administration of the LTIP as contained in the plan rules.

In the specific event of loss of office any discretion exercised would depend on the circumstances at that time and the performance achieved during the performance period. In the event of the death of an executive director and an award has not yet vested the Committee, acting in its absolute discretion, may determine vesting from maturity rather than date of death. If an executive director ceases employment due to injury, 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 (a "Good Leaver" event) and an award has not yet vested the Committee acting in its absolute discretion may allow early vesting at the date of cessation rather than at date of vesting. All such awards would still be subject to performance conditions, which the Committee may not waive, as well as pro-rating for time which the Committee, acting fairly and reasonably, may waive in part or in full if it considers acting fairly and reasonably it is appropriate to do so.

Similar provisions apply in the event of a change of control, with performance measured up to the date of the relevant event and normally scaling back pro-rated for time.

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.

If an executive director resigns or is dismissed LTIP awards lapse and the Committee has no discretion under the rules.

Directors' remuneration report

continued

Remuneration policy report (continued)

The Company operates an annual cash bonus scheme in which participation and payments are made subject to the discretion of the Committee. However, under his service contract, the Chief Executive may be eligible to receive a bonus relating to the Company's financial performance during his 12 month notice period, provided all performance conditions have been met. Where the Committee has any discretion, its policy is to exercise any discretion in the Company's best interests and depending on the individual circumstances of each case.

Following the introduction of bonus deferral requirements, the rules of the annual bonus scheme will be amended to incorporate the deferral requirement as well as recovery and withholding provisions as summarised in the remuneration policy table. The rules will include a discretion for the Committee, acting fairly and reasonably, to waive deferral on the occurrence of a Good Leaver event.

Under the amended rules of the LTIP, the holding period will apply to all participants who receive awards unless the Committee determines otherwise in its discretion, for example for awards made to below Board level participants. The holding period will expire on the earlier of 2 years and the date of specific events, such as a Good Leaver event or a change of control, although the Committee does have a discretion to end the holding period for any other reason. This discretion will not be applied in a way that creates adverse tax consequences for US participants.

For US participants, grants under the LTIP and Deferred Share Bonus Plan will be treated as "restricted stock units" so as to result in deferral of US income taxation until the shares are delivered to the participants. However, US social security tax will apply to the value of the grants at vesting (but not again on delivery of the shares). In order to avoid adverse US tax consequences, certain of the LTIP and Deferred Share Bonus Plan rules otherwise applicable to the holding/deferral period have been modified for US participants (e.g. delivery of shares will result from any separation from service of the Company and its affiliates regardless of Good Leaver status).

Legacy matters

Once adopted, this Remuneration policy report will apply from the date of approval by shareholders at the 2015 AGM. However, legacy awards or other commitments, including those made prior to 27 June 2012 but not modified or renewed after that date, to current or former directors may still be paid notwithstanding that they have only been incorporated by reference and not been fully described in this Remuneration policy report. These legacy awards and commitments comprise the LTIP awards made in 2013 and 2014, as more fully described in the Annual report on remuneration.

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 provides that the director's appointment can be terminated by the Company on 6 months' notice on any grounds without claim for compensation.

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 2014.

Name	Date of appointment	Date of last reappointment	Date of expiry
<i>Non-executive directors</i>			
A Duff ¹	01/04/14	N/A	19/04/17
A Christie	11/08/08	11/08/14	10/08/17
S Good	20/10/14	N/A	19/10/17
A Hyland	01/06/13	N/A	31/05/16
N Salmon ²	20/10/14	N/A	19/10/17
<i>Past directors</i>			
I Brindle ³	06/06/05	06/06/14	–
K Matthews ³	16/02/05	16/02/14	–

¹ Appointed non-executive director, Deputy Chairman and Chairman-designate on 1 April 2014 and independent non-executive Chairman following the 2014 AGM on 24 April 2014.

² Appointed non-executive director on 20 October 2014 and Senior Independent Director on 16 December 2014.

³ Ian Brindle and Kevin Matthews retired as directors on 15 December 2014 and 31 October 2014 respectively.

Copies of the executive directors' service contracts and 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 Committee encourages dialogue with the Company's shareholders and would consult with major shareholders ahead of any significant future changes to remuneration policy. Major shareholders and shareholder representative bodies were consulted on the changes summarised in the 'Chairman's annual statement on remuneration'.

Annual report on remuneration

This Annual report on remuneration shows how the Company's policies and practices on directors' remuneration will be applied in 2015 and how they were applied in relation to payments in respect of the financial year ended 2014. This report and the Chairman's annual statement on remuneration will be put to an advisory shareholder vote at the 2015 AGM.

Implementation of remuneration policy for 2015

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 2015.

Basic salaries

The Committee considered carefully salary increases for 2015 and it was decided to award David Dutro and Brian Taylorson with a salary increase of 3 per cent which is in line with the levels of increases across the Group as a whole.

	Salary as at 1 January 2015	Salary as at 1 January 2014	Increase
David Dutro	\$875,500	\$850,000	3%
Brian Taylorson	£338,215	£328,364	3%

Pension and benefits

For the year to 31 December 2015, David Dutro will continue to participate in the pension arrangements and receive the same benefits as for 2014 as set out in the Remuneration policy report.

As explained in last year's Annual Report, Brian Taylorson will receive an annual salary supplement of 74 per cent of his basic salary in lieu of any other pension benefits until 30 November 2015 following his 60th birthday after which this salary supplement will reduce to 30 per cent of his basic salary. His other benefits for 2015 will be the same as that for 2014 as set out in the Remuneration policy report.

Annual bonus

The maximum bonus opportunity will be 150 per cent of basic salary for David Dutro and 125 per cent of basic salary for Brian Taylorson.

Any bonus will be payable dependent on the achievement of PBT (defined as reported Group profit before tax, before exceptional items) (80 per cent) and AWC targets (20 per cent). For the PBT condition, the targets are set at threshold, plan and stretch level, with threshold being previous year actual and the plan and stretch targets set at a level considered to be sufficiently challenging above the prior year out-turn. Bonus accrual is linear between threshold and stretch.

The AWC condition has a single target figure which results in 100 per cent of the bonus subject to that condition vesting, except that the AWC condition would only be operative if the PBT target at plan level has been met.

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

The Committee considers that the targets themselves are commercially sensitive and therefore plans to disclose them only on a retrospective basis in next year's Directors' remuneration report.

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

Annual report on remuneration (continued)

LTIP

For the year to 31 December 2015, the CEO's and the Finance Director's awards will be 175 per cent 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 2014 as set out below.

For the EPS condition, the chart shows that awards will vest on a linear scale from 0 per cent to 100 per cent for average annual EPS growth of RPI + 4 per cent to RPI + 10 per cent, respectively. For the TSR condition, the chart shows that awards will vest on a linear scale from 3.85 per cent to 100 per cent 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).

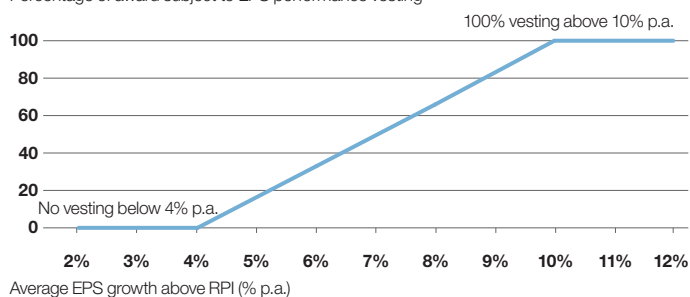
Non-executive directors' remuneration

For the year to 31 December 2015, the fees payable to the Chairman and non-executive directors will be the same as for 2014 as shown below:

	2015 £	2014 £
Chairman	175,000	175,000
Non-executive director	46,000	46,000
<i>Additional fees:</i>		
Senior Independent Director	8,000	8,000
Chairman of Audit or Remuneration Committee	8,000	8,000

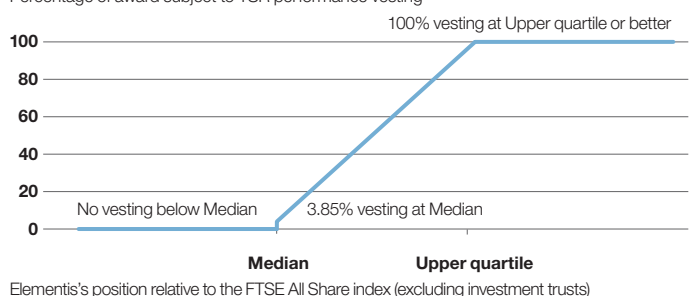
Vesting schedule: EPS performance condition

Percentage of award subject to EPS performance vesting



Vesting schedule: TSR performance condition

Percentage of award subject to TSR performance vesting



Remuneration payable to directors for 2014

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 2014 is set out in the table below:

	Year	Fixed			Sub-total	Performance related		Sub-total	Total
£'000		Salary/fees	Benefits	Pension		Bonus	LTIP		
Executive directors									
David Dutro ¹	2014	515	22	155	692	265	595	860	1,552
	2013	492	23	146	661	305	1,286	1,591	2,252
Brian Taylorson ²	2014	328	19	243	590	169	453	622	1,212
	2013	319	19	251	589	184	980	1,164	1,753
Non-executive directors									
Andrew Duff ³ (Chairman)	2014	123	–	–	123	–	–	–	123
	2013	–	–	–	–	–	–	–	–
Andrew Christie	2014	54	–	–	54	–	–	–	54
	2013	41	–	–	41	–	–	–	41
Steve Good ⁴	2014	9	–	–	9	–	–	–	9
	2013	–	–	–	–	–	–	–	–
Anne Hyland	2014	54	–	–	54	–	–	–	54
	2013	25	–	–	25	–	–	–	25
Nick Salmon ⁵	2014	9	–	–	9	–	–	–	9
	2013	–	–	–	–	–	–	–	–
Past directors									
Ian Brindle ³	2014	90	–	–	90	–	–	–	90
	2013	83	–	–	83	–	–	–	83
Kevin Matthews ⁶	2014	38	–	–	38	–	–	–	38
	2013	44	–	–	44	–	–	–	44
Total	2014	1,220	41	398	1,659	434	1,048	1,482	3,141
Total	2013	1,004 ⁷	42	397	1,443	489	2,266 ⁷	2,755	4,198

Notes

¹ David Dutro as Group Chief Executive, who is based in the US and receives his salary in US dollars, received a salary of \$850,000 (2013: \$767,112).

His pension comprises 20 per cent of his salary and employer contributions to defined contribution pension schemes.

² Brian Taylorson's pension comprises a single salary supplement of 74 per cent of his salary, equivalent to the value of his previous pension arrangements.

³ Andrew Duff joined the Board on 1 April 2014 as Deputy Chairman and Chairman-designate becoming Chairman following the 2014 AGM on 24 April 2014.

Ian Brindle resigned as Chairman but remained a non-executive director and Senior Independent Director until his retirement on 15 December 2014. Each received on a pro-rated basis the Chairman's fee (£175,000 p.a.) and the non-executive director fee (£46,000 p.a.). Ian Brindle also received the Senior Independent Director fee (£8,000 p.a.) from the 2014 AGM up to his retirement from the Board.

⁴ Steve Good joined the Board on 20 October 2014 as a non-executive director and received the non-executive director fee (£46,000 p.a.) on a pro-rated basis.

⁵ Nick Salmon joined the Board on 20 October 2014 as a non-executive director and became Senior Independent Director on 16 December 2014. He received the non-executive director fee (£46,000 p.a.) and Senior Independent Director fee (£8,000 p.a.) on a pro-rated basis.

⁶ Kevin Matthews, who retired from the Board on 31 October 2014, received 10 months of the non-executive director fee (£46,000 p.a.).

⁷ The salary/fees figure reported above for 2013 has been restated as it only includes those directors who held office during 2014. In addition, as required by UK remuneration reporting regulations, the valuations of the executive directors' LTIP awards for 2013 have been restated using the actual share price on date of vesting.

Directors' remuneration report

continued

Annual report on remuneration (continued)

Determination of annual bonus outcome for performance in 2014

This section shows the performance targets set in respect of the 2014 annual bonus scheme, the level of performance achieved and the resultant payments to directors. The bonus targets were tested against the full year results and the full year bonus payment will be paid in February/March 2015. The maximum full year bonus opportunity was 100 per cent of basic salary.

Full year bonus	Relative weighting of performance conditions	FY 2014 bonus plan targets			Actual result	Bonus received as % of basic salary	
		Threshold	Plan	Stretch		Chief Executive	Finance Director
EPS (cents)	75%	23.0	24.3	25.7	24.8	50.0%	50.0%
AWC (%)	25%	–	20.4	–	21.0	nil%	nil%
Total full year payment	100%	–	–	–	–	50.0%	50.0%

Bonus payments under the EPS performance condition last year increased on a linear basis with 0 per cent payable for threshold performance and 100 per cent for stretch performance. No discretion was exercised in respect of the above payments and there were no deferral requirements under the 2014 bonus scheme rules.

Directors' share based awards

Determination of 2012 LTIP awards

The awards made in 2012, shown in the table opposite headed Directors' share and scheme interests, have a vesting date of 27 June 2015. The performance conditions (EPS and TSR, split 50:50) relate to performance over the 3 financial years ended 31 December 2014. Under the EPS condition, all of the awards subject to that condition would have vested in full if EPS grew during the 3 financial years ended 2014 by an average of RPI + 10 per cent p.a. or more. Under the TSR condition, all of the awards subject to that condition would have vested in full if the Company's TSR performance (against the FTSE All Share index excluding investment trusts) in the 3 financial years ended 31 December 2014 was at or above upper quartile. Over the performance period, the Company's EPS grew by 31.7 per cent (versus 37.6 per cent needed for full vesting) and its TSR performance was 105 per cent which placed it at the 35th percentile of companies in the FTSE All Share index. Accordingly, 64.86 per cent of the 2012 awards, subject to continued employment, will vest on 27 June 2015. For the purpose of the calculation of the LTIP component of the total remuneration figure in the table on page 49, the awards have been valued using the average mid-market closing share price for the 3 months period from 1 October 2014 to 31 December 2014.

LTIP awards granted in the year

LTIP awards made in 2014 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 2016. The vesting schedule and the performance conditions are the same as for the awards to be made in 2015 as shown on page 48.

	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
David Dutro	Nil cost option	01.04.14	267,507	766	0 per cent of the award subject to the EPS condition and 3.85 per cent of the award subject to the TSR condition	31.12.16	As above
Brian Taylorson	Nil cost option	01.04.14	193,663	555	0 per cent of the award subject to the EPS condition and 3.85 per cent of the award subject to the TSR condition	31.12.16	As above

¹ For David Dutro this equates to 150 per cent of basic salary and for Brian Taylorson this equates to 174 per cent of his basic salary. The share price used to determine the number of awards granted was 286.50p 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 opposite.

Sourcing shares for our share plans

Employee share plans comply with the Investment Association (previously ABI) guidelines on dilution which provide that overall issuance of shares under all plans should not exceed an amount equivalent to 10 per cent of the Company's issued share capital over any 10 year period, with a further limitation of 5 per cent 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 4.6 per cent and for discretionary plans 4.0 per cent of issued share capital.

Directors' share and scheme interests

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)	01.01.14	Granted during 2014	Exercised during 2014	Lapsed during 2014	31.12.14	
Executive directors									
David Dutro	A	30.08.2012	184.62	13,144	–	12,502 ¹	642	–	
	A	23.08.2013	227.55	2,722	–	–	–	2,722	
	A	22.08.2014	242.93	–	9,523	–	–	9,523	
	B	04.04.2011	–	451,350	–	451,350 ¹	–	–	
	B	26.06.2012	–	359,846	–	–	–	359,846	
	B	02.04.2013	–	289,750	–	–	–	289,750	
	B	01.04.2014	–	–	267,507	–	–	267,507	
Total scheme interests				1,116,812	277,030	463,852	642	929,348	nil
Brian Taylorson	A	01.10.2009	35.52	43,778	–	43,778 ²	–	–	
	A	01.10.2014	216.58	–	8,311	–	–	8,311	
	B	04.04.2011	–	343,951	–	343,951 ²	–	–	
	B	26.06.2012	–	273,693	–	–	–	273,693	
	B	02.04.2013	–	214,398	–	–	–	214,398	
	B	01.04.2014	–	–	193,663	–	–	193,663	
Total scheme interests				875,820	201,974	387,729	–	690,065	nil
				Share interests					Guideline holding ⁴ met as at 31.12.14
	Interest type			01.01.14				31.12.14	
Executive directors									
David Dutro	C			299,841				312,343	Yes
Brian Taylorson	C			400,000				443,778	Yes
Non-executive directors									
Andrew Duff	C			–				50,000	N/A
Andrew Christie	C			10,000				10,000	N/A
Steve Good	C			–				10,000	N/A
Anne Hyland	C			10,000				10,000	N/A
Nick Salmon	C			–				10,000	N/A
Past directors									
Ian Brindle ³	C			31,172				36,514	N/A
Kevin Matthews ³	C			11,633				11,633	N/A

A. Savings based share options schemes are not subject to performance conditions. David Dutro's options are held under the US sharesave scheme and would ordinarily vest on the second anniversary of the grant date and expire 3 months thereafter. During 2014 he was granted 9,523 savings based options. The option price shown is based on the mid-market closing share price on the date of grant, giving a face value of £23.1k. The options granted to Brian Taylorson during 2014 are 3 year options held under the UK SAYE scheme and would ordinarily vest on the third anniversary of the grant date and expire 6 months thereafter. The option price shown is based on the average mid-market closing share price for the 5 days preceding the date of grant, giving a face value of £18k. Further details on these schemes are shown in Note 24 to the 'Consolidated financial statements' on page 90.

B. LTIP awards are subject to performance conditions. The same EPS growth and relative TSR performance conditions apply in respect of the awards made in 2012, 2013 and 2014, as described in the Remuneration policy report. These options ordinarily vest on the third anniversary of the grant date and would expire on the tenth anniversary.

C. Interest in shares, including of connected persons.

¹ David Dutro retained 12,502 shares in 2014 (2013: 4,929) following the exercise of savings based share options granted in 2012, the remaining 642 shares lapsed due to currency movements between the grant and exercise dates. The price on the date of exercise was 252.10 pence per share resulting in a notional gain of c. £6.5k. In addition, he exercised and sold 451,350 shares granted under the LTIP in 2011 which vested in full at a price of 277.60 pence per share, with a pre-tax gain of c. £1.25m.

² Brian Taylorson retained 43,778 shares (2013: 68,904) following the exercise of 43,778 shares granted under the UK SAYE scheme in 2009. The price on the date of exercise was 255.5 pence per share resulting in a notional gain of c. £96.3k. In addition, he exercised and sold 343,951 shares granted under the LTIP in 2011 which vested in full at a price of 277.60 pence per share, with a pre-tax gain of c. £0.95m.

³ Shares shown are held from the beginning of the year up until the dates of their retirement.

⁴ Guideline holding at 31 December 2014 was 100 per cent of salary but is changing to 200 per cent of salary from 2015.

Directors' remuneration report

continued

Annual report on remuneration (continued)

The market price of ordinary shares at 31 December 2014 was 261.8 pence (2013: 268.9 pence) and the range during 2014 was 227.6 pence to 297.8 pence (2013: 210.2 pence to 275.0 pence).

As at 24 February 2015, the Trustee of the Company's ESOT held no shares (2013: nil). As executive directors, David Dutro and Brian Taylorson, as potential beneficiaries under the ESOT, are deemed to have an interest in any shares that become held in the ESOT.

As at 24 February 2015, 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 2014 and 24 February 2015 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, benefits under defined benefit schemes and salary supplements paid in cash.

The amount shown for David Dutro under defined contribution plans reflects total employer contributions in 2014. The amounts paid under these plans were £52,206 (2013: £47,460) equivalent to 6.0 per cent (2013: 6.0 per cent) of his total pensionable remuneration in 2014. The payment of a salary supplement is explained in the Remuneration policy report on page 41. In addition, as a US salaried executive director, David Dutro participated in the Elementis Career Reward Retirement Plan ("ECRRP") for US employees. On 1 May 2006, the plan was frozen (closed to future accruals). The ECRRP is a cash balance retirement plan which falls under the category of defined benefit pension plans in the US. As the plan is closed to future accruals, participants' account balances are no longer credited with contributions, however, interest is credited each year at the US Treasury 30 year bond rate. David Dutro's accrued benefits under this plan are also shown in the table. David Dutro's normal retirement date under all his pension arrangements is 65. The normal pensionable retirement age under the DB scheme for Brian Taylorson is 60.

Directors' retirement benefits

	Defined contribution plans		Salary supplements				Defined benefit schemes	
	2014 £'000	2013 £'000	Contractual		HMRC notional earnings cap		Accrued benefits	Accrued benefits
			2014 £'000	2013 £'000	2014 £'000	2013 £'000	31.12.14 £'000	31.12.13 £'000
David Dutro	52	47	103	99	—	—	9	9
Brian Taylorson	—	—	243 ¹	29	—	152	56 ²	55

¹ The benefit shown is in line with the policy approved last year which is equivalent to 74 per cent of his salary.

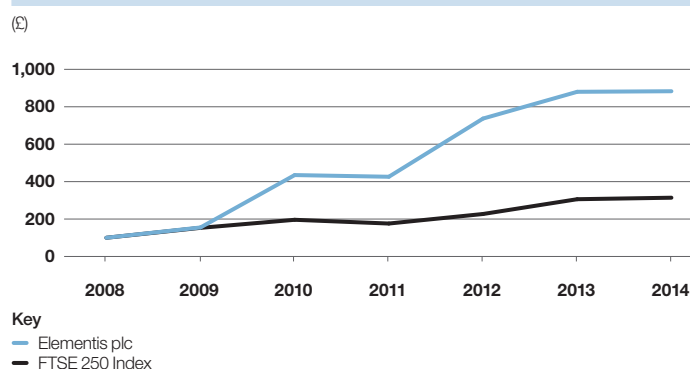
² The change in accrued benefit is due to statutory revaluation rather than any accrual of benefits over the year.

Total shareholder return performance and change in CEO's pay

The graph below illustrates the Company's total shareholder return for the 6 years ended 31 December 2014, relative to the FTSE 250 Index, along with a table illustrating the change in CEO pay over the same period. 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 2014 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
CEO pay (total remuneration – £'000s)	576 ¹	1,031	2,964	3,560	2,252	1,552
Annual bonus award against maximum opportunity	0%	100%	100%	81%	56%	50%
LTIP vesting against maximum opportunity	88% ¹	0% ²	100%	100%	100%	65%

¹ Prior to being appointed CEO in 2007 David Dutro as COO was awarded ESOS options in 2006 which vested in part in 2009 (as shown). However, these options were underwater on the vesting date so have been valued at nil in line with FRC Lab guidelines.

² This also relates to ESOS options that were awarded to David Dutro in 2007 which all lapsed due to performance conditions not being met.

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 2014 and the preceding financial year.

Remuneration against distributions

	2014 £million	2013 £million	change
Remuneration paid to all employees (see note 8 to the 'Consolidated financial statements') ¹	66.8	67.1	-0.4%
Total dividends paid in the year ²	38.8	38.0	2.0%

- ¹ The amounts for 2014 and 2013 have been converted from dollars into pounds sterling using the average USD/GBP exchange rates for those years.
² 2014 and 2013 include a special dividend payment of \$27.1 million (£16.2 million) and \$22 million (£14.4 million) respectively.

Percentage change in CEO's pay

The following table shows the change from 2013 to 2014 of the CEO's pay with regard to the three elements set out below and the corresponding change of these elements across all employees within the Group.

	% Change from 2013 to 2014*		
	Salaries	Benefits	Bonus**
CEO pay (total remuneration)	5%	(4%)	(13%)
All employees	(2%)	8%	(23%)

* All percentages are based on converting relevant local currencies into pounds sterling using the average rates for the respective year.

** Change in bonus relates to payments in respect of the relevant financial years.

Statement of shareholder voting

The resolutions to approve the 2013 Directors' remuneration policy and Directors' remuneration report (excluding the remuneration policy) were passed on a poll at the Company's last AGM held on 24 April 2014. Set out in the table below are the votes cast by proxy in respect of those resolutions.

Approval of 2013 Directors' remuneration resolutions

	Votes for	% for	Votes against	% against	Votes withheld
Policy	323,393,708	97.52%	8,217,842	2.48%	6,521,006
Report	319,112,205	96.97%	9,965,840	3.03%	9,054,511

Votes withheld are not included in the final figures as they are not recognised as a vote in law.

Directors' remuneration report

continued

Annual report on remuneration (continued)

Other information about the Committee's membership and operation

Committee composition

The Chairman and members of the Committee are shown on page 26, together with their biographical information. 8 meetings were held during 2014 and the attendance records of Committee members are shown on page 29. All meetings were also attended by the Chairman of the Board and the Senior Independent Director, to ensure that all non-executive Board members were kept fully informed on the operation and work of the Committee. Both executive directors also attend meetings by invitation, as appropriate, although they 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, which was reviewed and revised last year, is available on the Company's website 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 2014 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

The Committee's external advisers are New Bridge Street ("NBS") who were appointed after a tender in 2008. This was reviewed again in 2013 and as a result they were retained as advisers. The Committee is satisfied that there is no over reliance on NBS, who have no connection with the Company other than as remuneration advisers. Total fees paid to NBS in 2014 amounted to c. £44,000 for advisory services mainly in connection with the review of executive remuneration and the Directors' remuneration report for compliance with regulations.

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 2014 and Retirement benefits; and tables headed LTIP awards granted in the year, Directors' share and scheme interests and Directors' retirement benefits.

Andrew Christie

Chairman, Remuneration Committee

24 February 2015

Directors' report

Report and financial statements

The directors submit their report and the audited financial statements for the year ended 31 December 2014.

This Directors' report includes the Corporate governance reports from page 28 to 54.

Strategic report, future development, GHG emissions and R&D

The Strategic report which the Company is required under law to prepare can be found on pages 2 to 25. That report also includes information required in this Directors' report about: (a) future developments in the business of the Group and (b) greenhouse gas emissions.

The Group undertakes, on a continuing basis, R&D activities for new products and to improve existing products.

Takeover directive disclosures

The management report, for the purposes of the UK Listing Authority's 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 page 26.

Dividend

Details about the final dividend for the year, as well as a special dividend, are disclosed in the Chairman's statement on page 2.

Directors and their share interests

The directors of the Company who served during 2014 were Andrew Duff, Ian Brindle, Andrew Christie, David Dutro, Steve Good, Anne Hyland, Kevin Matthews, Nick Salmon and Brian Taylorson. Andrew Duff joined the Board on 1 April 2014 and both Steve Good and Nick Salmon joined on 20 October 2014. Kevin Matthews and Ian Brindle retired from the Board on 31 October and 15 December 2014 respectively. Otherwise, all of the directors served on the Board throughout the financial year. Biographical information about each director as at the year end is shown on page 26.

The interests of directors in the share capital of the Company are set out in the Directors' remuneration report.

Employment policies and equal opportunities

The Group is an inclusive and equal opportunity employer that relies on HR specialists throughout its worldwide locations to ensure compliance with all applicable laws governing employment practices and to advise on all HR policies and practices, including for example recruitment and selection, training and development, promotion and retirement.

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 from recruitment and promotion, through to termination and all other terms and conditions of employment.

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. Employment policies are fair and equitable and consistent with the skills and abilities of the employee and the needs of the business. 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 provide continuing employment under normal terms and conditions, where practicable, and to provide training, career development and promotion, as appropriate.

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 responsibility report.

Employee communications and involvement

The Group has processes in place for communicating with all its employees. Employee communications include information about the performance of the Group, on major matters affecting their work, employment or workplace and to encourage them to get involved in social or community events.

As is common practice, the Company operates savings based share option schemes in the US and UK to encourage employees to become shareholders and share in the success of the Group. Further details of these schemes are set out on page 90.

Going concern

The directors have assessed the Group as a going concern, having given consideration to the 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 cash position at the year end of 2014 was \$64.2 million and it has access to a syndicated revolving credit facility of \$100 million, which expires in October 2018. There is a mechanism in the agreement for the facility to be increased by a further \$100 million subject to other terms.

Under this principal borrowing facility, the Group performs covenant tests for net debt:EBITDA ratio, interest cover and net worth. 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 evaluating the covenant compliance modelling and the trading of the businesses, the Company and the Group have adequate resources to continue to operate for the foreseeable future as going concerns. For this reason they continue to adopt the going concern basis in preparing these financial statements.

Share capital

The Company's share capital consists of ordinary shares, as set out in Note 7 to the Parent company financial statements on page 96. 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 of association (the "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 2014 the ESOT held no shares in the Company (2013: nil). A dividend waiver is in place in respect of all shares that may become held by the ESOT.

Directors' report

continued

Directors, Articles and purchase of shares

The directors' powers are conferred on them by UK legislation and by the Company's Articles. Rules about the appointment and replacement of directors are also set out in the Articles.

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 \$100 million revolving credit facility and, in the event of a change of control, any lender among the facility syndicate, of which there are four with commitments ranging from \$20 million to \$30 million, may withdraw from the facility and that lender's participation in any loans drawn down are required to be repaid.

Under David Dutro's service contract with the Company compensation is payable to him equivalent to one year's basic salary if he terminates his contract upon a change of control, provided that the Company has not first obtained a written agreement to be bound by his service contract from any successor in a change of control. There is no specific change of control provision in Brian Taylorson's service contract with the Company.

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.

Substantial shareholders

As at 24 February 2015 the Company had been notified, in accordance with Rule 5 of the Disclosure and Transparency Rules, of the following interests in its issued ordinary capital:

	Ordinary shares	Percentage of issued ordinary share capital
AXA Investment Managers SA	28,739,014	6.23
BlackRock, Inc.	23,211,191	5.03
Ameriprise Financial, Inc. and its group	22,734,503	4.92
Schroders plc	22,517,387	4.88

Auditors

A resolution to appoint KPMG LLP as auditors of the Company will be proposed at the forthcoming AGM to be held on 22 April 2015. Details about this proposal are set out in the Notice of Meeting accompanying this Annual Report.

Each director in office at the date of this Directors' report confirms that: (a) so far as he/she is aware, there is no relevant audit information of which the Company's auditors are unaware; and (b) he/she has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Political donations

The Group made no political donations during the year (2013: nil).

A resolution is being proposed at the 2015 AGM to obtain authorisation from shareholders for the Company and its subsidiaries to make political donations or incur political expenditure up to a maximum annual limit of £50,000. Information about this proposal is explained in the Notice of Meeting accompanying this Annual Report.

Directors' conflicts of interest

Since 2008 Brian Taylorson, who is Finance Director and a trustee of the Elementis Group Pension Scheme, has been the only director who is in receipt of a conflict authorisation from the Company. The conflict authorisation enables him 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 conflict authorisation is subject to annual review by the Board and was renewed during 2014 for another year. The terms of the conflict authorisation have remained unchanged since 2008 and details can be found in the 2012 Annual Report which is available from: www.elementisplc.com.

Other information

Information about financial risk management and exposure to financial market risks are set out in Note 21 to the Consolidated financial statements on page 79.

Annual General Meeting

The eighteenth AGM of the Company will be held on Wednesday 22 April 2015. The Notice of Meeting is included in a separate document sent to shareholders.

By order of the Board

Wai Wong

Company Secretary

24 February 2015

Directors' responsibility statement

The directors are responsible for preparing the Annual Report and consolidated and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare consolidated and parent company financial statements for each financial year. Under that law they are required to prepare the Consolidated financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent company financial statements in accordance with UK Accounting Standards.

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 Group and parent company and of their profit or loss for that period. In preparing each of the consolidated and parent company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgments and estimates that are reasonable and prudent.
- For the Consolidated financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU.
- For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent company financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic report, Directors' report, Directors' remuneration report and Corporate governance report that complies with that law and those regulations.

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

The directors, all of whom are shown on page 26, confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, 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 management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Brian Taylorson
Finance Director
 24 February 2015

Independent auditor's report to the members of Elementis plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Elementis plc for the year ended 31 December 2014 set out on pages 60 to 96. 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 2014 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 as adopted by the European Union;
- the Parent company financial statements have been properly prepared in accordance with UK Accounting Standards; 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.

2. Our assessment of risks of material mis-statement

In arriving at our audit opinion above on the financial statements, the risks of material mis-statement that had the greatest effect on our audit were as follows:

Environmental provisions (\$31.7 million)

Refer to page 33 (Audit Committee report), page 64 (accounting policy) and page 76 (financial disclosures).

- *The risk* – As a chemicals company, the possibility of legal proceedings and environmental issues are inherent within the business. Elementis has numerous operating and legacy sites worldwide with provisions recognised for the future cost of the environmental issues. The amounts involved are potentially significant and future cash flows are uncertain whilst the application of accounting standards to determine the amount of liability to recognise or release, if any, for individual issues requires judgement.
- *Our response* – Our audit procedures included, correspondence with the Group's external consultants on the current situation and risks regarding all identified significant environmental issues. We obtained confirmation of the qualifications of the consultants. We inspected the consultants' reports documenting the forecast future cash flows with regard to these issues. We compared the Company's discount rate with external market data and assessed the unwinding of the provision recognised in finance costs. A sample, selected using statistical sampling methodology, of the cash flows incurred in the year relating to the provisions were agreed to the underlying documentation. We considered the consistency of forecast cash flows with previous estimates by comparing the most recent actual cash flows with the prior year external report. In addition, we inspected the Group litigation and compliance reports and held discussions with the Group's internal counsel for all significant issues. We also assessed whether the Group's disclosures detailing significant provisions and contingent liabilities adequately disclose the potential liabilities of the Group.

Post retirement benefits (\$65.8 million)

Refer to page 33 (Audit Committee report), page 64 (accounting policy) and page 85 (financial disclosures).

- *The risk* – Significant estimates are made in valuing the Group's post-retirement defined benefit schemes and small changes in assumptions and estimates used to value the Group's net pension deficit would have a significant effect on the results and financial position of the Group.
- *Our response* – In this area our audit procedures included, testing a sample of the UK and US schemes' membership data to the source documentation. We inspected the actuarial reports received by the Group and with the support of our own actuarial specialists, we then challenged the key assumptions applied to those data to determine the group's net deficit, being the discount rate, inflation rate and mortality/life expectancy. This included a comparison of these key assumptions against externally derived data. Cash flows and funding arrangements have been agreed to the underlying documentation, whilst asset values have been agreed to external confirmations. We also considered the adequacy of the Group's disclosures in respect of IAS 19.

Tax asset recoverability (\$56.4 million)

Refer to page 33 (Audit Committee report), page 67 (accounting policy) and page 77 (financial disclosures).

- *The risk* – The group has now recognised significant tax assets in respect of Advance Corporation Tax and UK tax losses. There is inherent uncertainty involved in forecasting future taxable profits which support the extent to which tax assets are or are not recognised. The recoverability of these amounts is determined by the existence of future taxable profits.
- *Our response* – Our audit procedures included inspecting the group's taxable profit forecasts and assessing the assumptions in the forecasts. We used our own tax specialists to assist us in assessing the recoverability of the Advance Corporation Tax and tax losses against the forecast future taxable profits, taking into account the Group's tax position, the amount and timing of forecast taxable profits, and our knowledge and experience of the application of relevant tax legislation. This included assessing the Group's tax structures and confirming the official clearance received from HM Revenue and Customs, where relevant.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at \$7.0 million. This has been determined with reference to a benchmark of Group profit before taxation of \$148.2 million (of which it represents 4.7 per cent).

We report to the Audit Committee any corrected or uncorrected identified mis-statements exceeding \$0.35 million, in addition to other identified mis-statement that warranted reporting on qualitative grounds.

Of the Group's 139 reporting components, we subjected 11 to audits for Group reporting purposes and 29 to specified risk focused audit procedures. The latter were not individually financially significant enough to require an audit for Group reporting purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the following percentages of the group's results:

	Number of components	Group revenue	Group profit before tax	Group total assets
Audits for Group reporting purposes	11	92%	101%	85%
Specified risk focused audit procedures	29	0%	-4%	8%
Total	40	92%	97%	93%

The remaining 8 per cent of total group revenue, 3 per cent of group profit before tax and 7 per cent of total group assets is represented by 99 of the reporting components, none of which individually represented more than 2 per cent of any of total Group revenue, Group profit before tax or total Group assets. For the remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material mis-statement within these.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities, which ranged from \$0.4 million to \$4.5 million, having regard to the mix of size and risk profile of the Group across the components. The work on 9 of the 40 components was performed by component auditors and the rest by the Group audit team.

The Group audit team visited 2 component locations in the year. Video and telephone conference meetings were also held with these component auditors and all others that were not physically visited. At these visits and meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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.

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material mis-statement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that 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 performance, business model and strategy; or
- the Audit Committee report does not appropriately address matters communicated by us to the Audit and Risk Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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 and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made;
- we have not received all the information and explanations we require for our audit; or

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 55, in relation to going concern;
- the part of the Corporate governance statement on pages 28 to 30 relating to the Company's compliance with the 10 provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' responsibility statement set out on page 57, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Lynton Richmond (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL
24 February 2015

Consolidated income statement

for the year ended 31 December 2014

	Note	2014			2013		
		Before exceptional items \$million	Exceptional items (note 5) \$million	After exceptional items \$million	Before exceptional items \$million	Exceptional items (note 5) \$million	After exceptional items \$million
Revenue	2	790.4	–	790.4	776.8	–	776.8
Cost of sales		(486.1)	–	(486.1)	(487.7)	–	(487.7)
Gross profit		304.3	–	304.3	289.1	–	289.1
Distribution costs		(92.3)	–	(92.3)	(83.6)	–	(83.6)
Administrative expenses		(61.9)	6.3	(55.6)	(58.9)	(1.7)	(60.6)
Operating profit	2	150.1	6.3	156.4	146.6	(1.7)	144.9
Other expenses		(1.9)	–	(1.9)	(2.0)	–	(2.0)
Finance income	3	0.3	–	0.3	0.2	–	0.2
Finance costs	4	(6.6)	–	(6.6)	(8.8)	–	(8.8)
Profit before income tax		141.9	6.3	148.2	136.0	(1.7)	134.3
Tax	6	(26.3)	53.5	27.2	(29.4)	1.8	(27.6)
Profit for the year		115.6	59.8	175.4	106.6	0.1	106.7
Attributable to:							
Equity holders of the parent		115.6	59.8	175.4	106.6	0.1	106.7
		115.6	59.8	175.4	106.6	0.1	106.7
Earnings per share							
Basic (cents)	9			38.1			23.3
Diluted (cents)	9			37.7			23.0

Consolidated statement of comprehensive income

for the year ended 31 December 2014

	2014 \$million	2013 \$million
Profit for the year	175.4	106.7
Other comprehensive income:		
Items that will not be reclassified subsequently to profit and loss:		
Remeasurements of retirement benefit obligations	(18.5)	19.3
Deferred tax associated with retirement benefit obligations	14.1	(10.3)
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	(11.6)	(1.2)
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)	0.5
Tax benefit associated with exercise of share options	2.8	4.4
Other comprehensive income	(13.4)	13.0
Total comprehensive income for the year	162.0	119.7
Attributable to:		
Equity holders of the parent	162.0	119.7
Total comprehensive income for the year	162.0	119.7

Consolidated balance sheet

at 31 December 2014

	Note	2014 31 December \$million	2013 31 December \$million
Non-current assets			
Goodwill and other intangible assets	10	373.0	382.1
Property, plant and equipment	11	211.7	202.6
ACT recoverable	5	42.0	–
Deferred tax assets	16	14.4	8.6
Total non-current assets		641.1	593.3
Current assets			
Inventories	12	137.5	128.3
Trade and other receivables	13	121.4	126.2
Derivatives		0.7	0.4
Cash and cash equivalents	20	73.7	64.5
Total current assets		333.3	319.4
Total assets		974.4	912.7
Current liabilities			
Bank overdrafts and loans	19	(8.1)	(8.7)
Trade and other payables	14	(122.0)	(111.1)
Derivatives		(0.2)	(0.1)
Current tax liabilities		(5.1)	(14.4)
Provisions	15	(6.7)	(6.0)
Total current liabilities		(142.1)	(140.3)
Non-current liabilities			
Loans and borrowings	19	(1.4)	(1.7)
Retirement benefit obligations	23	(65.8)	(99.3)
Deferred tax liabilities	16	(92.7)	(93.5)
Provisions	15	(28.3)	(32.1)
Government grants		–	(0.3)
Total non-current liabilities		(188.2)	(226.9)
Total liabilities		(330.3)	(367.2)
Net assets		644.1	545.5
Equity			
Share capital	17	44.4	44.1
Share premium		18.7	16.7
Other reserves	18	116.4	129.9
Retained earnings		464.6	353.2
Total equity attributable to equity holders of the parent		644.1	543.9
Non-controlling interests		–	1.6
Total equity		644.1	545.5

The financial statements on pages 60 to 92 were approved by the Board on 24 February 2015 and signed on its behalf by:

David Dutro
Group Chief Executive

Brian Taylorson
Finance Director

Consolidated statement of changes in equity

for the year ended 31 December 2014

	Share capital \$million	Share premium \$million	Translation reserve \$million	Hedging reserve \$million	Other reserves \$million	Retained earnings \$million	Total \$million	Non-controlling interest \$million	Total equity \$million
Balance at 1 January 2013	43.7	14.7	(27.6)	(7.5)	165.4	290.5	479.2	1.6	480.8
Comprehensive income									
Profit for the year	–	–	–	–	–	106.7	106.7	–	106.7
Other comprehensive income									
Exchange differences	–	–	(1.2)	–	–	–	(1.2)	–	(1.2)
Fair value of cash flow hedges transferred to the income statement	–	–	–	0.5	–	–	0.5	–	0.5
Effective portion of changes in fair value of cash flow hedges	–	–	–	0.3	–	–	0.3	–	0.3
Remeasurements of retirement benefit obligations	–	–	–	–	–	19.3	19.3	–	19.3
Tax benefit associated with exercise of share options	–	–	–	–	–	4.4	4.4	–	4.4
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	(10.3)	(10.3)	–	(10.3)
Transfer	–	–	–	–	(3.2)	3.2	–	–	–
Total other comprehensive income	–	–	(1.2)	0.8	(3.2)	16.6	13.0	–	13.0
Total comprehensive income	–	–	(1.2)	0.8	(3.2)	123.3	119.7	–	119.7
Transactions with owners									
Issue of shares by the Company	0.4	2.0	–	–	(0.2)	–	2.2	–	2.2
Share based payments	–	–	–	–	3.4	–	3.4	–	3.4
Deferred tax on share based payments recognised within equity	–	–	–	–	–	(2.5)	(2.5)	–	(2.5)
Dividends paid	–	–	–	–	–	(58.1)	(58.1)	–	(58.1)
Total transactions with owners	0.4	2.0	–	–	3.2	(60.6)	(55.0)	–	(55.0)
Balance at 31 December 2013	44.1	16.7	(28.8)	(6.7)	165.4	353.2	543.9	1.6	545.5
Balance at 1 January 2014	44.1	16.7	(28.8)	(6.7)	165.4	353.2	543.9	1.6	545.5
Comprehensive income									
Profit for the year	–	–	–	–	–	175.4	175.4	–	175.4
Other comprehensive income									
Exchange differences	–	–	(11.5)	–	(0.1)	–	(11.6)	–	(11.6)
Fair value of cash flow hedges transferred to the income statement	–	–	–	(0.3)	–	–	(0.3)	–	(0.3)
Effective portion of changes in fair value of cash flow hedges	–	–	–	0.1	–	–	0.1	–	0.1
Remeasurements of retirement benefit obligations	–	–	–	–	–	(18.5)	(18.5)	–	(18.5)
Tax benefit associated with exercise of share options	–	–	–	–	–	2.8	2.8	–	2.8
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	14.1	14.1	–	14.1
Transfer	–	–	–	–	(4.1)	4.1	–	–	–
Total other comprehensive income	–	–	(11.5)	(0.2)	(4.2)	2.5	(13.4)	–	(13.4)
Total comprehensive income	–	–	(11.5)	(0.2)	(4.2)	177.9	162.0	–	162.0
Transactions with owners									
Issue of shares by the Company	0.3	2.0	–	–	(0.1)	–	2.2	–	2.2
Share based payments	–	–	–	–	2.5	–	2.5	–	2.5
Deferred tax on share based payments recognised within equity	–	–	–	–	–	(1.8)	(1.8)	–	(1.8)
Dividends paid	–	–	–	–	–	(64.7)	(64.7)	–	(64.7)
Change in ownership interests in subsidiaries	–	–	–	–	–	–	–	(1.6)	(1.6)
Total transactions with owners	0.3	2.0	–	–	2.4	(66.5)	(61.8)	(1.6)	(63.4)
Balance at 31 December 2014	44.4	18.7	(40.3)	(6.9)	163.6	464.6	644.1	–	644.1

Consolidated cash flow statement

for the year ended 31 December 2014

	Note	2014 \$million	2013 \$million
Operating activities:			
Profit for the year		175.4	106.7
Adjustments for:			
Other expenses		1.9	2.0
Finance income		(0.3)	(0.2)
Finance costs		6.6	8.8
Tax (credit)/charge		(27.2)	27.6
Depreciation and amortisation		25.2	23.9
Decrease in provisions		(2.8)	(1.5)
Pension payments net of current service cost		(49.5)	(26.8)
Share based payments		2.5	3.4
Exceptional items		(6.3)	1.7
Cash flow in respect of exceptional items excluding pensions		(3.1)	(3.9)
Operating cash flow before movement in working capital		122.4	141.7
(Increase)/decrease in inventories		(12.7)	2.8
Increase in trade and other receivables		(0.1)	(4.3)
Increase in trade and other payables		17.1	8.0
Cash generated by operations		126.7	148.2
Income taxes paid		(12.0)	(12.3)
Interest paid		(1.6)	(2.8)
Net cash flow from operating activities		113.1	133.1
Investing activities:			
Interest received		0.3	0.5
Disposal of property, plant and equipment		0.9	0.6
Purchase of property, plant and equipment		(35.4)	(34.1)
Purchase of business		(4.1)	(32.8)
Acquisition of intangible assets		(0.4)	(1.5)
Net cash flow from investing activities		(38.7)	(67.3)
Financing activities:			
Issue of shares by the Company and the ESOT		2.1	2.2
Dividends paid		(64.7)	(58.3)
Receipt of unclaimed dividends		0.2	0.2
Decrease in borrowings		(0.3)	(8.7)
Net cash used in financing activities		(62.7)	(64.6)
Net increase in cash and cash equivalents		11.7	1.2
Cash and cash equivalents at 1 January		64.5	63.1
Foreign exchange on cash and cash equivalents		(2.5)	0.2
Cash and cash equivalents at 31 December	20	73.7	64.5

Notes to the Consolidated financial statements

for the year ended 31 December 2014

1 Accounting policies

Elementis plc is a company incorporated in the UK. 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 UK GAAP. These are presented on pages 93 to 96.

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 55.

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 policies

Critical accounting policies are those that require significant judgements or estimates and potentially result in materially different results under different assumptions or conditions. It is considered that the Group's critical accounting policies are limited to those described below. The development of the estimates and disclosures related to each of these matters has been discussed by the Audit Committee.

(a) 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 and more difficult to estimate when they relate to sites no longer directly controlled by the Group.

(b) 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.

Any difference between the expected return on assets and that achieved is recognised in the statement of comprehensive income together with the difference from experience or assumption changes. The Group recognises all such remeasurements 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period. IFRS 10 Consolidated Financial Statements introduces new principles for control which focus on whether the Group is exposed to, or has rights to, variable returns from its involvement with entities and has the ability to affect those returns through its power over those entities. The Group's consolidation scope and the accounting treatment of its investments in other entities was unaffected by the adoption of IFRS 10.

The results of subsidiaries acquired or disposed of during a period are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group adopted IFRS 3 (revised), Business Combinations, for business combinations where the acquisition date was on or after 1 January 2010. This measures goodwill at the acquisition date as the fair value of the consideration transferred, the recognised amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less the fair value of the identifiable assets acquired and liabilities assumed. Acquisition costs are accounted for as an expense in the period incurred. For acquisitions that were made by the Group between its initial adoption of IFRS in 2005 and 31 December 2009 goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

In accordance with the transitional rules of IFRS 1, the Company has not restated business combinations that took place prior to the date of transition to IFRS of 1 January 2004. As a consequence the Scheme of Arrangement entered into in 1998 whereby the Company acquired Elementis Holdings Limited and applied the true and fair override to account for the transaction as a merger has not been restated under IFRS.

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.

Associates

Associates are those entities in which the Group has significant influence, but not control over the financial and operating policies. The consolidated financial statements include the Group's share of the post-acquisition total recognised gains and losses and the net assets of associates on an equity accounted basis. Where the Group's share of losses exceeds its investment in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred a legal or constructive obligation.

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Freehold land is not depreciated. Leasehold property is depreciated over the period of the lease. Freehold buildings, plant and machinery, fixtures, fittings and equipment are depreciated over their estimated useful lives on a straight line basis. Depreciation methods, useful lives and residual values are assessed at the reporting date. No depreciation is charged on assets under construction until the asset is brought into use.

Estimates of useful lives of these assets are:

Buildings	10–50 years
Plant and machinery	2–20 years
Fixtures, fittings and equipment	2–20 years

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within it will flow to the Group and its cost can be measured reliably. The costs of the day to day servicing of property, plant and equipment are recognised in the income statement as incurred.

Management regularly considers whether there are any indications of impairment to carrying values of property, plant and equipment. Impairment reviews are based on risk adjusted discounted cash flow projections. Significant judgement is applied to the assumptions underlying these projections which include estimated discount rates, growth rates, future selling prices and direct costs. Changes to these assumptions could have a material impact on the financial position of the Group and on the result for the year.

Intangible assets

(a) Goodwill

All business combinations since the transition to IFRS on 1 January 2004 are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since the transition date, goodwill represents the difference between the cost of the consideration given and the fair value of net identifiable assets, liabilities and contingent liabilities acquired. In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. Goodwill is allocated to cash-generating units and tested annually for impairment. Changes to the assumptions used in impairment testing could have a material impact on the financial position of the Group and of the result for the year.

(b) Research and development

Expenditure on research is recognised in the income statement as an expense as incurred. 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 is technically and commercially feasible and the Group has sufficient resources to complete development. Expenditure capitalised is stated as the cost of materials, direct labour and an appropriate proportion of overheads less accumulated amortisation. Other development expenditure is recognised in the income statement as an expense as incurred.

(c) Other intangible assets

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. On this basis there is no amortisation of intangible assets relating to brand. Goodwill is systematically tested for impairment at each balance sheet date. Other intangible assets, comprising customer lists, trademarks, patents and non-compete clauses, are amortised over their estimated useful lives which range from 5–10 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. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Notes to the Consolidated financial statements

for the year ended 31 December 2014 continued

1 Accounting policies (continued)

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash generating unit 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 cash generating unit 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.

Government grants

Grants against capital expenditure from government and other bodies are shown separately in the balance sheet. Such grants are released to the profit and loss account over the same period for which the relevant assets are depreciated.

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 one 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.

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.

(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).

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, usually in the form of a sales agreement, that the significant risks and rewards of ownership have been transferred to the customer and where the collectability of revenue is reasonably assured.

Exceptional items

The Group presents certain items separately as 'exceptional'. These are items which in management's judgement, need to be disclosed by virtue of their size and incidence in order for the user to obtain a proper understanding of the financial information. The determination of which items are separately disclosed as exceptional items requires a degree of judgement.

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.

Income tax

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. 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. 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 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.

Notes to the Consolidated financial statements

for the year ended 31 December 2014 continued

1 Accounting policies (continued)

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.

New standards and interpretations not yet adopted

New standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2014, and have not been applied in preparing these consolidated financial statements, but that become mandatory for the Group's 2015 financial statements are as follows:

Defined Benefit Plans: Employee Contributions – Amendments to IAS 19

The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties.

The Group has not yet determined the potential impact of this new interpretation on the 2015 financial statements.

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.
Surfactants	– Production of surface active ingredients.
Chromium	– Production of chromium chemicals.

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 below as central costs.

Segmental analysis for the year ended 31 December 2014

	2014					
	Specialty Products \$million	Surfactants \$million	Chromium \$million	Segment totals \$million	Central costs \$million	Total \$million
Revenue	519.7	67.1	216.5	803.3	–	803.3
Internal revenue	–	(0.2)	(12.7)	(12.9)	–	(12.9)
Revenue from external customers	519.7	66.9	203.8	790.4	–	790.4
Operating profit before exceptionals	100.7	5.2	59.2	165.1	(15.0)	150.1
Head office cost allocations	(2.2)	(0.3)	(0.9)	(3.4)	3.4	–
Exceptionals	1.6	3.3	(1.5)	3.4	2.9	6.3
Profit/(loss) before interest	100.1	8.2	56.8	165.1	(8.7)	156.4
Other expenses	–	–	–	–	(1.9)	(1.9)
Finance income	–	–	–	–	0.3	0.3
Finance expense	–	–	–	–	(6.6)	(6.6)
Taxation – pre exceptional	–	–	–	–	(26.3)	(26.3)
Taxation – exceptional	–	–	–	–	53.5	53.5
Profit for the period	100.1	8.2	56.8	165.1	10.3	175.4
Fixed assets	505.8	20.1	69.0	594.9	(10.2)	584.7
Inventories	80.7	5.7	51.0	137.4	0.1	137.5
Trade and other receivables	73.6	8.6	35.5	117.7	3.7	121.4
ACT recoverable	–	–	–	–	42.0	42.0
Deferred tax assets	–	–	–	–	14.4	14.4
Derivatives	–	–	–	–	0.7	0.7
Cash and cash equivalents	–	–	–	–	73.7	73.7
Segment assets	660.1	34.4	155.5	850.0	124.4	974.4
Trade and other payables	(69.8)	(10.3)	(34.6)	(114.7)	(7.3)	(122.0)
Operating provisions	(1.5)	(1.7)	(12.9)	(16.1)	(18.9)	(35.0)
Bank overdrafts and loans	–	–	–	–	(9.5)	(9.5)
Derivatives	–	–	–	–	(0.2)	(0.2)
Current tax liabilities	–	–	–	–	(5.1)	(5.1)
Retirement benefit obligations	–	–	–	–	(65.8)	(65.8)
Deferred tax liabilities	–	–	–	–	(92.7)	(92.7)
Segment liabilities	(71.3)	(12.0)	(47.5)	(130.8)	(199.5)	(330.3)
Net assets	588.8	22.4	108.0	719.2	(75.1)	644.1
Capital additions	23.8	2.9	9.9	36.6	1.8	38.4
Depreciation and amortisation	(15.2)	(2.0)	(7.2)	(24.4)	(0.8)	(25.2)

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	296.2	28.1	187.2	278.9	790.4
Non-current assets	441.9	42.2	35.2	65.4	584.7
Capital additions	25.6	2.1	4.3	6.4	38.4
Depreciation and amortisation	(16.9)	(1.4)	(3.0)	(3.9)	(25.2)

Notes to the Consolidated financial statements

for the year ended 31 December 2014 continued

2 Operating segments (continued)

Segmental analysis for the year ended 31 December 2013

	2013					
	Specialty Products \$million	Surfactants \$million	Chromium \$million	Segment totals \$million	Central costs \$million	Total \$million
Revenue	502.8	72.2	214.8	789.8	–	789.8
Internal revenue	–	–	(13.0)	(13.0)	–	(13.0)
Revenue from external customers	502.8	72.2	201.8	776.8	–	776.8
Operating profit before exceptionals	100.9	5.9	56.0	162.8	(16.2)	146.6
Head office cost allocations	(1.8)	(0.3)	(0.9)	(3.0)	3.0	–
Exceptionals	0.7	1.3	(10.5)	(8.5)	6.8	(1.7)
Profit/(loss) before interest	99.8	6.9	44.6	151.3	(6.4)	144.9
Other expenses	–	–	–	–	(2.0)	(2.0)
Finance income	–	–	–	–	0.2	0.2
Finance expense	–	–	–	–	(8.8)	(8.8)
Taxation – pre exceptional	–	–	–	–	(29.4)	(29.4)
Taxation – exceptional	–	–	–	–	1.8	1.8
Profit/(loss) for the period	99.8	6.9	44.6	151.3	(44.6)	106.7
Fixed assets	506.5	22.0	66.9	595.4	(10.7)	584.7
Inventories	70.2	7.6	50.5	128.3	–	128.3
Trade and other receivables	69.7	12.1	34.4	116.2	10.0	126.2
Deferred tax assets	–	–	–	–	8.6	8.6
Derivatives	–	–	–	–	0.4	0.4
Cash and cash equivalents	–	–	–	–	64.5	64.5
Segment assets	646.4	41.7	151.8	839.9	72.8	912.7
Trade and other payables	(61.8)	(14.1)	(21.7)	(97.6)	(13.5)	(111.1)
Operating provisions	(1.2)	(2.4)	(12.0)	(15.6)	(22.5)	(38.1)
Bank overdrafts and loans	–	–	–	–	(10.4)	(10.4)
Derivatives	–	–	–	–	(0.1)	(0.1)
Current tax liabilities	–	–	–	–	(14.4)	(14.4)
Retirement benefit obligations	–	–	–	–	(99.3)	(99.3)
Deferred tax liabilities	–	–	–	–	(93.5)	(93.5)
Government grants	–	–	–	–	(0.3)	(0.3)
Segment liabilities	(63.0)	(16.5)	(33.7)	(113.2)	(254.0)	(367.2)
Net assets	583.4	25.2	118.1	726.7	(181.2)	545.5
Capital additions	22.4	4.9	7.2	34.5	1.2	35.7
Depreciation and amortisation	(13.8)	(2.1)	(7.4)	(23.3)	(0.6)	(23.9)

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	273.9	33.6	201.1	268.2	776.8
Non-current assets	434.0	44.1	39.0	67.6	584.7
Capital additions	24.4	1.1	7.1	3.1	35.7
Depreciation and amortisation	(15.8)	(1.2)	(3.1)	(3.8)	(23.9)

3 Finance income

	2014 \$million	2013 \$million
Interest on bank deposits	0.3	0.2

4 Finance costs

	2014 \$million	2013 \$million
Interest on bank loans	1.6	2.5
Pension and other post retirement liabilities	3.1	4.5
Unwind of discount on provisions	1.9	1.8
	6.6	8.8

5 Exceptional items

	2014 \$million	2013 \$million
Post employment benefits	4.9	0.1
Environmental provisions	(1.9)	(0.2)
Other	3.3	(1.6)
	6.3	(1.7)
Tax (charge)/credit in relation to exceptional items	(0.8)	1.8
Recognition of further UK tax assets	12.3	–
Recognition of ACT	42.0	–
	59.8	0.1

The Group has continued its separate presentation of certain items as exceptional. These are items which, in management's judgement, need to be disclosed separately by virtue of their size or incidence in order for the reader to obtain a proper understanding of the financial information.

Post employment benefits

In the Netherlands the arrangement with the previous insurers of the defined benefit pension scheme came to an end on 31 December 2014 and the Group has contracted with a new industry wide pension fund for 2015 onwards. As a result, the plan will in future be accounted for as a defined contribution plan. Consequently, a deficit amount of \$4.1 million relating to the original plan has been reversed in 2014 and the resulting credit recorded as an exceptional item. In addition, a legacy provision of \$0.8 million relating to a 2005 claim made by a group of pensioners in the Netherlands has also been reversed and credited to Group profit because the matter has now been settled.

Environmental provisions

The Group's environmental provisions are calculated on a discounted basis, reflecting the time period over which spending is estimated to take place. As a result of a decline in the underlying market interest rates that are utilised in the discount rate calculation, it was concluded that the discount rate applied to future spending should be further reduced. This resulted in a charge of \$1.9 million in 2014.

Other adjustments

The liquidations of a number of legacy subsidiaries no longer involved in Group activities resulted in one time credits totalling \$3.3 million being recorded in Group profit.

Taxation – net credit of \$53.5 million

Tax related items that result in a net credit of \$53.5 million have also been recorded as exceptional items. The net credit arises from the recognition of UK advance corporation tax credits amounting to \$42.0 million with an additional credit of \$12.3 million in respect of further UK tax assets. The surplus ACT arose in respect of tax paid under the prior imputation system, which allowed for ACT credits to be offset against mainstream UK tax liabilities. The ACT not previously used under that imputation system had been written off at the time when there was no UK corporation tax liability anticipated in the foreseeable future. It is now the Board's view that taxable profits will arise in the UK in the future and, as such, surplus ACT previously written off should now be recognised as a tax asset. Offsetting these credits is the tax cost of \$0.8 million associated with the pre-tax exceptional items listed above.

6 Income tax expense

	2014 \$million	2013 \$million
Current tax:		
Recognition of UK Advance Corporation Tax credits (exceptional item)	(42.0)	–
Tax recoverable (exceptional item)	(6.0)	–
Overseas corporation tax*	14.5	21.3
Adjustments in respect of prior years:		
Overseas	–	(0.5)
Total current tax	(33.5)	20.8
Deferred tax:		
Recognition of further deferred tax assets (exceptional item)	(6.3)	–
United Kingdom	1.5	0.9
Adjustment in respect of prior year	–	0.4
Overseas*	11.4	4.1
Adjustments in respect of prior years	(0.3)	1.4
Total deferred tax	6.3	6.8
Income tax expense for the year	(27.2)	27.6
Comprising:		
Before exceptional items	26.3	29.4
Exceptional items**	(53.5)	(1.8)
	(27.2)	27.6

* exceptional debit of \$0.8 million included within overseas corporation tax and overseas deferred tax

** see Note 5 for details of exceptional items

Notes to the Consolidated financial statements

for the year ended 31 December 2014 continued

6 Income tax expense (continued)

The tax charge on profit represents an effective tax rate on profit before exceptional items for the year ended 31 December 2014 of 18.5 per cent (2013: 21.6 per cent). As a Group involved in overseas operations, the amount of profitability in each jurisdiction, transfer pricing regulations and local tax rate changes, will affect future tax charges.

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

	2014 \$million	2014 per cent	2013 \$million	2013 per cent
Profit before tax	148.2		134.3	
Tax on ordinary activities at 21.5 per cent (2013: 23.25 per cent)*	31.9	21.5	31.2	23.3
Difference in overseas effective tax rates	10.8	7.3	10.9	8.1
Income not chargeable for tax purposes	(6.8)	(4.6)	(9.8)	(7.3)
Expenses not deductible for tax purposes	–	–	0.5	0.4
Tax losses and other deductions	(9.2)	(6.2)	(6.1)	(4.5)
Tax rate adjustments to deferred tax	0.7	0.5	–	–
Adjustments in respect of prior years	(0.3)	(0.2)	0.9	0.6
Recognition of exceptional tax items	(54.3)	(36.7)	–	–
Tax charge and effective tax rate for the year	(27.2)	(18.4)	27.6	20.6

* tax rate reflects reduction in UK corporation tax rate from 23 per cent to 21 per cent with effect from April 2014. The UK corporation tax rate from 1 April 2015 has been substantively enacted at 20 per cent.

7 Profit for the year

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

	2014 \$million	2013 \$million
Employee costs	110.3	104.7
Net foreign exchange gains	(1.7)	(1.8)
Research and development costs	8.0	7.6
Government grants	(0.2)	(0.4)
Depreciation of property, plant and equipment	21.8	20.8
Amortisation of intangible assets	3.6	3.5
Total depreciation and amortisation expense	25.4	24.3
Cost of inventories recognised as expense	385.3	385.6
Fees available to the Company's auditor and its associates:		
Audit of the Company's financial statements	0.2	0.2
Audit of the Company's subsidiaries	0.5	0.5
Audit related assurance services (half year review)	0.1	0.1
Tax compliance services	0.2	0.3
Other tax advisory services	0.4	0.3

8 Employees

	2014 \$million	2013 \$million
Employee costs:		
Wages and salaries	97.1	92.6
Social security costs	8.4	7.6
Pension costs	4.8	4.5
	110.3	104.7
	Number	Number
Average number of FTE employees*:		
Specialty Products	983	946
Surfactants	150	152
Chromium	247	254
Central	14	13
Total	1,394	1,365

* 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:

	2014 \$million	2013 \$million
Earnings:		
Earnings for the purpose of basic earnings per share	175.4	106.7
Exceptional items net of tax	(59.8)	(0.1)
Adjusted earnings	115.6	106.6
	2014 million	2013 million
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	460.7	456.9
Effect of dilutive share options	4.7	6.8
Weighted average number of shares for the purposes of diluted earnings per share	465.4	463.7
	2014 cents	2013 cents
Earnings per share:		
Basic	38.1	23.3
Diluted	37.7	23.0
Basic before exceptional items	25.1	23.3
Diluted before exceptional items	24.8	23.0

Notes to the Consolidated financial statements

for the year ended 31 December 2014 continued

10 Goodwill and other intangible assets

	Goodwill \$million	Brand \$million	Other intangible assets \$million	Total \$million
Cost:				
At 1 January 2013	321.1	19.9	24.9	365.9
Exchange differences	(0.1)	(0.4)	(0.8)	(1.3)
Acquisition of subsidiary	14.1	4.9	9.7	28.7
Additions	–	–	1.5	1.5
At 31 December 2013	335.1	24.4	35.3	394.8
Exchange differences	(4.8)	(1.3)	(0.5)	(6.6)
Acquisition of minority interest	0.7	–	–	0.7
Additions	–	–	0.4	0.4
At 31 December 2014	331.0	23.1	35.2	389.3
Amortisation:				
At 1 January 2013	–	–	9.2	9.2
Charge for the year	–	–	3.5	3.5
At 31 December 2013	–	–	12.7	12.7
Charge for the year	–	–	3.6	3.6
At 31 December 2014	–	–	16.3	16.3
Carrying amount:				
At 31 December 2014	331.0	23.1	18.9	373.0
At 31 December 2013	335.1	24.4	22.6	382.1
At 1 January 2013	321.1	19.9	15.7	356.7

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. The carrying value of goodwill relates to Elementis Specialty Products \$327.9 million and Elementis Surfactants \$3.1 million. 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 7.0 per cent to 8.5 per cent (2013: 10.2 per cent to 16.0 per cent) was used.

The Group prepares cash flow forecasts derived from the most recent three year plans approved by management for the next three years and extrapolates cash flows for the following seventeen years based on estimated growth rates of 0–2.5 per cent. 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 and Hi-Mar acquisitions. The Group 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. Brand intangibles are tested annually for impairment using similar assumptions to the goodwill testing. The remaining intangible assets comprise of the value ascribed to customer lists, patents and non-compete clauses, which are being amortised over periods of 5–10 years.

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 2013	148.3	511.5	43.4	24.0	727.2
Additions	0.3	3.1	–	30.6	34.0
Exchange differences	1.2	8.8	0.6	0.1	10.7
Acquisitions	–	2.3	–	–	2.3
Disposals	(0.3)	(1.5)	(0.3)	–	(2.1)
Reclassifications	2.8	18.7	1.9	(23.4)	–
At 31 December 2013	152.3	542.9	45.6	31.3	772.1
Additions	–	0.6	0.6	34.2	35.4
Exchange differences	(6.4)	(27.1)	(1.7)	(1.2)	(36.4)
Acquisitions	1.9	–	–	–	1.9
Disposals	(0.5)	(2.2)	(0.7)	–	(3.4)
Reclassifications	3.8	23.1	5.2	(32.1)	–
At 31 December 2014	151.1	537.3	49.0	32.2	769.6
Accumulated depreciation:					
At 1 January 2013	96.6	407.1	36.7	–	540.4
Charge for the year	3.4	16.2	1.2	–	20.8
Exchange differences	1.4	8.0	0.5	–	9.9
Disposals	(0.1)	(1.2)	(0.3)	–	(1.6)
Reclassifications	–	(0.1)	0.1	–	–
At 31 December 2013	101.3	430.0	38.2	–	569.5
Charge for the year	3.2	17.1	1.5	–	21.8
Exchange differences	(4.7)	(24.6)	(1.6)	–	(30.9)
Disposals	(0.5)	(1.4)	(0.6)	–	(2.5)
Reclassifications	–	(0.2)	0.2	–	–
At 31 December 2014	99.3	420.9	37.7	–	557.9
Net book value:					
At 31 December 2014	51.8	116.4	11.3	32.2	211.7
At 31 December 2013	51.0	112.9	7.4	31.3	202.6
At 1 January 2013	51.7	104.4	6.7	24.0	186.8

Group capital expenditure contracted but not provided for in these financial statements amounted to \$nil (2013: \$nil).

Notes to the Consolidated financial statements

for the year ended 31 December 2014 continued

12 Inventories

	2014 \$million	2013 \$million
Raw materials and consumables	67.9	63.0
Work in progress	9.9	11.6
Finished goods and goods purchased for resale	59.7	53.7
	137.5	128.3

Inventories are disclosed net of provisions for obsolescence of \$5.9 million (2013: \$6.4 million).

13 Trade and other receivables

	2014 \$million	2013 \$million
Trade receivables	111.3	115.8
Other receivables	3.8	4.8
Prepayments and accrued income	6.3	5.6
	121.4	126.2

14 Trade and other payables

	2014 \$million	2013 \$million
Trade payables	73.6	67.9
Other taxes and social security	1.1	1.2
Other payables	7.0	6.6
Accruals and deferred income	40.3	35.4
	122.0	111.1

15 Provisions

	Environmental \$million	Self insurance \$million	Total \$million
At 1 January 2014	34.9	3.2	38.1
Charged/(credited) to the income statement:			
Exceptional items	1.9	–	1.9
Set up/(release) of provisions	(0.6)	0.3	(0.3)
Unwinding of discount	1.9	–	1.9
Utilised during the year	(5.1)	(0.2)	(5.3)
Currency translation differences	(1.3)	–	(1.3)
At 31 December 2014	31.7	3.3	35.0
Due within one year	6.5	0.2	6.7
Due after one year	25.2	3.1	28.3

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. Details of the \$1.9 million exceptional charge are set out in Note 5.

Self insurance provisions at 31 December 2014 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.

16 Deferred tax

	Retirement benefit plans \$million	Accelerated tax depreciation \$million	Amortisation of US goodwill \$million	Temporary differences \$million	Unrelieved tax losses \$million	Total \$million
At 1 January 2013	23.4	(18.2)	(92.9)	4.6	16.6	(66.5)
(Charge)/credit to the income statement	(3.2)	(5.4)	(0.1)	4.0	(2.1)	(6.8)
Charge to other comprehensive income	(10.3)	–	–	–	–	(10.3)
Charge to retained earnings	–	–	–	(2.5)	–	(2.5)
Currency translation differences	(0.7)	–	–	1.9	–	1.2
At 1 January 2014	9.2	(23.6)	(93.0)	8.0	14.5	(84.9)
(Charge)/credit to the income statement	(2.3)	(0.3)	(1.4)	5.1	(7.4)	(6.3)
Credit to other comprehensive income	14.1	–	–	–	–	14.1
Charge to retained earnings	–	–	–	(1.8)	–	(1.8)
Currency translation differences	(0.1)	0.3	–	0.2	0.2	0.6
At 31 December 2014	20.9	(23.6)	(94.4)	11.5	7.3	(78.3)
Deferred tax assets	7.8	0.6	–	2.4	3.6	14.4
Deferred tax liabilities	13.1	(24.2)	(94.4)	9.1	3.7	(92.7)

Surplus UK ACT, previously noted as available for offset against future UK profits, has now been fully recognised in the accounts. 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.

17 Share capital

	2014 \$million	2013 \$million
At 1 January	44.1	43.7
Issue of shares	0.3	0.4
At 31 December	44.4	44.1

Details of share capital are set out in Note 7 to the parent company financial statements.

Notes to the Consolidated financial statements

for the year ended 31 December 2014 continued

18 Other reserves

	Capital redemption reserve \$million	Translation reserve \$million	Hedging reserve \$million	Share options reserve \$million	Total \$million
At 1 January 2013	158.8	(27.6)	(7.5)	6.6	130.3
Share based payments	–	–	–	3.2	3.2
Exchange differences	–	(1.2)	–	–	(1.2)
Decrease in fair value of derivatives	–	–	0.8	–	0.8
Transfer	–	–	–	(3.2)	(3.2)
At 1 January 2014	158.8	(28.8)	(6.7)	6.6	129.9
Share based payments	–	–	–	2.4	2.4
Exchange differences	–	(11.5)	–	–	(11.5)
Decrease in fair value of derivatives	–	–	(0.2)	–	(0.2)
Transfer	–	–	–	(4.2)	(4.2)
Balance at 31 December 2014	158.8	(40.3)	(6.9)	4.8	116.4

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

	2014 \$million	2013 \$million
Bank loans	9.5	10.4
The borrowings are repayable as follows:		
Within one year	8.1	8.7
In the second year	1.4	1.5
In the third year	–	0.2
In the fourth year	–	–
After more than five years	–	–
	9.5	10.4

The weighted average interest rates paid were as follows:

	2014 per cent	2013 per cent
Bank loans	1.2	1.7

Group borrowings were denominated as follows:

	US Dollar	Taiwan Dollar	Brazilian Real	Other	Total
Bank loans					
31 December 2013	3.9	6.5	–	–	10.4
31 December 2014	2.7	5.5	1.0	0.3	9.5

Of the US dollar borrowings, \$0.7 million was unsecured (2013: \$1.9 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:

	2014 \$million	2013 \$million
Cash and cash equivalents	73.7	64.5

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 obligation 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 represent 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 per cent of the maximum forecast net borrowings for the next 12 month period. At the year end the Group had \$118.1 million (2013: \$121.0 million) of undrawn committed facilities, of which \$100.0 million expires after more than one 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 per cent 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 one year from the reporting date.

Notes to the Consolidated financial statements

for the year ended 31 December 2014 continued

21 Financial risk management (continued)

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 GBP. 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 advisors 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 15. 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 0.3 per cent (2013: 0.3 per cent) of ordinary shares, or 1.7 per cent (2013: 2.0 per cent) assuming that all outstanding options vest or are exercised.

Current dividend policy is to pay a progressive dividend of approximately one third of earnings per share before exceptional items. Additionally if the Group finishes the year in a net balance sheet cash position, and there are no immediate investment plans for that cash, the Group may recommend an additional special dividend of up to 50 per cent of the net cash amount. These dividend policies remain under review to ensure that they remain appropriate to the circumstances and strategy of the Group.

	2014 \$million	2013 \$million
Recognised in profit or loss		
Interest income on bank deposits	0.3	0.2
Net change in fair value of cash flow hedges transferred from equity	1.9	–
Financial income	2.2	0.2
Interest on bank loan	(1.6)	(2.5)
Net pension interest	(3.1)	(4.5)
Financial costs	(4.7)	(7.0)
Net financial costs	(2.5)	(6.8)

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

	2014 \$million	2013 \$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)	0.5
Effective portion of change in fair value of net investment hedge	(1.6)	(1.1)
Foreign currency translation differences for foreign operations	(9.9)	(0.1)
Recognised in		
Hedging reserve	(0.2)	0.8
Translation reserve	(11.5)	(1.2)

Derivatives used for hedging included within current assets amounted to \$0.7 million at 31 December 2014 (2013: \$0.4 million) and \$0.2 million within current liabilities (2013: \$0.1 million).

Loans and borrowings

	2014 \$million	2013 \$million
Current liabilities		
Unsecured bank loan	0.7	1.9
Secured bank loan	7.4	6.8
Non-current liabilities		
Secured bank loan	1.4	1.7

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

			2014		2013	
	Currency	Year of maturity	Face value \$million	Carrying amount \$million	Face value \$million	Carrying amount \$million
Unsecured bank loan	USD	2015	0.7	0.7	1.9	1.9
Secured bank loan	USD	2015–2017	2.0	2.0	2.1	2.1
Secured bank loan	TWD	2015	5.5	5.5	6.4	6.4
Secured bank loan	BRL	2015	1.0	1.0	–	–
Secured bank loan	EUR/JPY	2015	0.3	0.3	–	–
Total interest bearing liabilities			9.5	9.5	10.4	10.4

The loans bear interest at interest rates of between 1.0 per cent and 2.8 per cent. The secured bank loans are secured by guarantees provided by subsidiary companies and against land and buildings in Taiwan with a carrying value of \$9.1 million.

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 2014 \$million	2013 \$million
Trade receivables	111.3	115.8
Other receivables	3.8	4.8
Cash and cash equivalents	73.7	64.5
	188.8	185.1

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

	Carrying amount 2014 \$million	2013 \$million
North America	42.1	34.1
Europe	26.9	35.3
Rest of the world	42.3	46.4
	111.3	115.8

Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross 2014 \$million	Impairment 2014 \$million	Gross 2013 \$million	Impairment 2013 \$million
Not past due	103.1	(0.4)	105.5	(0.5)
Past due 0–30 days	5.9	–	10.1	–
Past due 31–120 days	2.7	(0.1)	0.7	–
Past due > 121 days	0.4	(0.3)	0.2	(0.2)
Total	112.1	(0.8)	116.5	(0.7)

Notes to the Consolidated financial statements

for the year ended 31 December 2014 continued

21 Financial risk management (continued)

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

	2014 \$million	2013 \$million
Balance at 1 January	0.7	1.7
Impairment loss recognised	0.1	(1.0)
Balance at 31 December	0.8	0.7

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 2014				
	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	0.7	(0.7)	–	(0.7)	–
Secured bank loan	8.8	(8.8)	(4.2)	(3.2)	(1.4)
Trade and other payables*	81.7	(81.7)	(81.7)	–	–
	91.2	(91.2)	(85.9)	(3.9)	(1.4)

* excludes derivatives

	31 December 2013				
	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	1.9	(1.9)	(1.0)	(0.9)	–
Secured bank loan	8.5	(8.5)	(6.8)	–	(1.7)
Trade and other payables*	75.7	(75.7)	(75.7)	–	–
	86.1	(86.1)	(83.5)	(0.9)	(1.7)

* 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:

	2014			2013		
	USD \$million	Euro \$million	Other \$million	USD \$million	Euro \$million	Other \$million
Trade receivables	62.7	29.0	19.6	65.1	31.4	19.3
Trade payables	(35.4)	(20.1)	(18.1)	(32.0)	(19.8)	(16.1)
Gross balance sheet exposure	27.3	8.9	1.5	33.1	11.6	3.2
Forward exchange contracts	–	(24.7)	24.7	–	(24.9)	24.9
Net exposure	27.3	(15.8)	26.2	33.1	(13.3)	28.1

The main exchange rates relevant to the Group are set out in the Strategic report on page 14.

Sensitivity analysis

A 10 per cent strengthening of US dollar against the following currencies at 31 December 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 2014		
GBP	(3.0)	2.3
Euro	(3.7)	(2.8)
RMB	(3.3)	(0.9)
TWD	(2.7)	0.2
31 December 2013		
GBP	7.9	2.7
Euro	(3.2)	(2.4)
RMB	(3.2)	(1.0)
TWD	(2.4)	0.2

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

	Carrying amount 2014 \$million	2013 \$million
Variable rate instruments		
Financial liabilities	(0.7)	(0.6)

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.

	2014 100bp increase \$million	Profit or loss 100bp decrease \$million	2013 100bp increase \$million	Profit or loss 100bp decrease \$million
Variable rate instruments	–	–	–	–

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 2014		31 December 2013	
	Carrying amount \$million	Fair value \$million	Carrying amount \$million	Fair value \$million
Trade and other receivables	115.1	115.1	120.6	120.6
Cash and cash equivalents	73.7	73.7	64.5	64.5
Derivative contracts used for hedging:				
Assets	0.7	0.7	0.4	0.4
Liabilities	(0.2)	(0.2)	(0.1)	(0.1)
Unsecured bank facility	(0.7)	(0.7)	(1.9)	(1.9)
Secured bank loan	(8.8)	(8.8)	(8.5)	(8.5)
Trade and other payables*	(122.0)	(122.0)	(111.1)	(111.1)
	57.8	57.8	63.9	63.9
Unrecognised gain/(loss)	–	–	–	–

* excludes derivatives

Notes to the Consolidated financial statements

for the year ended 31 December 2014 continued

21 Financial risk management (continued)

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.

Trade and other receivables, Trade and other payables (level 3)

The fair value of trade and other receivables is estimated as the present value of future 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:

	2014 per cent	2013 per cent
Borrowings	1.0–2.8	1.8–2.4

The Group categorises its trade and other receivables and payables, excluding derivatives, within level 3 and all other financial instruments, including cash, loans and derivatives within level 2. At both 31 December 2013 and 31 December 2014 there was no difference between the carrying value and fair value of financial instruments.

22 Operating leases

	2014 \$million	2013 \$million
Minimum lease payments under operating leases recognised as an expense in the year	3.7	3.9

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2014 \$million	2013 \$million
Within one year	0.4	0.4
In the second to fifth years inclusive	1.5	1.5
After five years	21.3	22.1
	23.2	24.0

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 2014 the main schemes in the UK, US and the Netherlands 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 the Netherlands the arrangement with the previous insurers of the defined benefit pension scheme came to an end on 31 December 2014 and the Group has contracted with a new industry wide pension fund for 2015 onwards. As a result, the plan will in future be accounted for as a defined contribution plan. Details of an exceptional credit of \$4.1 million relating to this change can be found in Note 5.

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 below relate to 2 unfunded pension schemes and a long term service award scheme in Germany and a special benefits programme for a small number of former employees of the Eaglescliffe plant.

Net defined benefit liability

The net liability was as follows:

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Other \$million	Total \$million
2014						
Total market value of assets	813.7	114.7	–	77.0	–	1,005.4
Present value of scheme liabilities	(842.1)	(138.4)	(7.4)	(77.0)	(6.3)	(1,071.2)
Net liability recognised in the balance sheet	(28.4)	(23.7)	(7.4)	–	(6.3)	(65.8)
	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Other \$million	Total \$million
2013						
Total market value of assets	765.9	107.9	–	63.7	–	937.5
Present value of scheme liabilities	(832.0)	(123.5)	(7.5)	(67.4)	(6.4)	(1,036.8)
Net liability recognised in the balance sheet	(66.1)	(15.6)	(7.5)	(3.7)	(6.4)	(99.3)

Employer contributions in 2014 were \$41.9 million (2013: \$21.4 million) to the UK scheme; \$7.8 million (2013: \$2.9 million) to US schemes and \$1.9 million (2013: \$1.9 million) in respect of the Netherlands scheme. Contributions in 2015 are expected to be in the range \$25–\$30 million. Further details on agreed future payments to the UK pension scheme are included in the Finance report.

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23 Retirement benefit obligations (continued)

Movement in net defined benefit liability

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit liability and its components.

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Other \$million	Total \$million
2014						
Balance at 1 January	(66.1)	(15.6)	(7.5)	(3.7)	(6.4)	(99.3)
Included in profit or loss						
Current service cost	(0.7)	(0.5)	(0.1)	(1.4)	(0.1)	(2.8)
Running costs	(1.3)	(0.4)	–	(0.1)	–	(1.8)
Settlement	–	–	–	4.9	–	4.9
Net interest expense	(2.0)	(0.6)	(0.3)	(0.1)	(0.1)	(3.1)
	(4.0)	(1.5)	(0.4)	3.3	(0.2)	(2.8)
Included in other comprehensive income						
Re-measurements:						
Return on plan assets excluding interest income	68.7	3.0	–	19.8	–	91.5
Actuarial gains/losses arising from demographic assumptions	–	(6.1)	–	–	–	(6.1)
Actuarial gains/losses arising from financial assumptions	(76.4)	(10.4)	(0.5)	(21.9)	(0.6)	(109.8)
Actuarial gains/losses arising from experience adjustment	5.7	(0.2)	0.3	0.1	–	5.9
Exchange differences	1.8	–	–	0.5	0.5	2.8
	(0.2)	(13.7)	(0.2)	(1.5)	(0.1)	(15.7)
Contributions:						
Employers	41.9	7.1	0.7	1.9	0.4	52.0
Deficit in schemes at 31 December	(28.4)	(23.7)	(7.4)	–	(6.3)	(65.8)

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Other \$million	Total \$million
2013						
Balance at 1 January	(72.9)	(42.8)	(8.5)	(9.9)	(3.3)	(137.4)
Included in profit or loss						
Current service cost	(0.8)	(0.5)	(0.1)	(1.6)	(0.1)	(3.1)
Past service costs	–	–	–	0.6	(3.2)	(2.6)
Running costs	(1.5)	(0.4)	–	(0.1)	–	(2.0)
Settlement	–	–	–	3.2	–	3.2
Net interest expense	(2.4)	(1.5)	(0.3)	(0.1)	(0.1)	(4.4)
	(4.7)	(2.4)	(0.4)	2.0	(3.4)	(8.9)
Included in other comprehensive income						
Re-measurements:						
Return on plan assets excluding interest income	18.0	16.6	–	(3.5)	–	31.1
Actuarial gains/losses arising from demographic assumptions	–	(0.3)	–	–	–	(0.3)
Actuarial gains/losses arising from financial assumptions	(9.0)	10.8	0.4	2.9	0.2	5.3
Actuarial gains/losses arising from experience adjustment	(17.9)	0.1	0.5	0.5	–	(16.8)
Exchange differences	(1.0)	–	–	(0.3)	(0.1)	(1.4)
	(9.9)	27.2	0.9	(0.4)	0.1	17.9
Contributions:						
Employers	21.4	2.4	0.5	4.6	0.2	29.1
Deficit in schemes at 31 December	(66.1)	(15.6)	(7.5)	(3.7)	(6.4)	(99.3)

Plan assets

Plan assets comprise:

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Total \$million
2014					
Equities	253.5	84.4	–	–	337.9
Bonds	504.8	28.8	–	77.0	610.6
Cash/liquidity funds	55.4	1.5	–	–	56.9
	813.7	114.7	–	77.0	1,005.4
	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Total \$million
2013					
Equities	330.0	80.5	–	–	410.5
Bonds	201.8	26.7	–	63.7	292.2
Cash/liquidity funds	171.8	0.7	–	–	172.5
Other	62.3	–	–	–	62.3
	765.9	107.9	–	63.7	937.5

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 46 per cent in a liability matching fund consisting of gilts (fixed interest and index linked), bonds, cash and swaps and 54 per cent 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 over 70 per cent 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. The Dutch scheme is fully insured with 2 registered insurance companies who guarantee the accrued nominal benefits, thus removing the downside risks to the Group, and who also decide the investment strategy. The assets in the plan currently consist mainly of government bonds.

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	Netherlands pension scheme \$million	Total \$million
2014					
Opening fair value of plan assets	765.9	107.9	–	63.7	937.5
Expected return	33.6	4.7	–	2.3	40.6
Running costs	(1.3)	(0.4)	–	(0.1)	(1.8)
Actuarial gain	68.7	3.0	–	19.8	91.5
Contributions by employer	41.9	7.1	–	1.9	50.9
Contributions by employees	0.1	–	–	0.9	1.0
Benefits paid	(44.6)	(7.6)	–	(1.7)	(53.9)
Exchange differences	(50.6)	–	–	(9.8)	(60.4)
Closing fair value of plan assets	813.7	114.7	–	77.0	1,005.4

Notes to the Consolidated financial statements

for the year ended 31 December 2014 continued

23 Retirement benefit obligations (continued)

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Total \$million
2013					
Opening fair value of plan assets	724.7	93.4	–	60.5	878.6
Expected return	28.2	3.3	–	2.2	33.7
Running costs	(1.5)	(0.4)	–	(0.1)	(2.0)
Past service costs	–	–	–	0.5	0.5
Actuarial gain/(loss)	18.0	16.6	–	(3.4)	31.2
Contributions by employer	21.4	2.4	–	2.0	25.8
Contributions by employees	0.1	–	–	0.9	1.0
Benefits paid	(40.2)	(7.4)	–	(1.6)	(49.2)
Exchange differences	15.2	–	–	2.7	17.9
Closing fair value of plan assets	765.9	107.9	–	63.7	937.5

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	Netherlands pension scheme \$million	Total \$million
2014					
Opening defined benefit obligation	(832.0)	(123.5)	(7.5)	(67.4)	(1,030.4)
Service cost	(0.7)	(0.5)	(0.1)	(1.4)	(2.7)
Interest cost	(35.6)	(5.3)	(0.3)	(2.5)	(43.7)
Contributions by employees	(0.1)	–	–	(0.9)	(1.0)
Actuarial losses	(70.7)	(16.7)	(0.3)	(21.9)	(109.6)
Benefits paid	44.6	7.6	0.8	1.7	54.7
Curtailments and settlements	–	–	–	4.9	4.9
Exchange differences	52.4	–	–	10.5	62.9
Closing defined benefit obligation	(842.1)	(138.4)	(7.4)	(77.0)	(1,064.9)

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Total \$million
2013					
Opening defined benefit obligation	(797.6)	(136.2)	(8.5)	(70.4)	(1,012.7)
Service cost	(0.8)	(0.5)	(0.1)	(1.6)	(3.0)
Past service cost	–	–	–	0.1	0.1
Interest cost	(30.6)	(4.8)	(0.3)	(2.3)	(38.0)
Contributions by employees	(0.1)	–	–	(0.9)	(1.0)
Actuarial losses	(26.9)	10.6	0.9	3.3	(12.1)
Benefits paid	40.2	7.4	0.5	4.2	52.3
Curtailments and settlements	–	–	–	3.2	3.2
Exchange differences	(16.2)	–	–	(3.0)	(19.2)
Closing defined benefit obligation	(832.0)	(123.5)	(7.5)	(67.4)	(1,030.4)

Actuarial assumptions

A full actuarial valuation was carried out on 30 September 2011 for the UK scheme and at 31 December 2014 for the US and Netherlands schemes.

The principal assumptions used by the actuaries for the major schemes were as follows:

	UK per cent	US per cent	Netherlands per cent
2014			
Rate of increase in salaries	4.00	3.45	2.00
Rate of increase in pensions in payment	2.90	N/A	N/A
Discount rate	3.40	3.65	2.25
Inflation	3.00	2.25	2.00
2013			
Rate of increase in salaries	4.40	3.45	2.00
Rate of increase in pensions in payment	3.30	N/A	N/A
Discount rate	4.40	4.45	3.75
Inflation	3.40	2.50	2.00

The assumed life expectancies on retirement are:

	UK 2014 years	2013 years	US 2014 years	2013 years	Netherlands 2014 years	2013 years
Retiring at 31 December 2014						
Males	22	22	21	19	21	22
Females	24	24	22	21	23	23
Retiring in 20 years						
Males	25	25	21	19	24	23
Females	26	26	23	21	26	24

The main assumptions for the PRMB scheme are a discount rate of 3.65 per cent (2013: 4.45 per cent) per annum and a health care cost trend of 6.5 per cent (2013: 6.5 per cent) per annum for claims pre age 65 reducing to 4.5 per cent per annum by 2020 (2013: 4.5 per cent). 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 2014, the weighted average duration of the defined benefit obligations for the major schemes was as follows:

UK: 14 years

US: 12 years

The Netherlands: 19 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 per cent	Decreased/increased by 8 per cent
Rate of inflation	Increased/decreased by 0.5 per cent	Increased/decreased by 5 per cent
Rate of salary growth	Increased/decreased by 0.5 per cent	Increased/decreased by 1 per cent
Rate of mortality	Increased by 1 year	Increased by 4 per cent

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 2014 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) ("2010 LTIP") for selected senior executives including the executive directors, business presidents and general counsel. 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 1.5 times the CEO's basic salary. Awards vest after three 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 (for tax reasons) the default practice is for options to be exercised at the date of vesting.

As explained in the Directors' remuneration report ("DRR") on pages 36 and 37, the Company will be submitting for shareholder approval at the 2015 AGM proposed amendments to the rules of the 2010 LTIP. Further details can be found in the DRR as well as in the explanatory notes to the Notice of 2015 AGM accompanying this Annual Report.

For other executives, shareholders approved at the 2012 AGM 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 are usually 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 that are granted are based on a percentage of the participant's basic salary. Options vest after 3 years and are subject to EPS and TSR performance conditions. Vested options are then exercisable for up to 7 years, subject to the rules of the schemes.

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 savings limit was increased in 2014 from £250 per month following the Government's announcement to raise the maximum savings limit. The option price is the average mid-market closing share price over the 5 working days preceding the invitation date, discounted by 20 per cent. 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, 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 per cent. 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:

	2014	2013
Fair value per option (pence)	154.0	144.3
Expected volatility (per cent)	33.4	39.3
Risk free rate (per cent)	1.5	0.5
Expected dividend yield (per cent)	2.0	2.0

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 5 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 \$2.5 million (2013: \$3.4 million) related to share based payment transactions during the year.

At 31 December 2014 the following options/awards to subscribe for ordinary shares were outstanding:

Year of grant	Exercise price (p)	Exercisable From	To	At 1 January 2014 '000	Granted '000	Exercised '000	Expired '000	At 31 December 2014 '000
UK savings related share option scheme								
2009	35.52	01/10/14	01/04/15	47	–	(47)	–	–
2011	121.66	01/10/14	01/04/15	49	–	(48)	–	1
2011	121.66	01/10/16	01/04/17	4	–	–	–	4
2012	168.06	01/10/15	01/04/16	61	–	–	–	61
2012	168.06	01/10/17	01/04/18	5	–	–	–	5
2013	206.14	01/10/16	01/04/17	44	–	–	–	44
2013	206.14	01/10/18	01/04/19	3	–	–	–	3
2014	216.58	01/10/17	01/04/18	–	108	–	–	108
				213	108	(95)	–	226
US savings related share option scheme								
2012	184.62	30/08/14	30/11/14	225	–	(208)	(17)	–
2013	227.55	23/08/15	23/11/15	259	–	(5)	(17)	237
2014	242.93	22/08/16	22/11/16	–	226	–	(3)	223
				484	226	(213)	(37)	460
Executive share option schemes/awards granted under the Long Term Incentive Plan*								
2004	35.00	23/04/07	23/04/14	12	–	(12)	–	–
2006	85.50	04/04/09	04/04/16	27	–	(27)	–	–
2009	29.50	25/03/12	25/03/19	13	–	(13)	–	–
2010*	57.00	06/04/13	06/04/20	929	–	(449)	–	480
2011*	149.90	04/04/14	04/04/21	898	–	(351)	–	547
2011*	nil	04/04/14	04/04/21	1,645	–	(1,645)	–	–
2012*	194.30	27/06/15	27/06/22	768	–	–	(37)	731
2012*	nil	27/06/15	27/06/22	1,322	–	–	–	1,322
2013*	260.70	02/04/16	02/04/23	670	–	–	(38)	632
2013*	nil	02/04/16	02/04/23	1,058	–	–	–	1,058
2014*	286.50	01/04/17	01/04/24	–	591	–	(32)	559
2014*	nil	01/04/17	22/04/24	–	937	–	–	937
				7,342	1,528	(2,497)	(107)	6,266

+ 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 2010, 2011, 2012, 2013 and 2014 options shown above include approximately 118,000, 66,000, 58,000, 68,000 and 59,000 shadow options respectively.

The weighted average exercise prices of options disclosed in the previous table were as follows:

	2014 Average exercise price (p)	2013 Average exercise price (p)
At 1 January	80.3	48.7
Granted	133.0	120.1
Exercised	45.8	26.6
Expired	235.8	163.3
At 31 December	104.9	80.3

The weighted average share price at the date of exercise of share options exercised during the year was 278 pence (2013: 256 pence).

Notes to the Consolidated financial statements

for the year ended 31 December 2014 continued

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 per cent of its liabilities, calculated in accordance with section 179 of the Pensions Act 2004. This is also sometimes known as a Pension Protection Fund ("PPF") guarantee, as having such a guarantee in place reduces the annual PPF levy on the scheme.

26 Movement in net cash/(borrowings)

	2014 \$million	2013 \$million
Change in net cash resulting from cash flows:		
Increase in cash and cash equivalents	11.7	1.4
(Increase)/decrease in borrowings repayable within one year	0.6	(3.1)
Decrease in borrowings repayable after one year	0.3	11.8
	12.6	10.1
Currency translation differences	(2.5)	–
Increase in net cash	10.1	10.1
Net cash at beginning of year	54.1	44.0
Net cash at end of year	64.2	54.1

27 Dividends

An interim dividend of 2.70 cents per share (2013: 2.57 cents) was paid on 3 October 2014 and the Group is proposing a final dividend of 5.75 cents per share (2013: 5.50 cents) for the year ended 31 December 2014 and a special dividend of 6.95 cents per share (2013: 5.86 cents). The total dividend for the year, excluding the special dividend, is 8.45 cents per share (2013: 8.07 cents) and 15.40 cents per share (2013: 13.93 cents) including the special dividend.

The amount payable for the final dividend and special dividend, based on the anticipated number of qualifying ordinary shares registered on the record date, is \$58.7 million.

28 Key management compensation

	2014 \$million	2013 \$million
Salaries and short term employee benefits	4.0	3.6
Other long term benefits	0.7	0.7
Share based payments	1.5	1.9
	6.2	6.2

The key management compensation given above is for the Board and the two business presidents. Directors' remuneration is set out in the Directors' remuneration report on pages 35 to 54.

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. No contingent liability was considered to be reportable at 31 December 2014.

Parent company statutory accounts

The Group is required to present a separate balance sheet for the parent company, Elementis plc, which continues to adopt UK generally accepted accounting principles. Its accounting policies are set out in Note 1 and its balance sheet is set out below.

ELEMENTIS PLC

Balance Sheet

at 31 December 2014

	Note	2014 £million	2013 £million
Fixed assets			
Investments		764.8	763.3
Current assets			
Debtors	4	1.2	1.2
Creditors: amounts falling due within one year			
Creditors	5	(0.6)	(0.5)
Net current assets		0.6	0.7
Total assets less current liabilities		765.4	764.0
Creditors: amounts falling due after more than one year			
Amounts due to subsidiary undertakings		(384.4)	(345.1)
Net assets		381.0	418.9
Capital and reserves			
Called up share capital	7	23.1	22.9
Share premium account	8	10.5	9.3
Capital redemption reserve	8	83.3	83.3
Other reserves	8	81.5	81.5
Share option reserve	8	3.1	4.0
Profit and loss account	8	179.5	217.9
Equity shareholders' funds		381.0	418.9

The financial statements of Elementis plc on pages 93 to 96 were approved by the Board on 24 February 2015 and signed on its behalf by:

David Dutro
Group Chief Executive

Brian Taylorson
Finance Director

Notes to the Company financial statements of Elementis plc

for the year ended 31 December 2014

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

Basis of preparation

The Company's financial statements have been prepared in accordance with UK GAAP and under the historical cost accounting rules. Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its profit and loss account. As permitted by FRS 8 Related Party Disclosures the Company has not disclosed transactions with wholly owned subsidiaries.

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. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

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. The Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and as required by FRS 17, it has treated the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable for the year.

Taxation

Deferred taxation is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes that have originated but not reversed at the balance sheet date, except as otherwise required by FRS 19. Advance corporation tax recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors as appropriate.

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

In accordance with FRS 25, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- a) They include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company.
- b) Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that the definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

2 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 £2.2 million (2013: £2.3 million loss) is dealt with in the financial statements of the Company.

3 Investments

	Unlisted shares at cost £million	Unlisted loans £million	Capital contributions £million	Total £million
Cost at 1 January 2014	0.1	759.0	4.2	763.3
Additions	–	–	1.5	1.5
Net book value 31 December 2014	0.1	759.0	5.7	764.8
Net book value 31 December 2013	0.1	759.0	4.2	763.3

The investment in unlisted loans is with Elementis Holdings Limited, an indirect wholly owned subsidiary. The investments in unlisted shares are in Elementis Group BV and Elementis US Investments Limited, both wholly owned subsidiaries. Capital contributions relate to share based payment awards made to employees of subsidiary companies.

The principal trading subsidiaries of Elementis plc, all of which are wholly owned, are as follows:

Subsidiary undertakings		Country of incorporation and operation
Elementis Chromium LLP	Chromium chemicals	United Kingdom
Elementis UK Limited trading as: Elementis Specialties	Rheological additives, colourants, waxes, other specialty additives	United Kingdom
Elementis Chromium Inc	Chromium chemicals	United States of America
Elementis Specialties Inc	Rheological additives, colourants, waxes, other specialty additives	United States of America
Elementis Deuchem (Shanghai) Chemical Co Ltd	Additives and resins	People's Republic of China
Elementis Specialties (Changxing) Ltd	Rheological additives, colourants, waxes, other specialty additives	People's Republic of China
Elementis Specialties (Anji) Ltd	Organoclays	People's Republic of China
Elementis Specialties Netherlands BV	Surfactants and coatings additives	The Netherlands
Deuchem Co., Ltd	Additives and resins	Taiwan
Deuchem (Shanghai) Chemical Co. Ltd	Additives and resins	People's Republic of China
Elementis Specialties do Brasil Quimica Ltda	Coatings additives	Brazil

Notes:

None of the undertakings are held directly by the Company.

Equity capital is in ordinary shares and voting rights equate to equity ownership.

All undertakings listed above have accounting periods ending 31 December.

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.

4 Debtors

	2014 £million	2013 £million
Group relief receivable	1.2	1.2

5 Creditors: amount falling due within one year

	2014 £million	2013 £million
Accruals and deferred income	0.6	0.5

Notes to the Company financial statements of Elementis plc

for the year ended 31 December 2014 continued

6 Retirement benefit obligations

The Company is a member of a multi-employer pension scheme providing benefits based on final pensionable pay. Because the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 "Retirement benefits", the scheme has been accounted for as if the scheme was a defined contribution scheme. The net deficit in the scheme at 31 December 2014 was £18.2 million (2013: £39.9 million).

The latest full actuarial valuation was carried out at 30 September 2014 and was updated for FRS 17 purposes to 31 December 2014 by a qualified actuary. The contribution for the year was £0.1 million (2013: £0.1 million).

Details of a guarantee given by the Company in respect of current and future obligations of UK subsidiaries currently participating in the pension scheme are set out in Note 10 in the Company's financial statements.

7 Called up share capital

	2014 Number '000	2014 £million	2013 Number '000	2013 £million
Called up allotted and fully paid:				
Ordinary shares of 5 pence each				
At 1 January	458,831	22.9	453,572	22.7
Issue of shares	2,806	0.2	5,259	0.2
At 31 December	461,637	23.1	458,831	22.9

During the year a total of 2,805,823 ordinary shares with an aggregate nominal value of £140,291 were allotted and issued for cash to various employees at subscription prices between 30 pence and 228 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 £1.4 million. The holders of ordinary shares are entitled to receive dividends and entitled to one vote per share at meetings of the Company.

8 Reserves

	Share premium account £million	Capital redemption reserve £million	Other reserves £million	Share option reserve £million	Profit & loss account £million
At 1 January 2014	9.3	83.3	81.5	4.0	217.9
Retained loss for the year	–	–	–	–	(2.2)
Issue of shares	1.2	–	–	–	–
Share based payments	–	–	–	–	1.5
Transfer	–	–	–	(0.9)	0.9
Dividend paid	–	–	–	–	(38.6)
At 31 December 2014	10.5	83.3	81.5	3.1	179.5

9 Reconciliation of movements in shareholders' funds

	2014 £million	2013 £million
Loss for the financial year	(2.2)	(2.3)
Dividends paid	(38.6)	(37.2)
Share based payments	1.5	2.0
Ordinary shares issued	1.4	1.5
Net decrease in shareholders' funds	(37.9)	(36.0)
Opening shareholders' funds	418.9	454.9
Closing shareholders' funds	381.0	418.9

10 Related party transactions

The Company is a guarantor to the UK pension scheme under which it guarantees all current and future obligations of UK subsidiaries currently participating in the pension scheme to make payments to the scheme, up to a specified maximum amount. The maximum amount of the guarantee is that which is needed (at the time the guarantee is called on) to bring the scheme's funding level up to 105 per cent of its liabilities, calculated in accordance with section 179 of the Pensions Act 2004. This is also sometimes known as a Pension Protection Fund ("PPF") guarantee, as having such a guarantee in place reduces the annual PPF levy on the scheme.

Glossary

ABI	Association of British Insurers	HMRC	HM Revenue and Customs
ACC	American Chemistry Council	HSE	Health, safety and environment
ACT	Advance Corporation Tax	IFC	Inside front cover
AGM	Annual General Meeting	IFRS	International Financial Reporting Standards
AWC	Average working capital	IMA	Investment Management Association
Board	Board of directors of Elementis plc	ISS	Institutional Shareholder Services
CEO	Chief Executive Officer	KPI	Key performance indicator
COO	Chief Operating Officer	kWh	Kilowatt hour
CO₂	Carbon dioxide	LTA	Lost time accident
Company	Elementis plc	LTIP	Long term incentive plan
CR	Corporate responsibility	MNE	Multinational enterprise
DB Scheme	Defined benefit scheme	NIC	National Insurance Contributions
DEFRA	Department for Environment, Food and Rural Affairs	OHSAS	Occupational Health and Safety Assessment Series
EBITDA	Earnings before interest, tax, depreciation and amortisation	OSHA	Occupational Safety and Health Administration
EPA	Environmental Protection Agency	p.a.	Per Annum
EPS	Earnings per share	REACH	Registration, Evaluation, Authorisation and restriction of Chemicals
ERP	Enterprise resource planning	ROCE	Return on capital employed
ESOS	Executive share option scheme	RPI	Retail Price Index
ESOT	Employee share ownership trust	SAYE	Save as you earn
EU	European Union	SID	Senior Independent Director
FRC	Financial Reporting Council	TSR	Total shareholder return
GAAP	Generally Accepted Accounting Principles	UK	United Kingdom
GDP	Gross domestic product	UN	United Nations
GHG	Greenhouse gases	US	United States
GJ	Gigajoule	VOC	Volatile organic compounds
Group	Elementis plc and its subsidiaries		

Five year record

	2014	2013	2012 restated**	2011	2010
	\$million	\$million	\$million	\$million	\$million
Turnover					
Specialty Products	519.7	502.8	458.7	449.9	410.8
Surfactants	66.9	72.2	72.5	94.3	88.1
Chromium	203.8	201.8	225.8	216.3	198.5
	790.4	776.8	757.0	760.5	697.4
Operating profit before exceptional items					
Specialty Products	98.5	99.1	90.1	89.7	71.8
Surfactants	4.9	5.6	4.8	5.4	6.1
Chromium	58.4	55.1	62.8	56.1	35.8
Central costs	(11.7)	(13.2)	(13.8)	(14.1)	(11.4)
	150.1	146.6	143.9	137.1	102.3
Exceptional items	6.3	(1.7)	–	27.5	–
Profit before interest	156.4	144.9	143.9	164.6	102.3
Other expenses	(1.9)	(2.0)	(2.5)	–	–
Net interest payable	(6.3)	(8.6)	(8.0)	(2.6)	(6.3)
Profit before tax	148.2	134.3	133.4	162.0	96.0
Tax	27.2	(27.6)	(33.1)	(37.9)	(21.9)
Profit attributable to equity holders of the parent	175.4	106.7	100.3	124.1	74.1
	2014	2013	2012 restated**	2011	2010
	\$million	\$million	\$million	\$million	\$million
Basic					
Earnings per ordinary share (cents)	38.1	23.3	22.2	27.8	16.7
Earnings per ordinary share before exceptional items (cents)	25.1	23.3	22.2	21.2	15.4
Diluted					
Earnings per ordinary share (cents)	37.7	23.0	21.8	27.2	16.5
Earnings per ordinary share before exceptional items (cents)	24.8	23.0	21.8	20.8	15.2
Dividend per ordinary share (cents)	15.40	13.93	12.56	7.0	4.9
Interest cover (times)*	115.5	63.7	55.3	41.5	31.0
Equity attributable to equity holders of the parent	644.1	543.9	479.2	449.2	379.7
Net cash/(borrowings)	64.2	54.1	44.0	26.2	(79.3)
Weighted average number of ordinary shares in issue during the year (million)	460.7	456.9	451.8	446.5	443.5

* ratio of operating profit before exceptional items to interest on net borrowings

** restated following the adoption of revised IAS 19 Employee Benefits standard

Shareholder services

Internet

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 and each of its operating divisions. 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: 0871 384 2379 or +44 (0) 121 415 7043

Website: www.shareview.co.uk

Calls to the above numbers cost 8 pence per minute plus network extras. Lines are open 8.30 a.m. to 5.30 p.m., Monday to Friday.

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: 0871 384 2255

Callers outside the UK telephone: +44 (0) 121 415 7028

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 sales please call 0845 603 7037 between 8.30 a.m. and 4.30 p.m. and for internet sales please visit: www.shareview.co.uk/dealing.

Corporate information

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Auditors

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Joint Corporate Brokers

UBS Investment Bank
N+1 Singer

Financial calendar

24 February 2015	Preliminary announcement of final results for the year ended 31 December 2014
22 April 2015	Annual General Meeting and First Interim Management Statement
23 April 2015	Ex-dividend date for final and special dividend for 2014 payable on ordinary shares
24 April 2015	Record date for final and special dividend for 2014 payable on ordinary shares
22 May 2015	Payment of final and special dividend for 2014 on ordinary shares
28 July 2015	Interim results announcement for the half year ending 30 June 2015
10 September 2015*	Ex-dividend date for interim dividend for 2015 payable on ordinary shares
11 September 2015*	Record date for interim dividend for 2015 payable on ordinary shares
2 October 2015*	Payment of interim dividend for 2015 on ordinary shares
30 October 2015*	Second Interim Management Statement
1 March 2016*	Preliminary announcement of final results for the year ending 31 December 2015

* provisional date

Annual General Meeting

The Annual General Meeting of Elementis plc will be held on 22 April 2015 at 11.00 a.m. at The Royal Institution of Great Britain, 21 Albemarle Street, London W1S 4BS. The Notice of Meeting is included in a separate document. Details of the ordinary and special business of the Annual General Meeting are contained within the Notice.

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